ECONOMY — 1991

MARCH

FEELING THE WAY

(49) FM 1/3/91.

Business should not be euphoric." That's the advice from Tito Mboweni, ANC deputy economics head, on the organisation's new briefing document on nationalisation.

It argues strongly against nationalisation but the ANC has been committed to State control for 35 years and Mboweni admits it will be a challenge to sell such a major shift to members — particularly in the trade unions.

If the branches are against change, the National Consultative Conference in June could vote accordingly — and the nationalisation policy could be retained.

The ANC's move from nationalisation is part of a trend first reported by the *FM* last year (*Current Affairs* October 5.) Its present economic policy, set out in a document issued in September, has been widely accepted in the regions, says Mboweni. It is not clear whether the document could be revised before the conference.

Mboweni says: "Economic policy is fairly complicated. We can't say that by June we will or won't have a certain policy." He adds his department is doing extensive research into other issues, such as fiscal and interest rate policies.

In the latest briefing document, published in the ANC journal *Mayibuye,* the economics department says the organisation "must have convincing proof that nationalising a particular section of the economy carries more benefits than costs."

It continues: "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 an overall economic policy that will begin to solve our problems."

The new approach comes after a year of debate and controversy over the nationalisation policy, ignited when deputy president Nelson Mandela reiterated the ANC's support for it shortly before his release on February 11 last year.

The ANC has claimed nationalisation as part of ANC policy since the Freedom Charter was adopted at the Congress of the People at Kliptown in 1955. The charter proclaims: "The national wealth of our country, the heritage of all South Africans, shall be restored to the people. The mineral wealth beneath the soil, the banks and monopoly industry shall be transferred to the ownership of the people as a whole."

Mboweni disputes that this implies nationalisation and, indeed, points out that the word is not in the charter. He says ownership by the people could mean State ownership — or it could mean that enterprises such as banks are "not solely white-owned with white male top management" but offer services and opportunities to all people. At the moment these institutions "are not a reflection of the society they operate in. They reflect a white, male, colonial society."

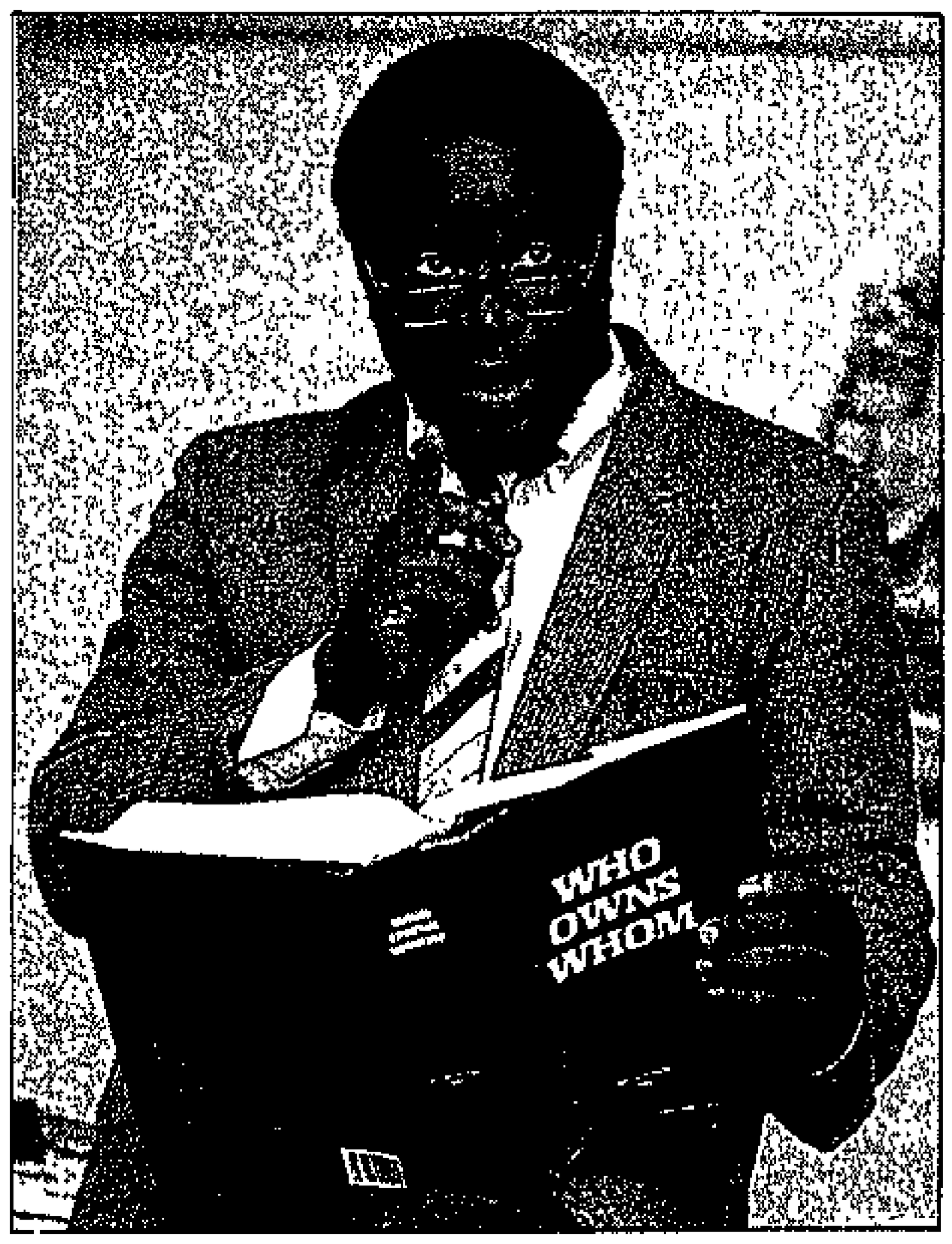
"The Freedom Charter is a very short document," says Mboweni. "We are trying to give more flesh to it, we are not departing from the Freedom Charter. The Land Bank, for example, can be used to serve the interests of all farmers regardless of race; the Development Bank serves the needs of all."

He says major changes will have to take place in the way the mining industry is run. "Botswana has a good example of joint venture between the government and De Beers. In Britain coal mining is wholly owned by the State. In the Middle East oil is seen as a resource benefiting all the people in those countries." Mboweni believes it is important for "people to feel they belong to the economy."

The new nationalisation document notes: "One could argue that nationalising the mines will mean that workers on the mines will get better wages and work under better conditions and that we could use the profits from mining to provide for the poor.

"On the other hand, it could be argued that we cannot afford to spend the R70bn it would cost to nationalise the mines. Even if we borrowed this money it would put us into serious debt for many years to come."

The document points out that such nationalisation will not create jobs and could cause skilled workers on mines — most of whom, especially engineers, are foreign — to leave the country. This would cause the mining industry to "collapse, because we do not have the necessary skilled people. This will result in serious problems for the economy as a whole since mining is the main foreign exchange earner."



Mboweni ... *predicts changes in mining industry*

Mboweni says the briefing document on nationalisation is the first in a series the economics department will publish in *Mayibuye.* The next paper is expected to deal with the mechanics of redistribution, followed by one on public utilities.

It seems the ANC's economics experts wisely want to avoid a fiasco similar to the one at last year's conference. Delegates refused even to discuss a document — which argued that sanctions should be eased — because they had not been prepared for it.

ANC paper grapples with land distribution

BDay 1/3/91

49

TIM COHEN

NATIONALISATION of land to right past wrongs is the main thread that runs through the ANC Land Commission discussion document released yesterday, although it points out some almost overwhelming defects in such a course of action.

The document is to be distributed among ANC branches countrywide in order to encourage discussion and debate with a view to formulating ANC policy at the organisation's mid-year conference.

The document does not constitute ANC policy, although it quotes both the Freedom Charter, which calls for the land to be "redivided" among those who work it, and the ANC's draft constitutional proposals which propose help for those who have been dispossessed.

The discussion document follows the same format as the report from an ANC workshop on agrarian restructuring held last August, mentioning the pros and cons of nationalising land, without adopting an equivocal stance on either course.

The discussion document begins with an account of the gradual dispossession of black land by white settlers, until 80% of SA's land was reserved for white ownership.

It says the ANC is angered by President F W de Klerk who, the document says, has assured white farmers their title deeds are safe.

"We remember with pain the time when the title deeds of black South Africans did not safeguard their property rights."

Anger

It also states that the ANC must satisfy the strong desire for land as this is "one of the most important national demands".

"If a radical land reform does not take place, we can expect an outburst of uncontrollable political anger."

State action and the development of a system of land rights law are seen as the main methods of achieving a more just distribution of land.

The document says government felt until recently that removing racial restrictions on land ownership and allowing people to buy land on the free market would be the method through which blacks would get land.

The document rejects this approach because moneyless people would not gain access to land.

"For this reason we believe that a carefully planned state intervention is required."

The report does not estimate how much land is required, or how much this land would cost the state.

In order to achieve redistribution, the document says the ANC has been discussing a Land Claims Court, which would have certain guidelines to judge who has the best claim to a piece of land.

The guidelines would take into account title deeds, birthrights, inheritance over generations, forced relocations, historical rights and occupational rights and the need to have a place to live.

The state would have to intervene if a change in ownership was required.

As to how the state should achieve this, the document proposes several possibilities, including the banning of private ownership of land and the expropriation of land.

Categories

On the banning of private land ownership, the report says: "This is not the easy solution that we used to think it was", and points to the examples of Mozambique and the Soviet Union where collective farming land is being redistributed to individuals.

Expropriated land could be given to particular categories of people, or it could be rented or sold — possibly using special terms of credit.

But the document calls for discussion on security of tenure and possible sanctions which could result if this were done.

"Some people think that there is no guarantee that state ownership of land offers long-term security," it says, adding that even in East European countries people are now trying to get their own plots of land.

Overseas countries might also refuse to lend the state money and foreign investors might be scared off, the document points out.

The document rules out as "totally unacceptable" compensation in foreign exchange, and says there is a debate about whether all white farmers ought to be compensated at all.

"Prompt cash payment will burden our state budget, limit the speed at which land can be redistributed and contribute to inflation."

The discussion document suggests that compensation should be paid out in part immediately and the rest over 10 years.

It suggests that possibly 25% should be given in cash, 25% in bonds to be paid in 10 years' time, and half in bonds to be invested in SA industry.

It's time to drop interest rates

Star 2/3/91

Money Matters

MAGNUS HEYSTEK

DROP interest rates now! This is the call from organised business, small businesses and thousands of homeowners who are battling to stay in their homes.

But from the granite-clad Reserve Bank in Pretoria not a word on the prospects of lower interest rates is heard.

Dr Chris Stals, the governor of the Reserve Bank has been in office for more than 18 months and only once has he acted on interest rates — and that was to increase them in October 1989.

Since then the Bank rate has remained at 18 percent with the prime overdraft rate at 21 percent.

But these rates are of academic interest to the main bulk of borrowers: most pay significantly higher rates.

Dr Stals has turned a deaf ear to all pleas for relief from various quarters: farmers, battling businessmen and hard-pressed homeowners.

But surely the time is fast approaching for a much-needed drop in interest rates?

The economy is not cooling down anymore: it is frozen stiff. Business conditions are appalling, unemployment is rising at an alarming rate. Even highly-qualfied white-collar workers are finding themselves on the street as large corporations cut back in a ruthless exercise to stay afloat.

49

Bankruptcies and business liquidations are rising at a rapid rate while company profits are being decimated by a combination of high interest rates, low business confidence and a deteriorating economic base.

The growth in the money supply figures were down to around 12 percent in January — almost three percentage points below the inflation rate.

And most of this is distress-borrowing by individuals and businesses to stay afloat. Inflation itself, while still on a downward trend, seems to be stuck around 14-15 percent.

The economy experienced no growth last year while even Barend du Plessis, the Minister of Finance has admitted that this year will see a contraction of economic growth of anything between 1 and 2 percentage points.

Dr Stals seems resolutely committed to wringing inflation out of the economic system — no matter what the cost.

No wonder our nights are filled with televised stories of squatters living in squalid conditions, robbery, rape and murder.

But there's more. It seems as if the very fabric of South African society is coming apart as a result of the economic deterioration. Family break-ups, divorces, stress, alcoholism and even aggressive and abusive driving habits can be traced back to the economic crisis.

There is no doubting that liberal monetary policies in the past were an important contributing factor to putting the country in the state it is.

One-sided

But lower interest rates themselves will not do the trick. Surely the high inflation rate is not solely attributable to low interest rates in the past?

The one-sided attack on interest rates, comparable to the carpet-bombing technique used by the Allied forces in the Gulf, may yet well work, but at a terrible cost to the fabric of our society.

As cynics often remark about the current strategy: The medicine has cured the ailment but unfortunately the patient died in the process.

Inflation has to be tackled from other sources as well. Much of our inflationary intransigence stems from an ever-increasing concentration of power in the hands of a reducing number of decision makers.

It's almost mind-boggling how many consumer products are controlled from the head offices of three or four large conglomerates in this country. And despite the oft' pleaded statements on arms-length transactions, many economists believe that this over-concentration of economic power leads to ineffiencies and ultimately higher prices for the consumer.

Our large and increasing tax burden is also a major factor in the high inflation rate. To compensate for high tax rates, prices are inflated and simply passed on to the consumer. Government seems unable to reduce its spending, despite numerous promises in the past.

And the introduction of VAT later this year will only increase revenue collected from the public, not reduce it as many mistakenly believe.

High interest rates themselves are inflationary as they increase the cost of production that is simply passed on to the consumer.

A reduction in interest rates soon will not only provide an economic lifeline to many struggling businesses and homeowners; it will also hold out hope for further declines in the months ahead.

'Economy needs vigorous kick'

SATURDAY MARCH 2 1991

W/C Argus 2/3/91 (49)

From DUMA GQUBULE

JOHANNESBURG. — South Africa's economy must be given an immediate kick-start or it faces calamity.

This is the conclusion that emerges from a year-long scenario-planning study.

Two institutional giants, Old Mutual and the Perm, are putting the fininshing touches to the findings of a group of eminent scenario-planners who were commissioned to look at South Africa's prospects.

The report, which is expected to be released in book form shortly, has already been presented to virtually every political grouping.

The first person who listened to the presentation was Finance Minister Barend du Plesis.

He soon arranged for the entire Cabinet, including President De Klerk, to join the session and the five-hour presentation was followed by three hours of questions.

President De Klerk then arranged for the African National Congress to listen and Inkatha was also involved.

Many other political groupings are said to be queuing for the presentation.

The planning group, which was put together in March last year, includes the doyen of scenario-planners, Frenchman Pierre Watt, who led the Shell group from Holland.

He accurately predicted both the first and second oil crises.

Also on the team was Professor Bruce Scott of Harvard, who studied what happens when nations change from autocracy to democracy, and from an inward-looking economy to an outward economy.

Prominent South African economists and social scientists were also drawn in.

The team concluded that the political scenario would probably stumble and bog down unless something dramatic was done about the economic and social side of things.

They saw two possible scenarios.

Their estimate of current unemployment was 5,4 million, which could be *maintained* by a 5-percent growth rate.

Worst case

They concluded that a best-case scenario of 2,5 to 3-percent growth over the next five years would see unemployment grow to 7,4million.

A worst-case scenario, which could be as little as 1-percent growth, would bring calamity.

Cost of building

The team's first recommendation to kick-start the economy was the rapid creation of more jobs, which would create wealth.

Government needed to find 400 000 serviced stands in an attempt to address the housing backlog, estimated to be around 800 000 homes.

It was suggested that the government subsidise a serviced stand by a minimum of R6 000 each, because such stands were frequently more expensive than the cost of building a house.

The second recommendation was that banks, building societies and insurance companies find funds to build those 400 000 houses.

This would create not less than 250 000 new jobs.

Ripple effects

The next stage was that Eskom should undertake to electrify one million houses for the next two years.

They concluded that Eskom had the infrastructure to carry out this task.

The team believes this kick-start will result in numerous ripple effects, which will in turn gain their own momentum and lead the economy into a sustainable high-growth path.

The rich get poorer

49

3/3/91

S/Times 3/3/91

HOW THE GOOD LIFE HAS SLIPPED AWAY FROM WHITE SOUTH AFRICANS

49

A MASSIVE shift of wealth from whites to blacks is taking place almost unnoticed in South Africa.

But though it has left whites poorer and less privileged, it has hardly improved black prosperity, partly because of burgeoning black numbers.

The startling shift may leave some whites pining for "the good old days" of cheap education and health care and low taxes.

When white power was at its height in 1976, when John Vorster was boss and before Soweto erupted, a white patient in a state hospital paid R7,50 a day.

There, in lily-white surroundings, the best medical attention was lavished on him. Even heart transplants were relatively cheap.

Today, unless the white patient is poor, he goes to a private hospital such as the Sandton Clinic, where tariffs run to R339 a day, medicines and doctors excluded.

SPECIAL REPORT by DAVID CARTE

Erosion

If he gets into a provincial hospital and earns more than R1 850 a month, he'll pay R170 a day for just the bed. The cost of a provincial bed has risen at a compounded annual rate of 23 percent.

Higher medical costs are just one aspect of the dramatic erosion of white privilege in the past 20 years.

The huge shift in wealth is revealed in studies by Unisa's Bureau of Market Research.

According to a research document by Professor Piet Nel and Professor Helgard van Wyk, whites' share of total income after tax fell from 69 percent in 1960 to 53 percent in 1987 (see graph), while that of other races has risen from 31 percent to 47 percent.

Black incomes have risen almost three times as much as those of whites, as the graph shows.

Real white personal disposable incomes rose 116% from 1960-1987, while that of blacks has risen 318%.

The process of redistribution has happened in several ways during the past 15 years.

FIRST, through budgets that have deliberately channelled more money to blacks for the past 10 years.

SECOND, through "hidden taxation" in the form of higher medical and education costs, petrol taxes, higher municipal rates and reduced subsidies to farmers.

THIRD, the skilled labour shortage obliged the scrapping of job reservation, enabling blacks to do more skilled work.

The **FOURTH** spur to relative black economic progress has been the aggression of black trade unions, which were legalised only in 1975. The drive for a "living wage" increased black wages by more than 20 percent last year alone.

Fearful of alarming its white supporters, the government has done little to highlight this redirection of wealth. As a result, it has been given little kudos from blacks, or from the world at large.

Whites are also being shouldered with rising education costs.

Fees

In a typical Johannesburg northern suburbs' high school seven years ago, parents voluntarily contributed R200 to the school development fund.

Now contributions by parents are often as high as R900 — a rise of more than 20 percent a year. Next year, when many schools convert to Model B, fees are expected to rise by 30 percent or more. In three years, according to an estimate by parents at a Johannesburg school, fees could be as high as R2 000 a year — and compulsory.

In the days of John Vorster, whites had virtually exclusive and use of some of the best roads in the world, at a fraction of today's cost.

Just a few years ago municipal rates, electricity and water cost most households less than R30 a month. Today those charges are moving up towards R500 a month. Once municipalities are integrated, rates are expected to quadruple.

Sales tax was introduced as a nice fair tax on consumption, spread right across society at two percent.

But as the sales tax rate quickly leapt to 13 percent, income tax rates went up progressively until the top marginal rate peaked at 45 percent on an income of only R60 000 two years ago. In the meantime, inflation pushed nearly everyone with a job into a higher tax bracket.

In 1988, taking into account GST, petrol tax, etc, the government was taking nearly half of the income of persons earning more than R60 000.

In the old days, when whites earned 70 percent of incomes and paid 80 percent or more of the tax, exchequers shamelessly spent virtually all tax revenue on them.

A pittance went to black education. The only meaningful tax money that went to blacks was, ironically, spent on enforcing apartheid.

Last year R28-billion — 40 percent of the budget — was spent on health education and welfare. Much of this went to whites, but the blacks' share of it increased far more.

The biggest part of the budget goes in salaries and wages to state employees, and the lion's share of that still goes to whites. But now pay scales are being equalised and the portion going to black employees of the state is soaring.

Homeland governments and the tricameral parliament have been important, though wasteful, instruments of redistribution.

Whites have felt the erosion of their privilege quite keenly.

On the other hand, blacks have not felt the benefits nearly so markedly because of muted economic growth and their growing numbers.

Tens of thousands of blacks in employment have attained middle class, First World lifestyles, but millions are unemployed and destitute.

A major income gap is developing between "insiders" with jobs and "outsiders" with none.

In spite of a massive redistribution effort, income disparity in SA is still among the worst in the world.

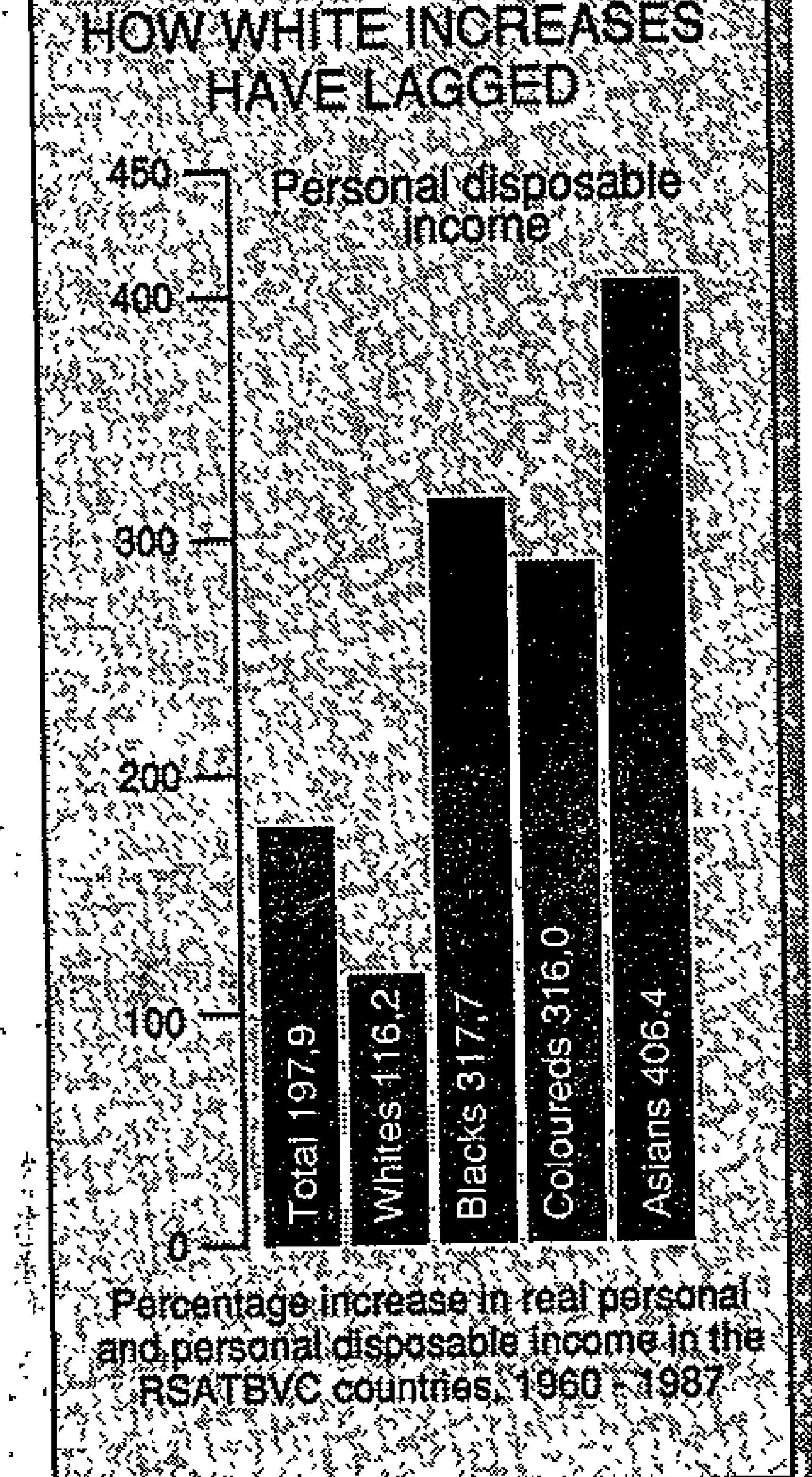
This week the Vatcom report pointed out that 16-million people — 44 percent of the population — live in poverty and 2,3-million are in dire need. These days, some are white. Operation Hunger is feeding 20 000 whites across the country.

Hunger

Using 1985 rands for calculation purposes, researchers worked out that whites' income per head in 1988 was R8 717, while that of blacks was R1 039.

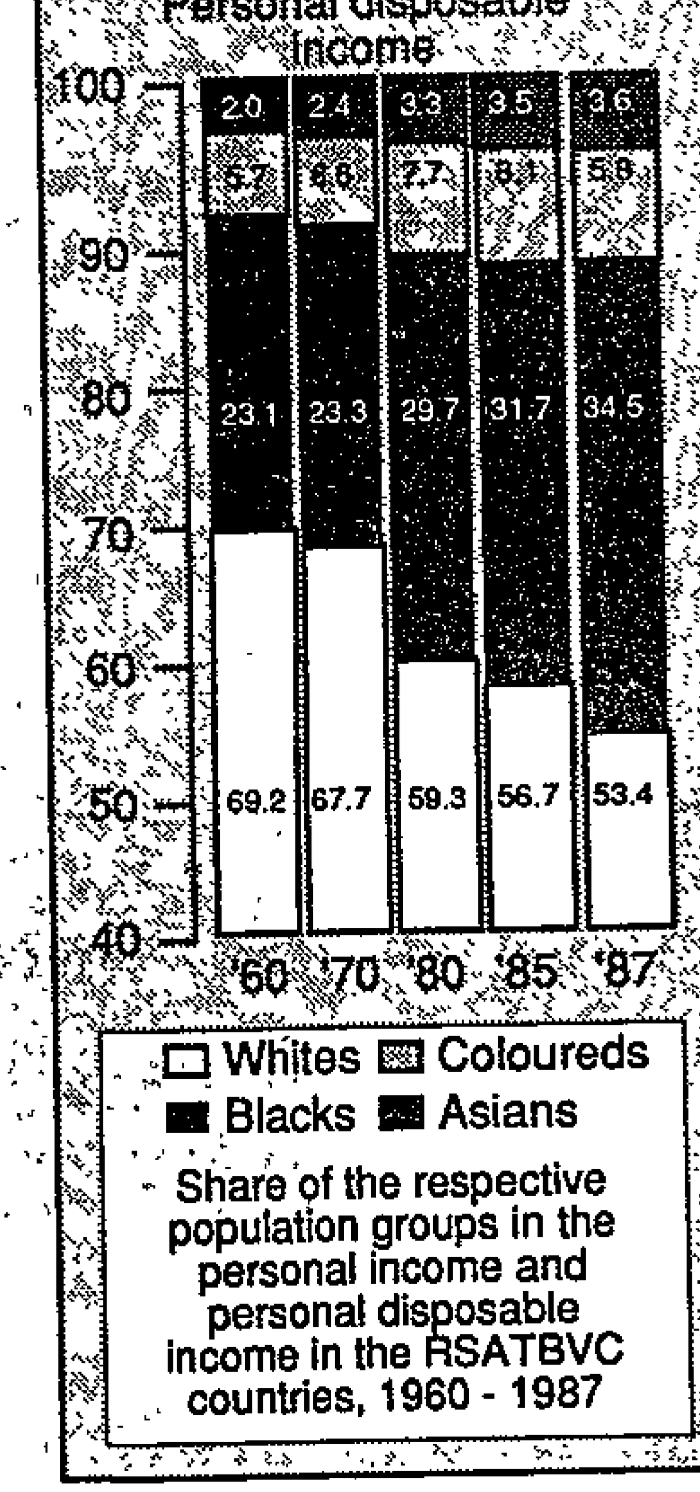
Professor Nel said: "If we had achieved higher growth in the 70s and 80s blacks would have had a far larger share of a much bigger cake. And whites would not have gone backwards. Growth is the only way to prosperity."

HOW WHITE INCREASES HAVE LAGGED



Percentage increase in real personal and personal disposable income in the RSATBVC countries, 1960 - 1987

HOW THE CAKE'S CUT



Share of the respective population groups in the personal income and personal disposable income in the RSATBVC countries, 1960 - 1987

FW: 'The choirmaster of capitalism'

wMail 8/3 - 14/3/91 (49)

wMail 8/3 - 14/3/91

Everyone loves President FW de Klerk, it is commonly believed. Everyone? Cosatu's **MOELETSI MBEKI** argues that he is a cold calculator with a single objective: to make South Africa a safe place for capitalism

A DYED-in-the-wool verkrampte, State President FW de Klerk continues to confound both friend and foe with his liberal reforms.

Firstly, he unbans not only the African National Congress and the Pan Africanist Congress but also the South African Communist Party and the ANC's armed wing, Umkhonto weSizwe. Surely the last two organisations (and Joe Slovo) were for a generation and a half the *kgogo* every white Afrikaner learnt to fear from his mother's breast.

Then comes the promise of the repeal of the Population Registration Act and the Group Areas Act, arguably two of the pillars, nay, foundation stones, of apartheid. Somewhere he even mentioned universal suffrage, a dirty word — okay, two dirty words — if there has ever been one to the National Party.

De Klerk has been called all sorts of names: a traitor, a man of integrity, a prophet, a man of courage. He has even been called a comrade and an African.

What gets left out in the many praises and condemnations of De Klerk is what is perhaps the single most important thing about the man and this is that he is a cold calculator and a bold manager of risks, to borrow a phrase from (Minister of Constitutional Development) Gerrit Viljoen.

De Klerk's objective is fairly simple: it is to make South Africa safe for capitalism. Since coming to power after ousting PW Botha in 1989, this objective has undergone considerable modifications and refinements. At one stage, for example, the issue of group rights — later renamed minority protection — appeared to be a key component of this objective. Lately this has become less so. No doubt there will be other refinements.

How then does De Klerk propose both to achieve his central objective of making South Africa safe for capitalism, which implies maintaining white living standards intact, and at the same time engineer a government that is acceptable to the great majority of the people of South Africa?

De Klerk has been accused of trying to be both a player and a referee at the same time. There is something in this, but a more accurate description of De Klerk is that of the choirmaster. De Klerk sees himself as the man who is marshalling the many disparate voices of South Africa, ranging from the Afrikaner Weerstandsbeweging and the Blanke Boerestaat Beweging (BBB) on the lower register of the octave through to the high notes of the SACP and Workers Organisation for Socialist Action. De Klerk, however, has more than the old choirmaster's tuning fork and baton. Under his tailcoat he hides the lethal arsenal of the security forces and its surrogates and some carrots for those who become voice trained to sing in tune and in harmony with the others.

Let us look at the base on which De Klerk's cold calculations to make South Africa safe for capitalism are made.

- He understands that the exclusion of blacks from the political processes of the country can never be sustained by any means, least of all by force.
- He understands that black puppets who have been so close to the NP's scheme of things — and to other white regimes before the NP — are more of a source of instability than a route to a solution of South Africa's political problems.
- He understands how to use force to achieve his political objectives without appearing to be using force himself. To achieve this De Klerk understands that he needs to keep the black puppets he inherited from his predecessors in place at least until he has completed his reform process.
- He understands that white domination and the attendant system of white privilege which started off as a rickety house of cards has hardened into a solid structure that cannot be easily pushed over by blacks.
- He understands that white South Africa cannot defy the West, and especially the United States, and hope to survive for any considerable period of time.

State President FW de Klerk ... 'a bold manager of risks'

wMail 8/3 - 14/3/91 (49)

That the exclusion of blacks from the country's political processes has failed in its objectives hardly needs demonstrating. More significantly this exclusion has put South Africa in the top league of unstable countries in Africa together with Uganda, Ethiopia and Mozambique. Thus it really makes no difference what type of regime South Africa has at present, left, right or centre, it is not a safe place for capitalism. Hence the enormous flight of capital from the country in recent years.

The difference between De Klerk and his predecessors, however, is that he recognises that it was the use of force — or coercion, to use his own word — by the white government which was primarily responsible for the instability. In other words, coercion was the source of the instability rather than the cure of instability as past administrations imagined. The implication of this was that the liberation movement had to be allowed to exist legally, unlike in the past where everything possible was done to try and destroy it. Secondly, blacks had to be brought into the country's political life if stability is to be restored.

The second difference between De Klerk and his predecessors is that he recognises that the blacks who must be brought into the political processes must be true representatives of the black community and not puppets as in the past. (49)

Black puppets created in the past — bantustan chiefs and their bureaucracy, local councillors, tricameral parliament participants, to name but a few — however, continue to play a critical role in De Klerk's calculations. This is because these puppets make it possible for De Klerk to use force against the liberation movement but pass this off as conflict among blacks. By this device the black puppets appear to gain in stature and are therefore presented as substantive political players when in fact they are an arm of the NP. The liberation movement in turn is thus forced to slow down its popular mobilisation and moderate its demands especially for socio-economic transformation in order to strike deals with the puppets.

By using black puppets to force the liberation movement onto the defensive, this leaves the field wide open for the NP to appear as the main initiator of change in South Africa. While the opposition is trying to put out the many fires being started all around it by the NP's black puppets, De Klerk forges ahead with eliminating racially discriminatory legislation and thereby winning the approval of the international community, especially the West. The international community in turn rewards De Klerk with the lifting of sanctions, thus further weakening the bargaining position of the liberation movement.

The $64 000 question that De Klerk has yet to answer is what happens next. Having weakened his opponents' bargaining position while permitting them to operate legally, how will he translate the advantages he has into an electoral victory based on a universally accepted constitution that has however been negotiated with weak partners?

● Moeletsi Mbeki is head of the Communications Department at the Congress of South African Trade Unions. Prior to returning from exile last year, he was researcher with the Zimbabwe Institute on Southern Africa and senior journalist with *The Herald* in Harare.

GROWING NOWHERE

FM 8/3/91

49

In recent years, 12-month growth in money supply has been considered an important economic indicator. Its value will fall, as the new Deposit-Taking Institutions Act, in force from February 1, brings changes in banks' balance sheets. Business which previously took place in the grey market and was therefore not reflected in M3 will be converted to conventional deposits (reintermediation) and be included.

Estimated growth in the broad monetary aggregate, M3, in the 12 months to January, proved surprisingly low. The 10,25% increase (to R160,5bn) was a marked deceleration from 12,38% in December and 13,22% in November. In the month, M3 actually dropped 1%.

True, there is a technical factor — January 1990 M3 growth was extraordinarily high, which caused the 12-month rate for January 1991 to dip. For this reason too much economic importance must not be attached to it. Even so, the January figure is a surprise, for several reasons.

First, it is not in line with recent trends in credit creation. Second, it came in a month when the Bank's gross gold and foreign reserves rose R509m. Third, it happened at a time when some reintermediation was expected to take place, before the Act (see "Banking breather").

To understand the influence of these factors, one must look at the components of M3 and what contributes to its growth.

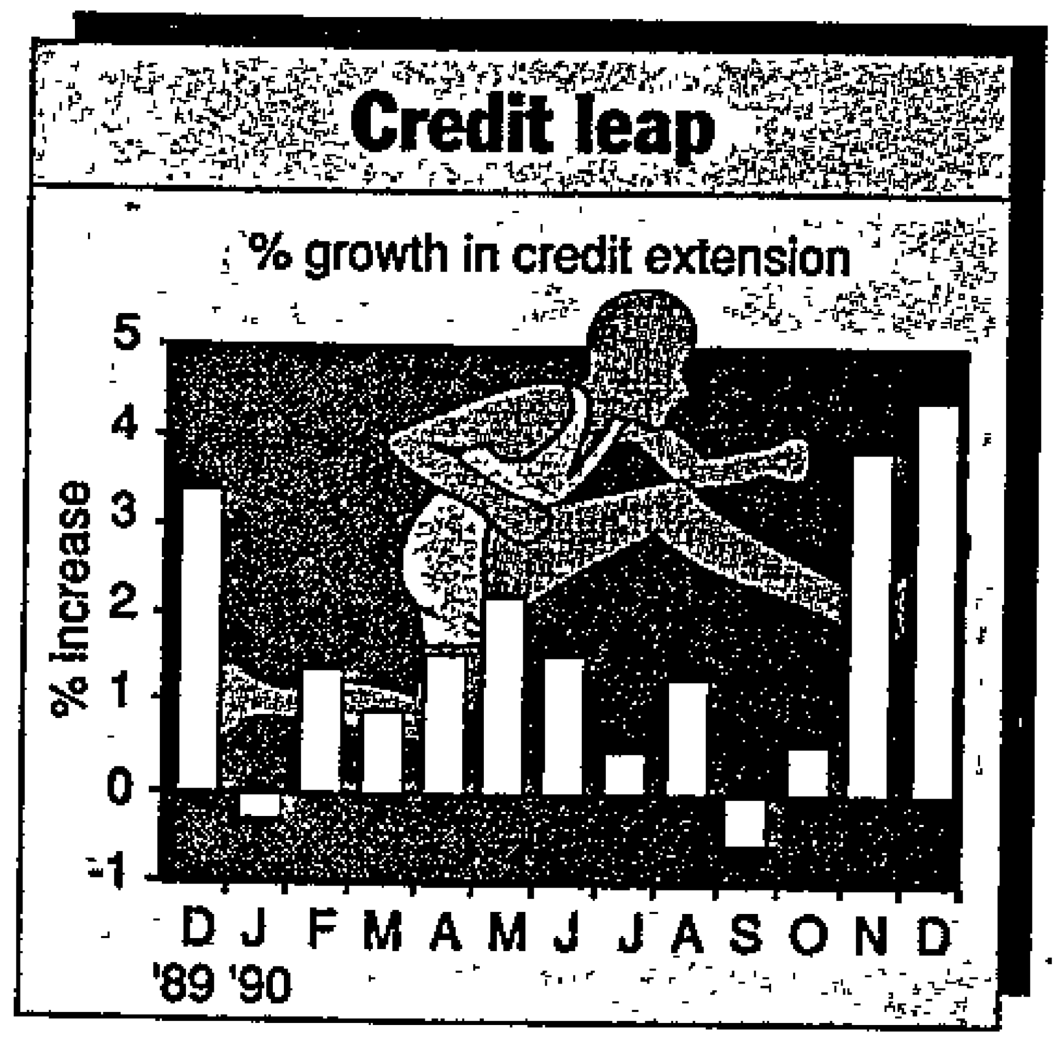
M3 comprises cash in circulation and deposit liabilities (of deposit-taking institutions) to the public. As M3 is by far the major liability and credit the biggest asset, M3 correlates closely with the level of credit extended in the system. Growth in M3, then, coincides with credit creation.

There are other factors, such as changes in gold and other foreign reserves and net other assets of the Reserve Bank (largely losses or surpluses on Treasury's forward cover account). But these are subsidiary.

Credit figures for January are not available, so we have to rely on figures to December. In November total domestic credit extended by all monetary institutions grew a monthly 3,8% and in December 4,4%; this was well up on growth in the preceding months and way above the 1% regarded as desirable by the Reserve Bank.

However, strong seasonal factors are at work in December.

Apart from the Christmas boost in spending, there are statistical distortions. Offshore facilities are frequently withdrawn by overseas banks, for technical (and tactical) reasons, and local borrowers have to switch to local finance. Corporates with December year-ends draw down on medium-term facilities so these can be reflected on their balance sheets.



This December's run on credit may have been boosted by early restructuring of banks' books as they brought off-balance sheet business above the line. It is believed some banks did this ahead of time to accustom clients to the new situation.

So to get an accurate picture of the trend, one has to compare the year-end with the previous year-end. In November 1989 credit extended fell 1,5% and in December it grew by 3,4%. This confirms that there was a sharp and sudden uptick in demand for credit towards the end of 1990.

The January figure, of course, will show a deceleration as consumers recover from the festive spending spree. But if the November-December trend continued, there should have been more demand for credit than in January 1990, when credit extension fell 0,3%.

Which makes it surprising that growth in the counterpart of credit creation was so low that month.

A partial explanation lies in changes in the central bank's "net other assets." In December, R3bn was repaid to the Reserve Bank on the gold and foreign exchange contingency account, on losses on forward cover extended. This reduced government deposits, thereby increasing net credit to the government sector and simultaneously reducing net other assets of the Reserve Bank — three separate but inter-related factors.

This would push growth in credit, while holding down growth in M3.

Whether there was also a dramatic fall in demand for credit remains to be seen.

New guidelines are expected to be announced in March. But it is not certain whether they will relate to M3.

Targeting was introduced by the Bank in 1986, when M3 was chosen as the appropriate aggregate.

In the past few years there has been debate about both the aggregate and the validity of the exercise, as statistical distortions tend to obscure fundamentals.

In future a broader measure may be monitored, including repurchase agreements.

☐ M3 growth, as measured from the base of the current target year and seasonally adjusted, was a provisional 12,57% to R161,9bn.

Revised figures for December show growth of 12,38% over 12 months to R162,3bn and 12,99% from the base of the current target year to a seasonally adjusted and annualised R160,9bn. Twelve-month growth for M2 in December was 13,47% to R134,3bn; for M1 15,9% to R53bn; and for M1A 14,27% to R29,1bn.

Barend discloses capital outflow figures

Star 8/3/91.

South Africa exported R23,9 billion in capital after 1985, Minister of Finance Barend du Plessis said in the House of Assembly yesterday.

Replying in writing to a question from Dr Willem Botha (CP Rustenburg), who had asked for the capital outflow figures between 1980 and 1990, he said the figure was supplied on a net (balance) basis only.

After adjustments for liabilities related to reserves, the first half of the decade had shown net annual inflows of capital ranging from R5,4 billion (1981/82) to R159 million and R445 million (80/81 and 84/85).

In 85/86 there was a R6,827 billion outflow, R5,853 billion in 86/87, R4,759 billion for 87/88, R3,901 billion in 88/89 and R2,558 billion for 89/90.

● In August '85 President Botha dashed overseas reform hopes. This was followed by a flight of capital by SA's major bankers and many of its investors, which forced the Minister to impose the debt standstill to counter the vast capital export. — Sapa.

World Bank 'may give SA loan package'

By Michael Chester

Star 8/3/91

The World Bank may be prepared to mount a mammoth loan package to assist SA's reform programmes in a post-apartheid era, but only when it is convinced the Government has mapped out a realistic route towards ultimate aims.

That was the blunt message delivered by the SA Chamber of Commerce (Sacob) in Johannesburg yesterday.

Sacob director-general Raymond Parsons said the first clues on the realism of Government approaches to solutions of black/white socio-economic inequalities should be revealed by Finance Minister Barend du Plessis in the 1991 Budget on March 20.

Mr Parsons reminded a news conference that Sacob had estimated that it would cost between R60 and R70 billion to bring about black/white equality at one stroke, far beyond South Africa's economic means.

Sacob was pressing the merits of a "social contract" acceptable to all sides and setting out a timetable that could take as long as 10 years to complete if the economy was not to be damaged beyond repair.

"Even if the World Bank agreed to write out a cheque for all R70 billion in loans to South Africa, it would still take several years to complete the whole programme," he said.

"Potential overseas investors such as the World Bank need to be convinced that the Government has found a viable timetable and the right strategies to achieve the goals we all want to see reached."

Business 'needs uplifting Budget'

(49) (30)

B Day 8/3/91

SYLVIA DU PLESSIS

THE 1991/92 Budget should be designed to restore business confidence, support it and create conditions for future economic growth, SA Chamber of Business (Sacob) chief economist Ben van Rensburg said yesterday.

Addressing a media briefing, he said it was "crucial" that business sentiment be propped up by general policy measures.

His appeal follows the release of Sacob's February business confidence index, which shows the SA business mood dipped to a 51-month low of 87,3 — its fourth consecutive fall — after sliding to 87,6 in December/January.

It also follows a top level Sacob meeting with Finance Minister Barend du Plessis this week, at which the chamber pressed for budgetary concessions such as company tax cuts and the scrapping of import surcharges on capital goods.

Van Rensburg said the further dip in the index, based on the movements of major economic indicators, suggested the business mood may now have stabilised.

But while overall business reaction to President FW de Klerk's speech to Parliament last month had been positive, there were still enough other political and economic uncertainties to keep business confidence "fragile".

"The volume of transactions on the JSE, for example, has declined sharply in the past few months, mainly as a result of investor caution," he said.

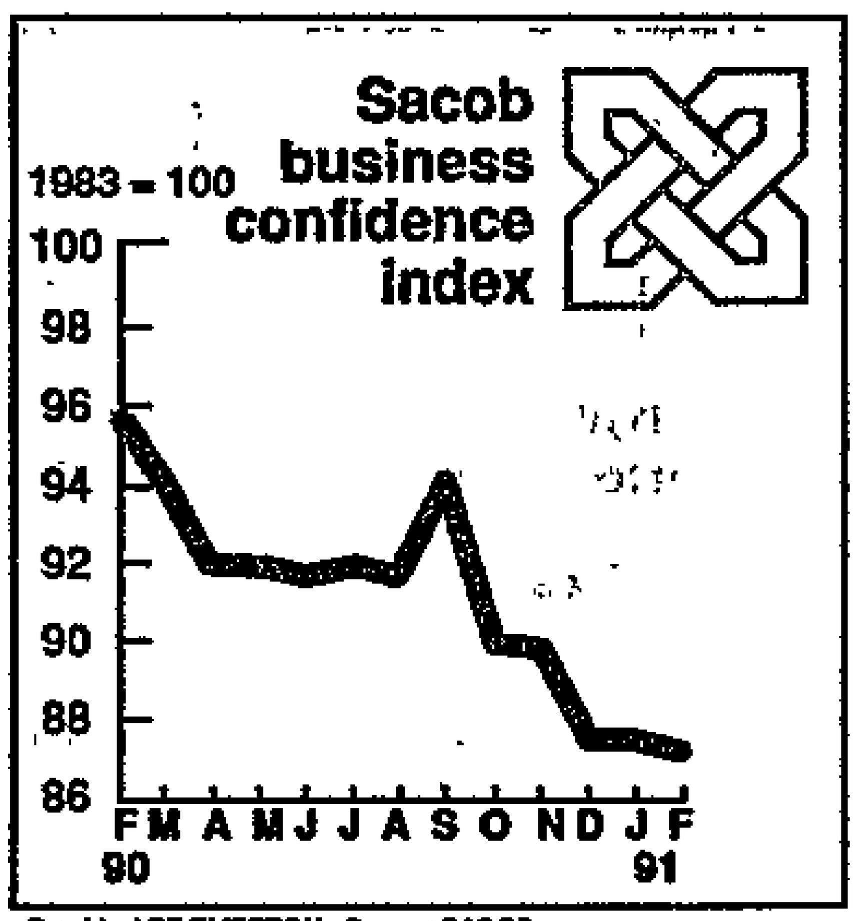
Despite that, emerging evidence — including a levelling off in liquidations — indicated business sentiment and the economy might be bottoming out.

And the end of the Gulf war had improved growth prospects for most SA exports and lowered inflationary expectations.

"Although business confidence remains vulnerable, it may now have the potential to show some recovery in the months ahead. This will also depend on the maintenance of an appropriate economic and political environment.

"Against this background the role of the forthcoming Budget is crucial. If properly framed, it could make a major contribution to the creation of a more favourable investment climate and the strengthening of business confidence."

Sacob's February survey of confidence levels in the manufacturing sector revealed a further improved outlook in both the short and medium term. But that could still be the result of seasonal factors, economist Keith Lockwood warned.



Graphic: LEE EMERTON Source: SACOB

Govt questions role of M3 as policy indicator

(49) (48)

BDay 8/3/91

GRETA STEYN

THE Reserve Bank is rethinking its approach to money supply, including the almost exclusive focus on the broad definition of money, M3, as a monetary policy indicator.

M3 consists of cash in circulation and all deposits with banks, including long-term savings. The Bank is looking at the feasibility of using another definition of money as a prominent policy indicator. Possibilities under investigation include using a "narrower" definition of money.

The Bank is studying the four different "definitions" of money and their reliability as indicators of spending and the general level of economic activity. The study takes place at a time of increasing doubt over M3 as a reliable indicator because of statistical distortions.

The new Deposit-Taking Institutions Act, which requires banks to bring activities previously conducted in the "grey" market back on balance sheet, is expected to cause difficulties in interpreting the rate of growth in M3. The Act came into effect in February.

Paper money represents only about 5% of money as defined by M3. The definition can be broadened step by step to include cheque and transmission deposits (M1A), other demand deposits (M1) and other short and medium-term deposits (M2) and long-term deposits (M3). The pros and cons of focusing on each of these is being debated in the Bank.

The markets are awaiting the announcement of new guidelines for growth in the money supply, when a new approach to M3 might be outlined. But Reserve Bank Governor Chris Stals is expected to downplay the announcement of new guidelines.

The annual rate of increase of 10,25% in M3 in January is well below the inflation rate and in line with the Bank's previous target range of 11%-15%. Although a reduction in the target range is expected for 1991, bankers say this will be of little signficance as hitting or missing the targets is becoming increasingly irrelevant for monetary policy decisions.

'Make welfare an investment in people'

49

Sowetan 13-13/3/91

RAPID economic growth, job creation and providing basic social services to the poor are all necessary ingredients of anti-poverty programmes but there must be a balance between growth objectives and the level and financing of welfare spending.

So say Professor Pieter le Roux and Dr Nikki Nattrass, both academics at the University of the Western Cape, in a joint background paper on welfare expenditure, presented to the "Budgeting for Redistribution" workshop.

"For welfare spending to have the greatest long-term impact, most resources should be channeled in ways that 'invest' in people rather than simply subsidise their consumption.

Areas which have high social rates of return include education, primary health care provision and infrastructural developments."

Although those countries that have succeeded in providing primary education and health care to the poor have been those that have made adequate provision for this in their budget, there is no clear relation between the proportion of social spending in GNP and quality of life indicators, they maintain.

"Factors relating to economic growth, the rate of job creation, income distribution and the design of welfare projects are at least as important determinants of quality of life."

Nattrass and Le Roux say it is now commonly accepted that it is impossible to extend welfare benefits to all South Africans at the level currently enjoyed by whites.

"However, international experience indicates that primary health care provision for all, as well as a minimum level of nutritional supplementation is possible in South Africa at affordable rates," they say.

"For all the potential that health and nutritional interventions may have to improve the quality of life, it cannot be over-emphasised that the most important way of alleviating poverty is to create income-earning opportunities for poor people.

"In this context, the need for special employment programmes (SEP) is crucial."

However, they warn that excessively high technical and planning requirements should not undermine the capacity for such projects to provide employment and income for the very poor.

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Compilation sketches scenarios in 'new SA'

PATRICK BULGER (49)

PRUNING apartheid bureaucracies could save SA up to R6bn a year, says Econometrix chief economist Azar Jammine.

Writing in Trends Transforming SA, a new book on scenarios for a new SA, Jammine argues that while eliminating bureaucratic duplication will save money, it will not be enough to address the backlogs and imbalances created by apartheid.

The book was edited and compiled by business consultant Tony Manning and contains 16 contributions from SA opinion makers. It is the result of a forum organised by the Building Industries Federation of SA and is designed to stimulate debate and raise money for a Bifsa building fund for small businessmen. B/Day 27/3/91

It was launched at the Inanda Club yesterday.

Jammine's contribution on the economy says it would require a 50% annual increase in SA's present budget a year at present prices to create equality.

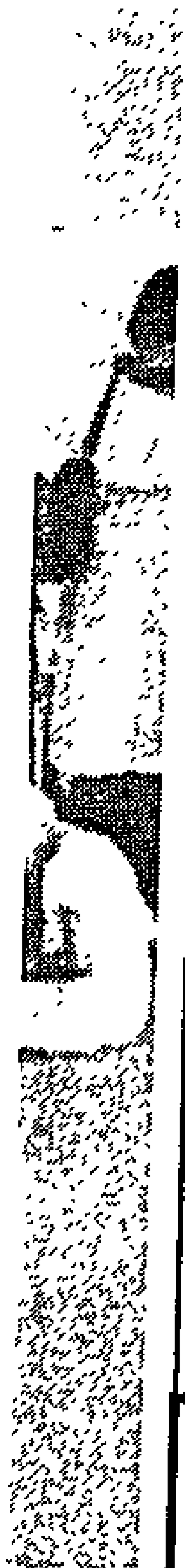
Department of Foreign Affairs deputy director general Rusty Evans says in his contribution that trade sanctions have already crumbled in the southern African subcontinent.

"SA's trade with Africa is growing by leaps and bounds. It currently amounts to almost R10bn a year.

"Markets are being developed far and wide. Trade with Zaire has trebled in two years. Madagascar has opened up and there is no reason why trade with that country should not quickly match that of Mauritius — in excess of R300m a year," Evans says.

Executive MD of the Standard Bank Investment Corporation, Conrad Strauss, says getting the economy right is the number one national priority, and action on this front cannot be deferred until the politicians get their constitutional house in order.

Other contributors include SA Institute of Race Relations executive director John Kane-Berman, Education Foundation executive director Johan van Zijl, AIDS expert Dr Dennis Sifris, conservationist Ian Player and former DP co-leader Wynand Malan.



IUS SANAI

Budget 'avenue for redistribution'

Setting new priorities in government spending of tax money is a major source of redistribution of wealth in South Africa, participants in a recent workshop on the economy in South Africa propounded. **Noel Bruyns** reports:

South 7/3-13/3/91

(49)

THE government spends 12 cents of every rand to finance apartheid structures. The death of apartheid would mean the saving of this amount.

Defence expenditure after apartheid can also be significantly decreased.

In all, about 3,5 percent of the Gross Domestic Product (GDP) can be saved in a nonracial, democratic South Africa without taking away from the budget votes of education, for instance, which would otherwise have a negative effect on the economy.

Nevertheless, these savings is not enough to finance the demands by individuals and political parties for more money to be spent in areas such as housing and education.

These are some of the findings agreed upon by South African and international academics and economists who attended a "Budgeting for Redistribution" workshop in Gordon's Bay last weekend.

The workshop, held at a Gordon's Bay hotel, was jointly organised by the Economic Policy Research Project (EPRP) of the University of the Western Cape and the South African Labour and Development Research Unit (Saldru) of the University of Cape Town.

Dr Peter Moll, a South African economist based at the North Western University in Evanston, US, who is at present working at the EPRP, told SOUTH the underlying idea behind the workshop was to identify avenues for redistribution of wealth.

"There are not many such avenues, given the constraints of the South African economy. But many participants agreed that the government budget was one of the chief sources of redistribution."

There was consensus that taxation does not of itself redistribute wealth.

"Taxing the rich heavily and the poor lightly does not in the end affect the distribution of personal income very much, either in this country or in any country," Moll said.

Instead, money paid to the Internal Revenue Office should be spent "in a way that is distributive".

Reallocation

Participants felt the major part of redistribution of the country's wealth should come from a reorientation of the existing budget.

The money available in the health budget, for example, could be reallocated to benefit the poorest 40 percent of society.

"The state should allocate money for preventative health schemes or nutritional intervention such as school feeding schemes which are highly effective yet relatively cheap, instead of subsidising heart transplants, for instance," Moll said.

At present the budget allocations were spent to the advantage of primarily the middle class and the rich, not the poorest sectors of society.

The economists agreed that a capital gain tax should be introduced and tax concessions for firms limited, as these were generally ineffective.

Dr Max Sisulu delivered the keynote address

However, they could not find agreement on nationalisation.

"Some people felt a good deal of nationalisation should take place and that future government spending should go on buying back institutions such as the Post Office and Iscor to control prices and reduce the present high monopoly level of prices.

"Others argued that such spending would place a great burden on the budget and the money should be used rather on things that directly benefit the poor, such as housing and education.

"They also felt nationalisation would scare off potential foreign investors," Mol l said.

Neither could participants find consensus on redistribution as a strategy for economic growth. Some of them felt poor people would get more money through redistribution, which would lead to a change in buying habits.

The poor would buy local goods which were labour intensive — thereby assisting the economy and employment rates — rather than imports.

Extract

Other economists present disagreed.

Redistribution should be seen as a welfare policy, not a means to increase individual incomes, they felt. It would thus be limited by the government's ability to extract taxes and to spend it appropriately.

Moll said the workshop had not been organised for participants necessarily to come to a consensus, but to give guidelines for a new redistribution policy to the ANC and Cosatu.

"We do not attend to market those issues that we did agree upon, but simply present them as points that are well worth listening to," he said.

Overseas academics who attended the workshop included Mr John Toye, director of the Institute for Development Studies in Sussex, Professor Okner Gokay of the University of Istanbul, and Zimbabwean economist Mr Norman Reynolds.

Study 'predicts slide into disaster'

A CONFIDENTIAL SA Perm report predicts SA is heading for a major disaster which could see the country degenerate into a Lebanon or Ethiopia, Azapo claimed yesterday.

Azapo publicity secretary Strini Moodley claimed at a news conference in Durban the Perm believed business and government were solely responsible for SA's "economic mess".

B/Day 5/3/91

49

Moodley said he was quoting from a Perm report of a probe into the country's political, economic and social situation, released to Azapo on Sunday.

TANIA LEVY reports, however, that Perm spokesman Theo Coggin said Azapo's statement represented "a simplistic picture of only one aspect of one scenario given".

He said Azapo had breached the confidentiality of a presentation of different scenarios for SA which had been developed by Mutual and Nedcor, and made known to key decision makers.

Moodley claimed the report had attributed SA's economic situation to "the plundering nature of big business and the government" which had "robbed the country of its riches without developing its people".

The analysts had offered several ways of resolving the situation and Azapo had asked the Perm for a summary to study them. — Sapa.

Social projects to lose out to law and order

BILLY PADDOCK (49)

CAPE TOWN — Funds that government would have preferred to allocate to social spending would now have to be directed to combating crime, Deputy Finance Minister Org Marais said yesterday.

He said it was sobering and saddening that, considering the outlook at the beginning of last year and apart from the need for more funds for combating crime, "it was not foreseen that so substantial a portion of the shift in expenditure priorities would have to be forfeited for the maintenance of law and order".

"The additional expenditures that will now have to be directed to this area could otherwise preferably have been considered for social expenditure," Marais said.

In the past year the SA Police's complement increased by 10 000 and last week Law and Order Minister Adriaan Vlok said he was pressing the Treasury for another increase of similar magnitude.

Marais said government spending over the past few years showed a shift towards greater social expenditure but denied speculation that the Budget would allocate a further R7bn to social spending.

He said the Budget could address social spending only within the constraints of other demands on the treasury. Other priorities were that further progress should be made in preparing the ground for a period of sustained economic growth "while maintaining the highest possible degree of stability to reduce inflation as far as possible". B/Day 5/3/91

Government was committed to reducing personal and company tax through a shift towards indirect taxation.

"A further complicating factor is the implementation of VAT, which will rest on a drastically restructured tax base compared with that of GST," he said.

Government's responsibility was to view all the implications of VAT from a Budget viewpoint against a wider canvas of demands. He urged people to be careful in speculating about the Budget and raising expectations to levels that were unattainable in the near future.

Entry to international markets vital — Barend

49

Star 6/3/91

South Africa was poised to resume economic growth, but it had first to obtain re-entry to the international community, **Finance Minister Barend du Plessis** said in the House of Delegates yesterday.

Speaking during a debate on a private member's motion by the leader of the Opposition in the House, Amichand Rajbansi, that the State President be requested to take the necessary steps to remove discrimination in the allocation of State funds, he said this re-entry was a political issue.

Sacrifice

The most noticeable price South Africa had had to pay for losing its international financing in 1985 was that it had to sacrifice growth.

"We had to try to reconstruct growth without the import propensity," he said.

On the gap in pensions among various race groups, Mr du Plessis said that morally there should be no discrimination and the gap should be closed as soon as possible.

Parliament 1991

Efforts by all concerned had resulted in the gap closing quite dramatically.

However, it was a complex historical and cost issue which involved regional differences such as the cost of accommodation.

"I think we have made progress under very difficult circumstances."

These had included a period of a shrinking per capita Gross Domestic Product, the cost of South Africa's actions in Namibia and Angola, and the defence of all its borders.

"You can calculate what the cost was of national service."

South Africa had also had to accumulate strategic reserves.

Now that the Cubans had "made good" their promise and left Angola, the whole pattern had changed.

The tragedy, however, was that since President F W de Klerk's opening of Parliament speech on February 2 last year, a larger percentage of funds had had to be spent on maintaining law and order — because of the violence — than the Government had planned.

"Therefore a restructuring of a budget was very difficult under those circumstances."

Criticism

Referring to criticism during the debate that Jan Steyn's Independent Development Trust (IDT) was taking too long to spend the R2 billion allocated for socio-economic upliftment, Mr du Plessis suggested that Members of the House of Delegates ask Mr Steyn and his housing director, Ben van der Ross, to address them.

Careful planning had to go into spending R2 billion, he said. "You can't just go on a spending spree."

The Trust was meant for the "poorest of the poor" of all races. — Sapa.
— Sapa.

US donates R103-m for 'upliftment'

Star 6/3/91. (49)

WASHINGTON — The United States will donate $40 million (R103,2 million) for the upliftment of disadvantaged blacks in South Africa.

Speaking before a House of Representatives foreign affairs sub-committee on Africa in Washington, Assistant Secretary of State Hank Cohen said the donation, a 25 percent increase over that last year, was due to American concern over the South African economy's ability to cope with the challenges that face the country.

The assistance would help negotiations and negotiators to reach a successful outcome.

The aid to disadvantaged blacks was to prepare them for future leadership roles and would primarily be in the form of scholarships, Mr Cohen said.

"South Africa is on the move towards a future devoid of the stain of apartheid and the United States is happy to be a part of that process," he said.

Mr Cohen welcomed efforts to broaden South Africa's economic base and reacted positively to the ANC's reconsideration of its nationalisation policy, as well as the joint political committees addressing socio-economic problems in South Africa.

He praised US businesses that had stayed in South Africa and said he was proud of their role despite obstacles.

"They have led the way in demonstrating how business and equal opportunity reinforce each other." — Sapa.

HOUSE OF DELEGATES

QUESTIONS

†Indicates translated version.

For written reply:

Own Affairs:

Hansard 6/3/91

Surplus of teachers

1. Mr M RAJAB asked the Minister of Education and Culture:

(1) Whether his Department has a surplus of approximately 1 000 teachers; if so, (a) by what calculation is this surplus arrived at and (b) what effect will the termination of the services of this number of teachers have on his Department;

(2) whether he will make a statement on the matter?

D19E

The MINISTER OF EDUCATION AND CULTURE:

(1) No.

(a) and (b) Fall away.

(2) No.

HOUSE OF ASSEMBLY

QUESTIONS

†Indicates translated version.

For written reply:

General Affairs:

Capital flow

1. Dr W J BOTHA asked the Minister of Finance:† Hansard 7/3/91

What was the capital (a) inflow into and (b) outflow out of the Republic during each specified financial year since 1980-81?

49

B7E

The MINISTER OF FINANCE:

(a) and (b)

Capital flow is only measured on a net basis. The total capital flow for the financial year 1980-81 to 1989-90 is as follows:

	Capital movements not related to reserves *(R million)*	Liabilities related to reserves *(R million)*	Total *(R million)*
1980/81	−492	651	159
81/82	2 163	3 239	5 402
82/83	3 071	−1 507	1 564
83/84	816	1 165	1 981
84/85	−916	1 361	445
85/86	−7 132	305	−6 827
86/87	−3 822	−2 031	−5 853
87/88	−4 077	−682	−4 759
88/89	−6 779	2 878	−3 901
89/90	−3 329	771	−2 558

Certain areas: telephone services outstanding

57. Mr D J DALLING asked the Minister of Mineral and Energy Affairs and Public Enterprises: Hansard 7/3/91

(1) How many applications for telephone services were outstanding in respect of (a) the exchanges of (i) Bryanston, (ii) Randburg, (iii) Benmore Gardens, (iv) Kelvin, (v) Bramley, (vi) Rosebank and (vii) Sunninghill Park, and (b) any other exchanges serving the Sandton constituency, as at 31 December 1990;

(2) when is it anticipated that the backlog in respect of each exchange will be eliminated;

(3) what steps are being taken to satisfy the demand for telephones in respect of each such exchange?

Hansard 7/3/91

B114E

The MINISTER OF MINERAL AND ENERGY AFFAIRS AND PUBLIC ENTERPRISES:

(1) (a) (i) 89,

(ii) 144,

(iii) 165,

(iv) 97,

(v) 97,

(vi) 298,

(vii) 206; and

(b) Farmall 26,
Fourways 211,
Olivedale 177,
Diepsloot 40,
Bromhof 129,
Crowthorne 43;

(2) and (3) Numerous waiting applicants in these exchange areas have in the interim been provided with telephone service. A total of 21 cable projects will be undertaken within the next two months and the requirements of 465 applicants will be met progressively as the projects are completed. A further 71 cableprojects which will enable the Post Office to provide all the remaining waiting applicants with telephone service have either been planned or are in the planning stage. No definite completion dates for these projects are available at this stage.

The Japan of Africa is waiting to be born

S/Times 10/3/91

(49)

TOWARDS THE FUTURE SA

PETER BERGER, opening the debate on the economy in our Towards the Future South Africa series, suggests a prosperous future awaits the country — if it can succeed in rewarding entrepreneurship. Next week economist Merle Lipton responds

SOUTH AFRICA stands at a dramatic crossroads in this moment of history. The decisions to be made in the immediate future are almost all political. Given this fact, discussions about economic alternatives and options may appear somewhat less urgent.

However, if a political settlement results from the processes now underway, and if this settlement eventuates in a new government of whatever sort, the most immediate pressures on that government will be economic.

It would be well if all the groups that are likely candidates for such a government had at least some general directions of economic and social policy in mind before the event; there will be very little time afterward and the costs of failure would be high.

Every human society has unique features. So, of course, does South Africa. But there is now a considerable body of knowledge about economic, political and social processes worldwide. The modern situation is characterised by powerful forces that do not respect national boundaries (such as the forces of a global economy, of science and technology, and of demographic dynamics).

Options

It follows that there is no society today that cannot usefully compare its own experience with that of others. This is especially so in the matter of economic options, and of the social and political policies that are inextricably connected with the various options. No government run by even moderately sane individuals wishes to opt for economic stagnation and social misery.

The question then is what we now know and what we don't know about the conditions for economic and social development. Some things we now know with reasonable certainty; other things are much less clear.

We know that political stability is a precondition for economic development. This is why a discussion of the economic future of South Africa, unless it is to be a discussion of doomsday scenarios, must be predicated on the assumption of reasonably stable governance.

Political stability implies that the larger part of the population supports, or at least passively accepts, the authority of the government. It does not necessarily mean democracy. One may deplore this but it is important to understand that, however desirable democracy may be for many good reasons, it is not a precondition for economic development.

The big development success stories of East Asia all began under the auspices of authoritarian regimes. If one is convinced of the moral superiority of democracy, one may derive consolation from another fact, namely that once economic development has become successful it generates democratising pressures.

We know that capitalism is the only modern economic system that holds out a promise of successful development. Socialism, in any of its varieties, has proven to be an unmitigated economic and social disaster wherever it has been tried; what is more, it has produced political tyranny everywhere.

Capitalist economies do not always succeed; socialist ones never do. The disintegration of the socialist systems in the former Soviet empire should spell the end of the capitalist/socialist debate for anyone who argues rationally, but the catastrophic effects of socialism (socially and politically, as well as economically) were visible long before that.

In some places there has been talk of a "third way" that will be neither capitalist nor socialist. This is an illusion, which functions to avoid hard choices. There is no "third way". The talk of a "mixed economy" being such a "third way" is obfuscating.

All modern economies are "mixed" to a degree — there are quasi-socialist government interventions in the economy even in, say, Switzerland, and every socialist society has had a quasi-capitalist "underground economy" — but it is virtually always clear whether the "commanding heights of the economy" (a useful Marxist phrase) are dominated by market forces or by political planning.

The Scandinavian societies are not a "third way" at all: they are capitalist societies with highly developed welfare states. Socialism and capitalism are (to use another useful Marxist phrase) modes of production; Scandinavia is a particular mode of redistribution — an altogether different matter.

Deliberate

We also know, in this connection, that poor countries can ill afford a Scandinavian mode of redistribution, even if they embark on a capitalist road of development. Wealth must be accumulated before it can be redistributed. We know fairly well that policies favouring economic growth are more likely to improve the condition of the poorer elements of the population than policies favouring redistribution.

What, unfortunately, we don't know is just how much redistribution can be afforded at what points of economic development. There are economists who pretend to know (mostly economists on the political right); these pretensions should not be believed.

It follows that governments of poor countries, or at least such governments as are subject to some degree of democratic accountability, must make some hard choices: some redistributionist policies will be necessary to satisfy popular expectations for an improved life, but these policies must be so fashioned as not to jeopardise the economic growth on which they finally depend.

These choices will have to be made on the basis of uncertain knowledge. There is one bit of knowledge one can offer here: if a government has limited resources to devote to social improvement, expenditures for health and education are probably the most likely to both benefit the poor and at the same time enhance economic growth.

> Capitalist economies do not always succeed; socialist ones never do. And there is no 'third way'

We still know relatively little about the relations of economic behaviour and culture. It seems clear that some cultures are more congenial to modern economic development (the case of East Asia is again instructive here), but it is much less clear to what degree cultural factors are important and also whether a particular cultural trait remains an advantage over time.

Even if we knew more about "economic culture" as a variable in development, we would still have to wonder to what extent governments or other modern institutions (such as corporations) can change cultural traits deemed unhelpful economically — or, for that matter, to what extent they *should* try for such change.

Education is the area of public policy most likely to be the arena of efforts at deliberate cultural change. If, for example, a society or sectors of a society have a culture that disparages individual effort, holds manual labour in contempt and encourages the value of not worrying about the future, then the schools can try to counter these cultural traits.

The evidence suggests, though, that schools rarely effect cultural change unless they are supported by the family and the community. The evidence also suggests that the most successful agents of cultural change are passionate religious movements.

Crucial

If economic culture is a phenomenon not easily amenable to public policy, it should at least be given the benefit of the classical Hippocratic injunction not to do harm: governments may not be very good at fostering productive economic cultures; governments have been very adept at squelching such. For one thing, there are ethnic or religious minorities in many places that excel in economic inventiveness. Typically, these minorities are objects of envy.

Public policy can either go along with or resist the politics of resentment; it should resist, not only because it is morally right to do so, but because it is in the interest of economic development.

But governments do most harm by throwing obstacles in the way of whatever economic inventiveness and initiative may exist, especially among the poor.

And governments do this all the time — even governments that subscribe to a rhetoric of free enterprise — by oppressive rules of licensing and certification, by excessive taxation, by monopolistic allocations to favoured groups, and the like.

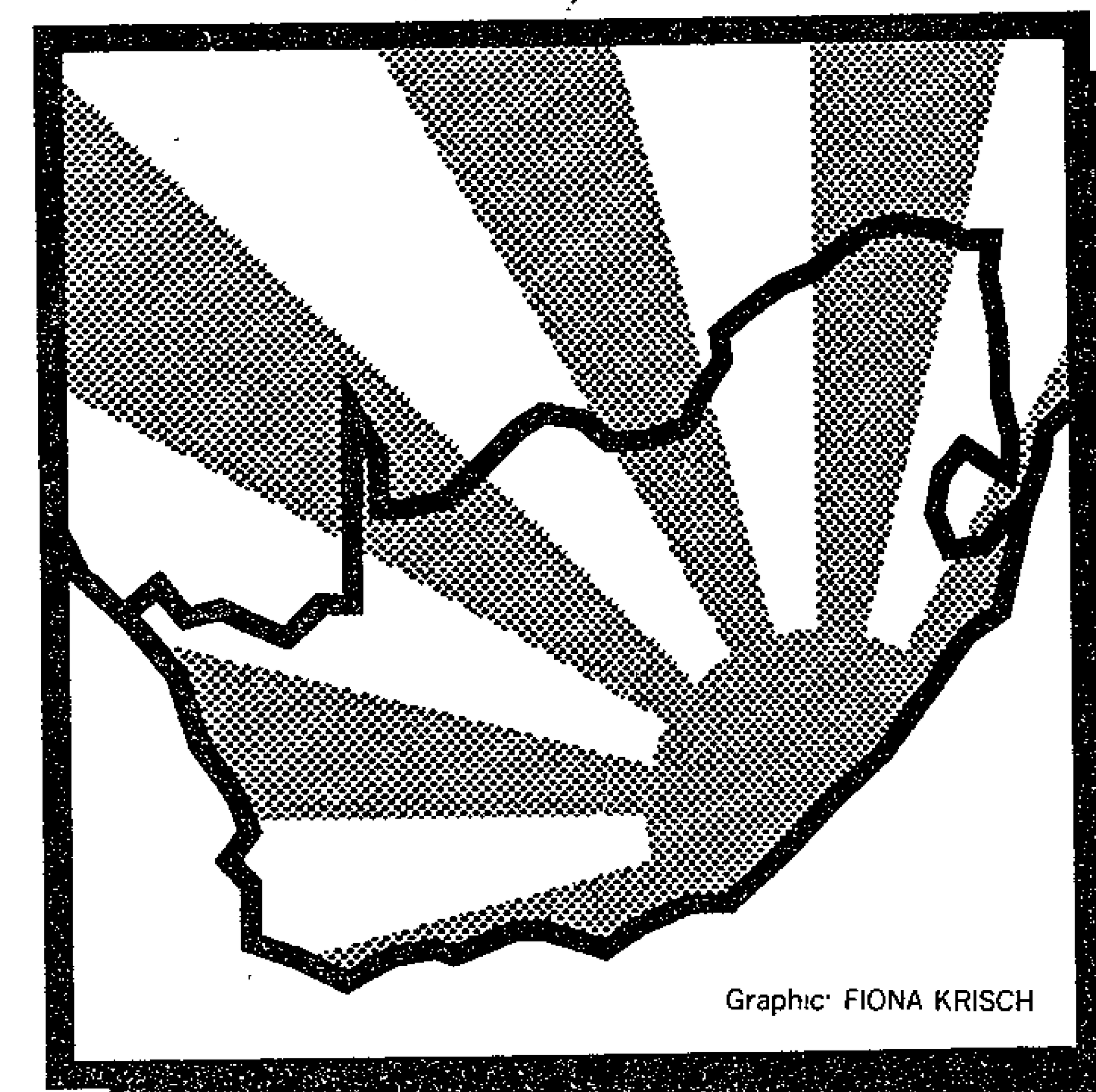
Hernanado de Soto has been the prophet of liberation from this sort of government intervention in Latin America, but his admonitions are as relevant in other parts of the world. Three basic propositions apply here: enterprise is crucial for economic development; governments are not good at creating it; governments should at least get out of the way.

One could also, of course, be more optimistic and ask how the government could positively help the nascent entrepreneurs among the poor. Probably there are three likely areas — education and training; credit; and information about opportunities, markets and technological change.

All the above considerations are highly relevant for South Africa's economic future. There is an additional one that should be given special mention: there is some reason to think that a very dynamic and positive economic process is stimulated when large numbers of people who were previously excluded or discriminated against enter the economic mainstream.

Three "economic miracles" of modern history may be cited as examples of this. The first was the initial modernisation of Japan when, in the short time span between 1868 and 1912 (the Meiji period), the country was transformed from a feudal backwater to a modern industrial economy.

The Meiji revolution began with the sudden abolition of feudal privileges — in that context, a true "civil rights" revolution.



Graphic: FIONA KRISCH

The second case, different in many ways, was the rapid recovery of West Germany after World War II — facilitated in an important way by the absorption of masses of refugees from the East.

The third case, closer to the first than the second, is the American South since the civil rights revolution of the 1960s: it can be argued that the dramatic transformation of the region from "Tobacco Road" to "Sunbelt" was at least partially caused by the economic enfranchisement of the masses of previously excluded blacks.

"New people" in any society tend to be more active economically, to the benefit not only of themselves but of the society as a whole.

Prudent

The stakes in South Africa are very high indeed. Both the dangers and the promise are staggering. It seems, though, that one thing can be said with some assurance: given its immense physical and human wealth, South Africa has within it the potential of another great economic miracle.

If it emerges from apartheid with a stable government, a capitalist economy and policies that favour economic growth with a prudent amount of redistribution, then it could yet become the Japan of Africa, transforming not only itself but the entire continent. The thought is both heady and sobering.

□ *Professor Peter Berger is director of the Institute for the Study of Economic Culture at Boston University*

HAROLD FRIDJHON in the Money Markets

Stals rate rewards patient bulls

B Day 11/3/91 (49)

THE financial markets will open this morning with the boards clean and with most rates already in line with the new Stals rate. The bulls have had their patience rewarded.

The rate for 90-day liquid bankers acceptances (BAs) has to be skinned by 10 basis points to 17,30% from Friday's 17,40% to bring it into line with the new rediscount rate of 17,30%, and the Treasury bill (TB) rate will undoubtedly adjust to Bank rate next Friday, by shedding four basis points.

Some TBs might trickle into the market this week with other marketable assets — BAs, non-liquids and short-dated CDs — as holders of paper might find it more convenient to take a small immediate profit.

For the next month or two, the money market should be calm and dull as the motivation for trade will be 100% based on pure investment with barely a suspicion of speculation.

Today's bond market will gyrate as the bulls take their profits and the few bears deal wildly to get out of trouble. Bond yields might soften marginally, but the end of the day should see the bulls rampant as they over-react to the mild stimulus which the lower Bank rate and the easing of bank liquidity will give to the economy.

The slight relaxation of monetary policy will not trigger the boom which reflex-minded bulls might fantasise about. At best it will edge the economy off the floor and revive flagging business confidence.

Perhaps monetary policy has been eased because fiscal policy, to be revealed in next week's Budget, will continue to be tight, strongly anti-inflationary.

If this assumption is correct, Stals was ready to reduce Bank rate several weeks ago when he declared that he was prepared to follow market trends. And the signals from the markets have been clear and unequivocal. He might have delayed cutting Bank rate until Finance Minister Barend du Plessis had positioned all the jigsaw pieces which make up the Budget.

Possibly Du Plessis will not be in a position to be generous to taxpayers next week, but they will have some compensations; for consumers the mortgage rates will be eased and so will the overdraft rates. For those in business, bank borrowing will be cheaper.

Regional unity 'impossible'

B/Day 11/3/91

TIM COHEN

THE uneven development of African national economies means a regional customs union, common market or economic community is out of the question, says Institute of International Affairs researcher Gary van Staden.

Van Staden argues in an honours thesis on regional integration and economic development that the divergent national economies of the nation states of southern Africa militate strongly against any one arrangement covering the entire region.

"It is simply not possible for the economies of, for example, SA and Zimbabwe to form a common market with, for example, Mozambique, Malawi, Lesotho and Swaziland." The effect on these economies would be severe, he says.

Even a free trade area, the lowest form of economic integration, might not be possible on a regional basis because of SA's and Zimbabwe's domination of the region's manufacturing base.

SA would benefit from membership of the Preferential Trade Area (PTA) as it had benefited Zimbabwe and Kenya, "but neither of those two countries would welcome the SA challenge".

SA membership of the PTA would spell the end of the SA Customs Union (Sacu) and possibly the Southern African Development Co-ordination Conference (SADCC). Successful regional integration requires strong institutions which are able to coexist with nation-states. (49)

Of all the regional arrangements operating in southern Africa, the PTA has come closest to that goal, Van Staden says.

"The SADCC has no institutions worth speaking about while Sacu is dominated by SA with little or no regard for the wishes of its partners."

The PTA institutions are strong enough to perform an integrative function but weak enough not to threaten the individual nation states.

But evidence from the past seems to suggest that nation-states will react negatively when asked to make the complex compromises demanded of currency and trade policy alignments.

Van Staden says the gravest danger remains South African "hegemony".

"If SA continues on its current path of setting itself up as the region's 'big brother' through whom all or most of the development strategies for the region must be channeled, a political backlash from the rest of the region, particularly Zimbabwe, seems certain."

Fears of instability likely to discourage foreign investment

49

BDay 11/3/91

In the second of two articles, Eskom GM (Finance) MICK DAVIS examines the preconditions required for a renewed flow of foreign funds into SA.

OVERSEAS investors and bankers view the political progress and process in this country with approval. President F W de Klerk's initiatives are wholeheartedly supported and the moderate stand of many ANC leaders, including Nelson Mandela, is greatly appreciated.

However, the uncertainties inherent in the dramatic changes give rise to concerns about the future stability of our economic system. And bankers and investors shy away from uncertainty because an uncertain environment creates conditions which prevent risk from being quantified.

The lifting of sanctions is unlikely, in itself, to cause a flow of new money into this country. In many countries the provision of foreign finance to SA is not subject to legal impediment and sanction. Even now, bankers in most European countries are free to provide new commercial and syndicated loans to SA entities, and to float bond issues to investors in those countries.

However, since 1985 we have not received any new commercial or syndicated loans of significance, and bond issues are still difficult to negotiate. Since 1985 the only significantly successful bond issues were private placements, replacing existing maturing bonds. Even in these instances, only a relatively small proportion of the maturing bonds have been refinanced.

It is easy to speculate as to what conditions gave rise to this phenomenon. The political pressure on investors and lenders of money not to participate in transactions with SA was extremely great. However, that pressure is now on the wane and a more in-depth analysis of financing opportunities for SA is required to fully understand why access to foreign financial and capital markets is still going to be a challenge in the next few years.

It is therefore useful to consider each type of finance available to SA entities and examine the prospects of successful negotiation in respect of each. First, a brief review of the potential of trade finance and project and export finance facilities.

Trade finance is short-term finance provided to facilitate bilateral trade. The risks to the lender are limited due to its short-term nature. Generally the lender merely needs to assess the creditworthiness of the individual debtor and SA for a window of no longer than one year. Given that fairly accurate assessments of this risk can be made, and that SA's trade surplus is indicative of sufficient currency resources to meet repayment obligations, trade finance is generally available.

Secondly, project finance and export credit facilities are also generally available and they relate to capital purchases from a particular country. These facilities are available for essentially three reasons:

☐ The purchase of capital goods creates job opportunities in the vendor country;

☐ The quantum of risks of non-payment only grow incrementally, as the credit is generally provided over a period of time. This affords the lender greater protection and the ability to manage his risk; and

☐ Some form of insurance is generally provided for export credit facilities to the lender in the event of non-payment as a result of "country default".

Unfortunately, given the current depressed nature of the SA and world economies, the use of these facilities is restricted.

New finance today can be realised only when commercial or syndicated foreign loans are available or new foreign currency bond issues are possible. Foreign bankers (who will provide the foreign loans) and foreign investors (who will invest in our foreign currency bonds) require certain conditions before they will commit significant new money for investment in SA.

The lack of new money in the latter part of the 1980s did not in itself result from any serious misgivings about SA's ability and willingness to meet its obligations. Indeed, the world financial commentators often remarked on how unborrowed the country was although the repayment structure of existing debt was a cause for concern.

The initial paucity of new foreign finance was caused by two main factors.

Firstly, banks were required to raise provisions against SA debt as a result of the debt standstill. It was therefore impossible for new money to be made available at an affordable cost.

Secondly, severe political pressure from student groups, trade unions, church movements and governments made it difficult, and at times impossible, for overseas bankers to be seen to be doing long-term business with SA or to assist SA borrowers in floating of new bond issues in the overseas capital markets.

The political pressures from 1985 to 1990 are waning, and it is now our future creditworthiness which is the key. Overseas bankers and investors are looking for a political settlement which facilitates a democratic government, free market principles and social harmony and a growing economy. That is not yet certain.

Foreign investors and bankers are nervous about the nationalisation debate, the threat of unrest if sanctions are lifted, the apparent political disharmony among some black political leaders, violence in the townships and their previous experiences in Africa and South America.

So they demand a high return to compensate for their perceived risk. The required return is generally indicated by the returns earned by those who invest in the financial rand. Current interest rates and returns in SA are geared up by the discount between the financial and the commercial rand. This gearing is caused because investors can invest via the financial rand and then receive interest/dividends via the commercial rand resulting in effective returns of more than 20% a year.

Those with money to invest in high risk and high yielding securities will probably invest in new foreign currency finance for this country only if they can be offered similar returns. The high return of the financial rand investment is not paid by the SA borrower or investee, but results from the discount between the financial and commercial rand.

Commensurate returns on direct new foreign currency investments would have to be paid by the borrower, as no gearing would exist — both the investment and the payment of the return (in the form of interest or dividends) would be via the commercial rand. If such returns were demanded and offered, the cost of the new borrowings would be prohibitive.

It is likely that foreign lenders, if they are to invest any significant amounts, will require the returns indicated by financial rand investment opportunities until evidence causes them to draw definitive, positive conclusions about this country's future.

SA is competing for new finance with countries in Eastern Europe and South America. Unless the social, political and economic environment is coherent and understandable to potential foreign bankers and investors, and is relatively no worse than that of our competitors for finance, affordable new foreign finance will not have an African address.

It is incumbent upon the business and political leadership to continue to put into place those conditions which will demonstrate to foreign investors an environment which, firstly, they can understand and, secondly, upon which they can base meaningful and favourable medium-to long-term forecasts.

of the debt standstill and abolition of the financial rand are critical factors in our successful return to the capital and financial markets of the world.

Two Bank moves boost business

Rates cut to prime SA for next upswing

B/Day 11/3/91

(49)

GRETA STEYN

THE Reserve Bank's cut in interest rates was part of a strategy to boost business confidence and position SA for the next economic upswing, economists, bankers and stockbrokers said yesterday.

The Bank on Friday announced a one percentage point cut in its key lending rates to banks, effective from today. The banks are expected to follow with announcements of similar cuts in prime overdraft and home loan rates today.

Another measure announced on Friday that will encourage bank lending is the easing of banks' cash reserve requirements — a move that will free R1bn to flow into the money market.

The measure immediately creates further downward impetus for interest rates and will be phased in over four months. The decision to reduce the minimum cash requirement to 4% of short-term liabilities from 5% was taken "in the light of the present general economic situation", Bank Governor Chris Stals's statement said.

Economists expect government to follow this week's Bank rate cut with a Budget that aims to boost business confidence while addressing the country's social needs. Rand Merchant Bank's Rudolf Gouws said business was expected to get a boost from dramatic cuts to import surcharge rates, especially on capital goods.

But the key to improved business confidence was to balance an easing in both monetary and fiscal policy with financial discipline, as fears of renewed inflation would knock confidence.

Gouws said: "The announcement of a reduction in the money supply target range at the same time as a cut in Bank rate provides the necessary balance. It helps in the fight against inflationary expectations."

Banks will not be able to finance a credit spending spree within a money supply growth range of 8%-12%, down from the Bank's 11%-15% guidelines for 1990.

Nedcor CE Chris Liebenberg said companies had openly expressed fears of "overkill" before the cut in interest rates.

"It was necessary to help regenerate business confidence. But don't expect a series of Bank rate cuts this year. Since the Budget is likely to be mildly expansionary, the Reserve Bank will probably keep a tight rein on monetary policy."

That would be the correct "mix" of monetary and fiscal policy, he said.

Stals said in his weekend statement monetary policy had to be guided by the need for continuation of financial discipline, but had to have sympathy for the many hardships suffered by some sectors of the economy "in the present adverse economic climate".

Stals firmly linked the next cut in interest rates to the inflation rate, saying: "The Reserve Bank will require visible evidence of a real decline in the rates of increase in

□ To Page 2

Rates cut

B/Day 11/3/91

(49)

□ From Page 1

the producer and consumer price indices before taking a next step towards lower interest rates."

He said the monetary authorities could not afford a premature relaxation in their "vigil against inflation".

The present inflation rates were "unacceptably high", and the decision to cut Bank rate had been in response mainly to a strong balance of payments and reduced money supply and credit growth.

A stockbroker said the cut, though largely discounted in the recent surge in industrials on the JSE, would keep the market buoyant and could cause second-line stocks to gain more prominence. While the move has also been largely discounted in the gilts market, a spurt of bullish sentiment is expected in the markets today.

● Comment: Page 6

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B/Day 11/3/91.

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● Comment: Page 6

Politics seen as important factor in forcing Stals' hand

(49)

Star 11/3/91

By Derek Tommey

Businessmen will welcome the surprise bank rate cut announced by the Reserve Bank on Friday and the R1 billion increase in the commercial banks' liquid balances, even though economic conditions are still likely to remain tight.

But they will be wondering how much of this latest relief was due to the disappointing (for the Government) Maitland by-election result on Wednesday.

Obviously, something galvanised Dr Stals, the Governor of the Reserve Bank, into early action.

Overkill

He was expected to announce a cut in interest rates on March 19, the eve of the Budget. This was to coincide with whatever measures the Minister of Finance, Mr Barend du Plessis, might announce.

However, Dr Stals's disclosure on Friday night of his money targets for 1991, which are normally issued on Budget Day, suggests that he may have acted sooner than planned — and possibly made more concessions than he intended.

Businessmen have been telling the Government for some time that it risked overkill with its tough economic policies, especially by applying them at a time when the mainspring of the economy, the gold mining industry, is in serious difficulties.

Until now, the Government has chosen to ignore the rapid increase in unemployment, the decline in business profitability, the great frequency with which firms have been going bust — and the increasing concern and despondency among whites in all income groups.

But the Maitland by-election would appear to have brought home at least these last points to the Government.

The right-wing anti-Government vote jumped seven fold to 3 152 while the Government vote dropped from 6 154 to 6 009 indicating a protest factor at work.

It may also lead to some extra sweeteners in thebudget aimed at reversing the Maitland trend.

For the Reserve Bank, Friday evening's announcement represents a partial defeat. Since it started pushing up interest rates two years ago its aim has been to squeeze inflation out of the economy. But so far it has had little real success.

In the 12 months ended January this year the increase in prices was 14,3 percent. In the 12 months ended January, 1989 the increase in prices was 13,3 percent. This is certainly not the result the Reserve Bank can have expected from two years of squeezing economic activity fairly severely.

Dr Stals admitted on Friday night that monetary policy alone will not end inflation, or not without severe hardship. Nonetheless, he says he intends maintaining a relatively restrictive monetary policy in order to keep downward pressure on inflation.

Wage increase

He blames the failure of his anti-inflationary policy partly on excessive wage increases. He does not say who has received these "excessive" payments but he is obviously aware of Central Statistical Service's latest release on public sector salaries and wages.

This shows that in the 12 months ended September, the public sector's quarterly wage bill rose 20,8 percent from R8,0 billion to R9,7 billion. The white wage bill rose 17,1 percent, the coloured wage bill 21,9 percent, the Asian wage bill 25,9 percent and the black wage bill by 27,4 percent.

The average wage increase for whites was 20 percent, for coloureds 22,7 percent, for Asians 21,9 percent and for blacks 27,7 percent.

No doubt many good reasons can be found for the size of these pay rises, such as people improv ing their skills and moving into more senior posts.

But to grant such pay increases at a time when private sector pay rises were averaging 16 percent and many people have stopped getting salaries and wages altogther, does suggests that the Government and the public sector did not really have its heart in the anti-inflation drive.

Money supply: more politics than economics

BDay 14/3/91 (49)

GRETA STEYN

RESERVE Bank Governor Chris Stals has removed money supply targeting from the centre stage it enjoyed during the De Kock era of monetary policy. But is Stals still according money supply a more important role than he needs to?

At the weekend, he announced new money supply targets, or "guidelines", as he prefers to call them, of 8%-12% for 1991. The three percentage point reduction in the range is meant to signal "the resolve of the monetary authorities to reduce inflationary pressures".

Stals emphasises the Bank fights inflation through control over the money supply and not through interest rates. The reason for wanting to monitor and control the money supply is that money and inflation are said to go together like a horse and carriage — keep a tight rein on the horse and the carriage will proceed at the desired pace.

Stals says the level of interest rates comes about as a result of the Bank's money supply policy. Like his predecessor, Gerhard de Kock, he puts the main focus on money supply rather than on interest rates — the latter plays a "spin-off" role.

Without going into the merits of this approach to inflation, it should be pointed out that the practicalities of the Reserve Bank's monetary system contradict this policy. The system is not designed around controlling the money supply. The policy is of necessity hit-and-miss, since it has to operate within the "wrong" framework.

This point has been made repeatedly by academics, including former Unisa professor Colin Rogers, UCT's Brian Kantor and University of Pretoria professor Geert de Wet. De Wet said: "Given the framework of control measures ... effective control over the stock of money in the SA economic system will not be possible. The monetary authority will have an influence on the ... amount of money, but no control."

SA chose a "classical" (English) monetary framework rather than the "cash" (American) system. But the latter would have been more appropriate for a policy designed around controlling the money supply.

In the American system, the monetary authorities exercise control over the amount of cash reserves at the banks' disposal. The higher the banks' cash reserves, the greater their ability to extend credit. The US central bank controls the level of cash reserves by buying and selling securities into the money market — known as "open market operations" — often setting a target for the reserves.

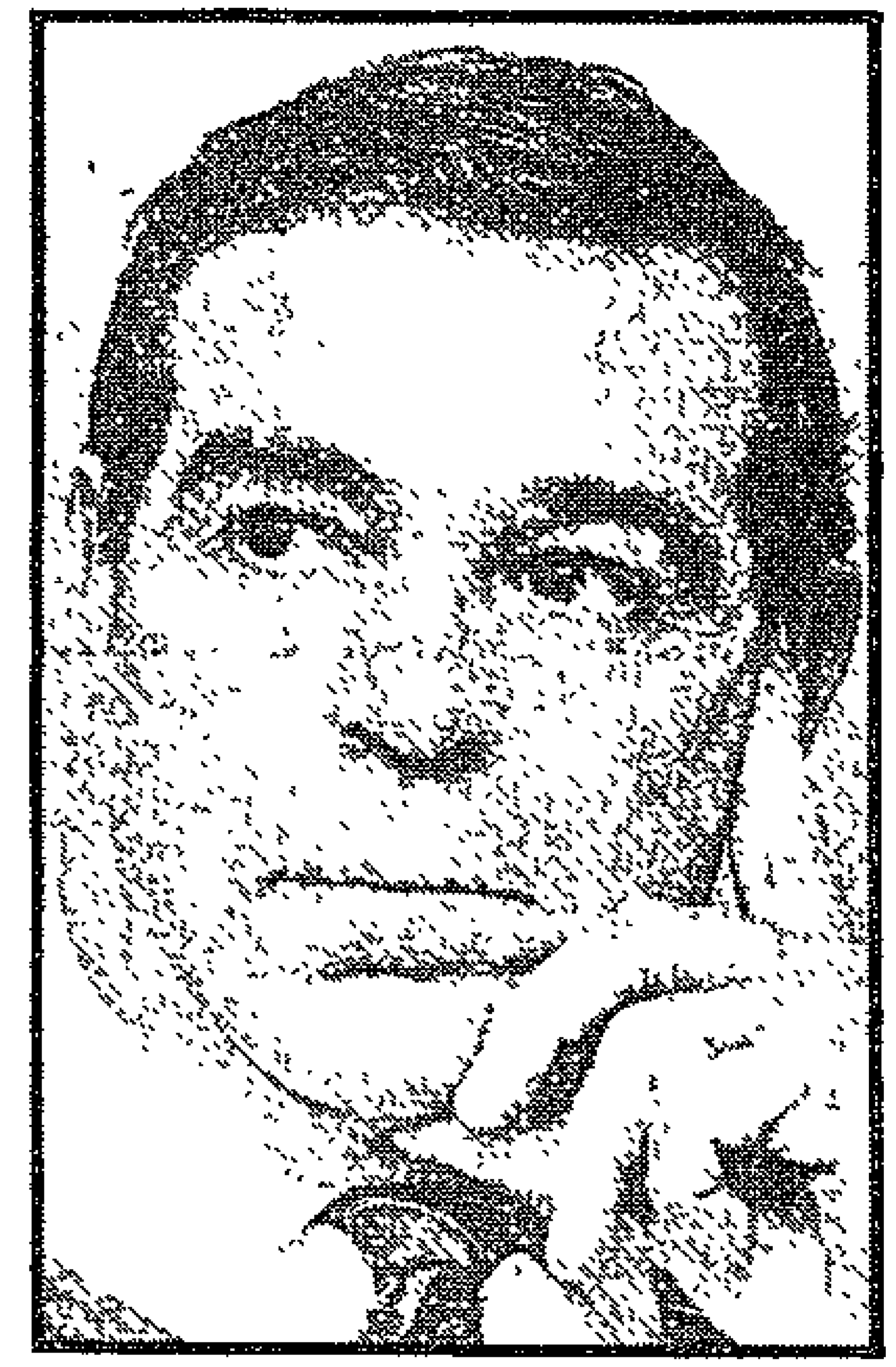
The level of interest rates comes about as a result of the desired amount of cash in the banking system. It is obvious that in such a framework, setting targets for the money supply is the logical course of action while allowing interest rates to come about as a result of those targets.

However, in SA's "classical" system, the Reserve Bank's policy hinges on banks being short of cash. The Bank releases a "money market shortage" every day — the amount of cash the banks were forced to borrow from the central bank. Why does the Reserve Bank encourage the existence of a market shortage? Why does it accommodate the shortage every day by providing the banks with the cash they need?

By providing banks with cash at an interest rate (Bank rate and other rediscount rates), the Bank influences the general level of interest rates. The amount of credit they extend and the cash that they need will come about as a result of the level of interest rates. Within such a framework, money supply growth is determined by interest rates — and not the other way around.

The Reserve Bank's control over money supply is indirect. It works via the interest rate and "moral suasion" (pressure on banks to restrain credit extension).

Why, then, does the Reserve Bank insist on targeting money supply growth, especially considering problems in interpreting the figures? These problems include discrepancies between credit growth and money supply growth, the behaviour of velocity of circulation and banks' off-balance sheet activities. Add to that the fact that Stals himself acknowledges "the decline in the rate of growth in the money supply had but a small effect on the rate of inflation in 1990", and the relevance of money supply targeting becomes questionable.



☐ STALS

The De Kock Commission found the public was more ready to accept the need to avoid excessive money creation than the need for interest rates to rise in certain circumstances. The link between money and inflation is firmly fixed in people's minds. Stals's need to focus on the money supply probably has less to do with economics than with politics.

LETTERS

YEAR END
Balance Sheet
Income Statement
Prepare financial statements

Redistribution: 'bane of this year's Budget'

BIDay 12/3/91 (49)

SHARON WOOD

REDISTRIBUTION remains the bugbear of this year's Budget, says economist Elmien de Kock in the latest Syfrets quarterly newsletter, Money Matters.

She says government will have to address the problem of where the money will come from, when the effects will be felt, and the overall implications of redistribution for the economy.

Government has already identified where the money should be spent: on education, housing and health.

But, De Kock adds, it is clear government is hamstrung by revenue limitations.

Those constraints will be lifted only when significantly higher levels of economic growth are achieved, effectively broadening the tax base.

SA is indisputably a highly taxed society and this acts as a break on any sort of growth potential, she says.

The problem of when the redistribution stimulus will take place lies with the inadequacies of SA's political and administrative system. Expenditure on housing will have an immediate impact, giving a substantial kick-start to the economy, but this boost will materialise, probably, only in 1992.

If it is done effectively, she says, it will significantly improve current forecasts of pedestrian growth next year.

But it is unlikely that substantial additional amounts will be allocated to housing until existing funds are unbundled and effectively channelled, De Kock believes.

The effects of expenditure on improved education will be of a long-term nature and expenditure on health care will indirectly uplift economic growth.

Government's declaration that it will change spending priorities towards social needs is commendable, De Kock says. But this will not bring about an automatic change in real SA growth patterns.

Strategic stockpiles: value

*24. Mr K M ANDREW asked the Minister of Trade and Industry and Tourism:

(49)

What is the current value of the ~~strategic~~ stockpiles (a) owned and/or (b) financed by the State?

Hansard 12/3/91

B472E

The MINISTER OF TRADE AND INDUSTRY AND TOURISM:

The original objective of the stockpiling scheme of strategic commodities for general use, administered by the Department of Trade and Industry, was to give effect to the national stockpiling policy and strategy regarding identified commodities in order to promote the economic and security objectives of the RSA.

The stockpiling scheme was established some 25 years ago, at a time of increasing threats of sanctions and boycotts against the RSA. The scheme comprised the build-up of stocks of essential strategic imported commodities to act as a buffer, should effect be given to such threats.

HOUSE OF ASSEMBLY

Hansard 12/3/91

As a result of changed circumstances regarding the capabilities of the RSA, the Government decided during 1988 that the continued existence of the scheme was no longer justifiable and ~~that~~ it should therefore be phased out. (49)

Stockpiling is undertaken in terms of the National Supplies and Procurement Act, No 89 of 1970. The scheme is financed by the National Supplies Procurement Fund (NSPF). The NSPF was established in terms of section 12 of the Act and its annual statements are incorporated into the Auditor-General's annual report which is tabled in Parliament. The official banking account of the NSPF is kept with the SA Reserve Bank while surplus funds are invested with the Corporation for Public Deposits. Strategic stocks are held by the private sector. Certain strategic commodities with a relatively long shelf life and, consequently a low risk of obsolescence are stockpiled as Government stocks. These stocks represent approximately 16% of the stockpiling scheme and belong to the Government. The balance, 84% of the stocks, is financed by means of interest-free loans by the NSPF and is the property of the respective stockpilers.

As regards the phasing out of the scheme, it is a process which cannot be finalized overnight. The agreements with the stockpilers concerned provide that if the Government should decide to phase out the scheme, the interest-free loans will be repaid in accordance with the usage or running down of these reserve stocks. The same arrangement applies to the liquidation of Government stocks.

The major portion of the original investment in the scheme has been recovered to date. It is expected that the scheme will be phased out towards the end of 1993.

Any funds which are in the NSPF from time to time, and which, in my opinion, are surplus to the requirements of the fund, are paid into the State Revenue Fund.

The NSPF is a general fund and should not be confused with funds of the SA Defence Force or the Central Energy Fund.

HOUSE OF ASSEMBLY

BARE ND'S WASTED BILLIONS

SPECIAL FOCUS

BILLIONS in additional funds could be made available in the national budget this year if the government puts its money where its mouth is. (49)

By slashing defence and apartheid spending and introducing other economic measures, an additional R12,4bn would become available to alleviate some of the critical social problems facing South Africa, argue economists who have identified how the billions could be spent. South 14/3 - 20/3/91

In a special focus in SOUTH, economic experts examine the priorities of a budget for a post-apartheid South Africa — priorities which they argue Minister of Finance Barend du Plessis can start to address when he announces the budget next week.

Budget for a new South Africa

See Pages 9, 10, 23

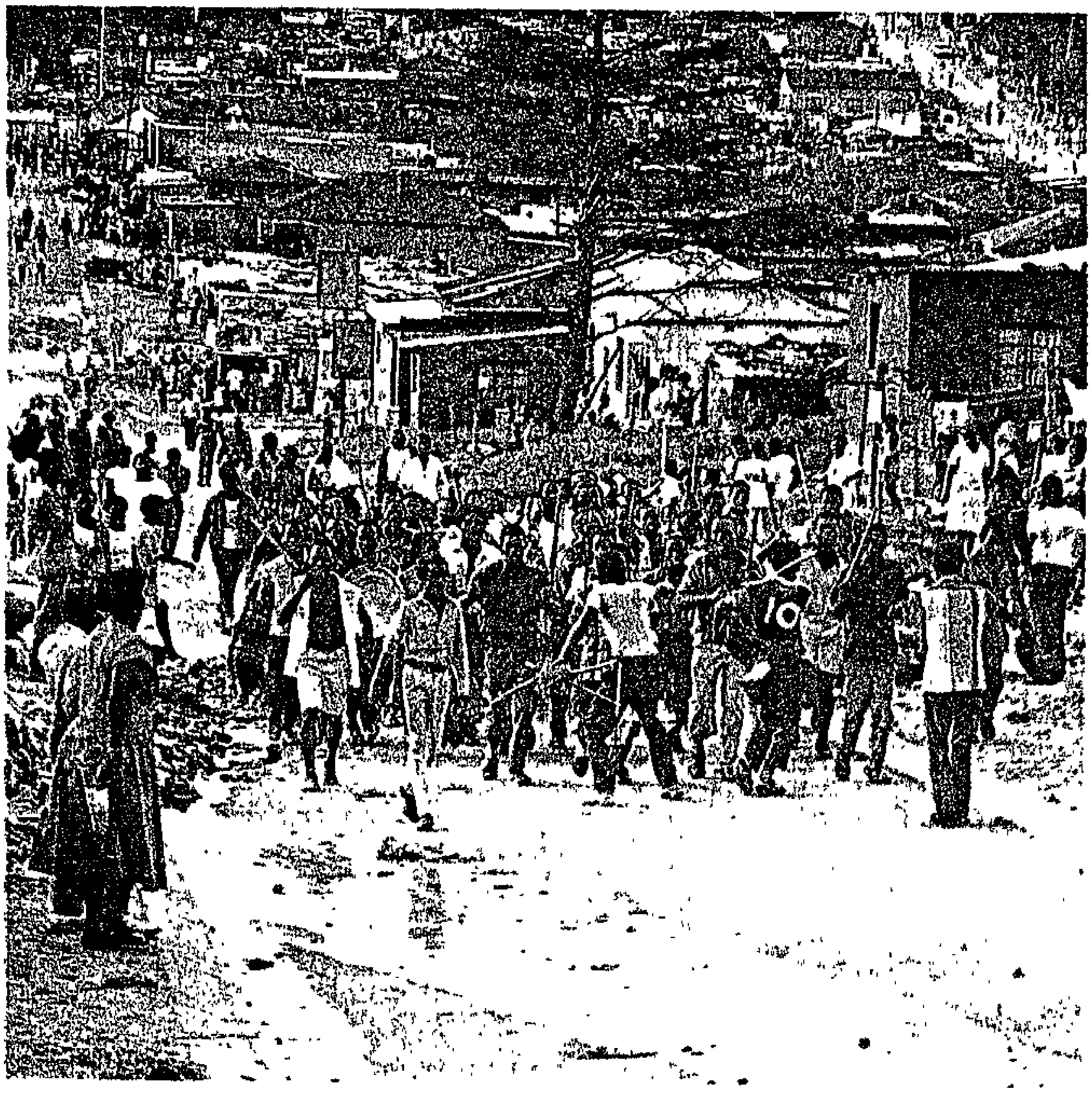
Professor Lieb Loots, head of the University of the Western Cape's economics department, said Du Plessis "must reflect to a greater extent the needs and aspirations of the people".

The budget should have a clear redistribution and growth orientation, said Loots, who identified housing, job creation, primary health, land reform and rural and urban development as priorities for 1991.

Indications are that social development programmes are on the cards, but Du Plessis is not expected to come up with the billions needed to bring about parity in pensions.

Economists forecast that the strong features of the budget will be an increase in law and order expenditure, a drop in personal income and company tax and incentives for exports.

Wishing all our Muslim readers well over the fast.



DEATH MARCH: Armed hostel dwellers on the move in Alexandra this week

PIC: FANIE JASON

Bid to end township carnage

South 14/3 - 20/3/91.

IN a bid to end the carnage in strife-torn townships on the Reef, senior members of the ANC's National Executive Committee held urgent discussions with the Minister of Law and Order, Mr Adriaan Vlok, and the Minister of Defence, General Magnus Malan, on Wednesday.

They secured an undertaking from the two ministers that allegations of a "third force" operating in these townships, would be investigated.

The talks in Cape Town follow a bloody week of violence in townships on the Witwatersrand and Natal during which about 80 people died and hundreds were injured.

Most of the deaths in the Transvaal occurred at Alexandra township near Sandton. In Natal, 22 people have been reported killed in fighting between Inkatha and ANC supporters in the rural areas near Port Shepstone.

The meeting was attended by the ANC's general-secretary, Mr Alfred Nzo, NEC member Mr Joe Slovo and ANC Internal Leadership Core member, Mr Walter Sisulu.

Sisulu said the ANC delegation had stressed at the meeting that the hostel system aggravated the situation.

They told the ministers that the ANC wanted a decision on the "primitive" hostel system and wanted it phased out and replaced with "civilised family units".

They were told at the meeting that "a Minister" had been appointed to investigate the system.

The delegation also raised the problem the ANC had with people moving freely in townships with dangerous weapons and not being disarmed.

"Minister Vlok undertook to go into the question and have further discussions on it at a later stage."

To illustrate their belief that a "third force" was operating in the townships, the ANC delegation brought a letter which had been posted to ANC sympathisers, ostensibly from Inkatha.

The letter, which states it is from the "Zooloes" and ends "Long live Inkathas" threatens to kill people who are working for the ANC.

"We can see from the spelling that the letter is not from Inkatha," Sisulu said.

"We have asked for a thorough investigation to discover the source of the letter."

A spokesperson for the Ministry of Law and Order said the letter would be investigated.

● Bloody blow to peace — Page 5

Schwarz sees businessmen in vital role

B Day 13/3/91

49

TANIA LEVY

THE economy and constitution are too important to be left to politicians alone, says SA ambassador-designate in Washington Harry Schwarz in the latest Syfrets quarterly newsletter, Money Matters.

During constitutional negotiations, economic issues will have to be dealt with in a way which will prevent any new government ignoring agreements and arrangements to meet the unrealistic expectations of the masses, says Schwarz.

Subjected to greater pressures than those in power now, new politicians could plunge SA into an era of hyper-inflation with disastrous consequences for the country.

Business has to engage political and trade union leadership in dialogue about the nature of future political and economic structures, he says.

Demands to impose and equalise social services are made simultaneously with pressures — including threats of instability through mass action — to maintain sanctions.

People cannot ask for economic benefits while destroying them, he says.

Schwarz says politicians are already creating problems by unreasonably fanning expectations for their own objectives.

Question of balance

Star 14/3/91 (49)

The Minister of Finance faces the difficult task of balancing a Budget that acknowledges the high aspirations of the majority of the people, but remains within the bounds of affordability and credibility. MICHAEL CHESTER reports on the problem.

THE conundrums that need to be confronted in the 1991 Budget appear to be piled higher than ever. The score card that will record how many solutions emerge on Budget Day on March 20, and how many stay unresolved, may be the most decisive factor yet in the outlook for the post-apartheid era.

Nerves have rarely been so stretched before a Budget speech as Finance Minister Barend du Plessis prepares to spell out economic strategies over the next 12 months.

As always, advice has flowed.

Comes the crunch, however, and few economists envy him the task of juggling with the national accounts — especially when the performance has to be undertaken while walking a tightrope across perhaps the most dangerous chasm to have challenged a Minister of Finance in decades.

On one side there is a precipice of recession that will need to be tackled by the most skilful monetary mountaineers.

On the opposite slope there are the equally daunting demands to find solutions to the high expectations of the bulk of the population, now that reforms have spread the promise of black/white equality.

One moment of loss of balance on the tightrope and the Minister of Finance will not be alone in facing disaster.

Barend du Plessis ... danger lies in a feast of promises that turn out to be mirages.

The balancing pole has to carry the full weight of black aspirations on one end and the counter-weight of economic realities and affordability on the other.

Both are crucial and must move in tandem.

The mix of the Budget formula has to ensure both are given equal priority if the economy is to stay on the rails.

Action to counter the recession and generate a faster economic tempo is vital.

Business confidence about the economic outlook is at its lowest ebb since the noose on apartheid tightened with the international sanctions that isolated South Africa in 1986.

In turn, even the most militant of ANC gospellers have conceded that the pace and extent of black advancement depends in the long run on economic performance.

The SA Chamber of Business has estimated that the cost of bringing about equality in basic living standards — housing, medicine, education — may cost between R60 million and R70 billion.

If attempted at one stroke, it would prove far beyond reach.

Much better, the chamber argues, would be acceptance of reality and the start, in the 1991 Budget, of a longer-term programme that sets out a viable timetable within the parameters of affordability.

The challenge is winning approval for a timetable that not only makes economic sense but would win popular confidence about the final attainment of black/white equality

The most dangerous strategy could be promises that would soon be found to be mirages.

The plausibility of new economic strategies will be essential, not only for home consumption but also for the speed of South Africa's rehabilitation in the international arena.

Sacob director-general Raymond Parsons laid out the facts recently when he spoke about the prospects for new inflows of overseas investments to encourage the reform process.

The World Bank, he said, was one of several international institutions that might consider substantial loan programmes — but only once convinced that South Africa had found the correct formula for sound new economic strategies.

Ideally, argues Sacob, overall strategy should be framed inside a "social contract" on which all sides agree — even if it takes as long as 10 years to complete.

Other economists such as Dr Azar Jammine, head of the Econometrix research unit, who prefers to keep party politics at arm's length whenever possible, agrees that the best answer to high and sometimes excessive black expectations is winning confidence in socio-economic programmes seen to be based on solid foundations.

Dr Jammine, too, feels that the politicians — on all sides — must give high priority to alerting impatient low-income black families to the economic realities of affordability when they ask how soon their problems will all be solved.

His own calculations suggest that the overall cost of reform schemes to bring about black/white equality may run as high as R30 billion a year — each year over the next decade.

That underscores more heavily the need for initiatives to bring about a quickening of the economic tempo.

Here, too, Econometrix agrees with Sacob that lower taxation must be a crucial ingredient in the 1991 Budget, not only as an incentive to more economic activity but also to make South Africa more attractive to overseas investors.

Dr Jammine believes the Minister of Finance would make a fatal error if he whines about the impossibility of sizeable tax cuts when there are so many extra bills to meet.

Raymond Parsons ... strategy must fall within a 'social contract' agreed on by all sides.

The correct new mix in economic strategies, bringing an end to unrest, would make South Africa more attractive to investors.

The whole region would also become more attractive to overseas holidaymakers and give more meaning to ambitions to boost tourism income to as much as R20 billion a year.

In a nutshell, without a better deal on taxation, the economy will languish at best.

Without a faster economic growth rate, the slower will be the pace of democratic reform. Without real signals of progress towards black advancement, more social unrest will throw more spanners in the works.

On the other side of the coin, a more dynamic economy should inspire more confidence in the entire reform process, which, in turn, would replace unrest with social harmony.

That, Dr Jammine points out, would not only mean that the colossal expense of defence budgets could be cut by several billion rands.

The savings would multiply as South Africa ditched its costly tricameral system and cleared the decks for deep cuts in the size and expense of a bureaucracy that has long been the bane of economists.

"Walking the tightrope on Budget Day could turn out to be walking the plank ... if the Minister of Finance hesitates and makes the wrong moves," says Dr Jammine.

"If he crosses the chasm with success, he could go on to set the barometer for the socio-economic climate in South Africa well beyond the next 12 months. It could set the scene for the whole decade ahead." □

SOUTH, MARCH 14 TO MARCH 20, 1991

BUDGET

FOR A POST-APARTHEID SOUTH AFRICA

Redirecting Budget away from apartheid

South 14/3-20/3/91 (49)

Redirecting the South African Budget away from apartheid entails much more than simply cutting defence expenditure, argues **SERVAAS VAN DEN BERG**. A week before the Minister of Finance, Mr Barend du Plessis, announces his annual Budget, a panel of economists deal with the priorities and challenges in drawing up a Budget for a post-apartheid South Africa:

EXPENDITURE patterns in the Budget in the past few decades clearly reflected the apartheid basis on which our political, social and economic life has been built. We have seen apartheid bureaucracies, high defence expenditure and ideological expenditures in attempts to make apartheid work.

As a result, there is a widespread view that much expenditure could be saved by abolishing apartheid.

Unfortunately, the scope for this is not as large as many people believe. Overall defence and ideological expenditures, although high, are relatively small when compared to the needs of the population in terms of social programmes.

Committed

Defence expenditure, currently at about four percent of the value of Gross Domestic Product (GDP), can perhaps be cut by half, or perhaps even more if it is done immediately upon the transfer of power and if a future government is strongly committed to reducing our military role.

This is a major potential saving, yet far smaller than the present 11 percent of GDP spent on social programmes.

The cost of duplication in the bureaucracy is less than one percent of GDP, and the most expensive ideological expenditures — incentives paid to industrialists to decentralise — are only about 0,3 percent of GDP.

Together, potential savings related to apartheid are thus probably less than three percent of GDP, which in this year's Budget would be about R8-billion.

If these estimates are of the correct magnitude, it implies that the financial costs of apartheid and the defence spending that it gave rise to are large, yet far from adequate to set enough resources free for the required increases in social spending.

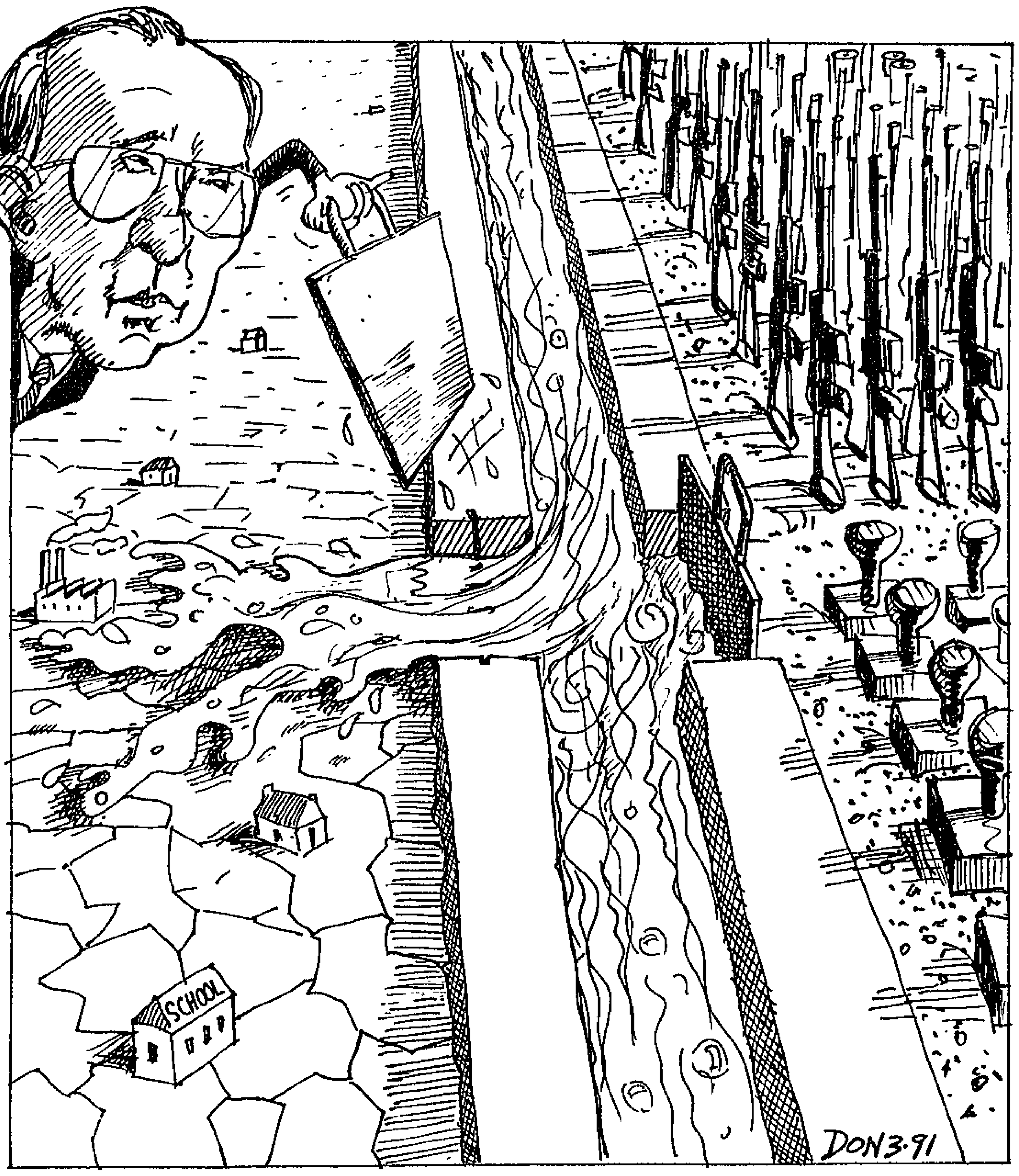
But that does not mean that there is little scope for redirecting the Budget away from apartheid.

Apartheid's costs in terms of direct apartheid expenditures were not as great as is often thought, but a far worse consequence of apartheid was that it bred large-scale inequality and misdirection of expenditure within social expenditure programmes.

There lies a considerable scope for redirecting expenditure resources.

In various workshops, a pattern of views has started to emerge on the question of redistribution through the Budget. The emerging consensus can briefly summarise as follows:

- There is some, though relatively limited, scope for increased taxes.
- There is some, though limited, scope for reducing ideological expenditure.
- There is some, though limited, additional scope for shifting budgetary resources from other expenditure to social expenditure.



Thus, the greatest scope and also the greatest challenge lies in reallocating resources between and within social programmes. Even without any additional resources for social expenditure, the consequences of reallocating resources within social programmes are great.

If, in 1986, social expenditure on health, social pensions and education were allocated without discrimination, the white share in these expenditures would have been R2,8bn less, equivalent to two percent of GDP. Today, after taking account of inflation, that amount would be considerably more.

Protests

Within the business community, strong protests have been raised against the spectre of redistribution. Yet often, the very people who complain about the prospect of redistribution profess they are against all forms of discrimination.

Such people evidently do not realise that the elimination of discrimination is in its own right a redistributional measure of great magnitude, given the high level of existing inequalities.

One cannot be for the elimination of discrimination and against redistribution through the Budget. If somewhat more resources could become available to address social need — through somewhat higher taxes or borrowing, perhaps, or through reduced defence and ideological spending — there would be even more scope for redistributive programmes through the budgetary process.

This would still be far from adequate to expand the expensive white education system to ensure similar levels of expenditure per pupil for all. It would be far more realistic to accept that spending on white pupils would have to drop considerably.

This implies that we would have to reconsider our educational system to restructure it in such a way as to provide less expensive yet high quality education to all.

Where would potential additional social expenditures make the greatest impact?

In a previous budgetary exercise, I have argued that additional spending should go where it is most likely to have an immediate impact on people's perception's of social justice.

For instance, although education requires by far the most additional financial and other resources, results can be achieved in education only over a longer period.

In a period of political transition in which we have to contend with high expectations, more immediate results are

♦ TURN TO PAGE 24

Slash money for war machine

South 14/3 - 20/3/91.

South Africa needs a saner and healthier society where there is more money for schools and hospitals, and less for rifles and barracks. LAURIE NATHAN looks at the enormous sums of money spent on the country's deadly war machinery:

THE DEFENCE Budget needs to be slashed dramatically and money spent on guns used for the country's development needs. Last year, Mr John Nkadimeng, a member of the ANC's national executive committee, opened a conference on "The Future of Defence and Security in South Africa" by saying: "The ultimate objective of our society should not be to build more barracks but more schools and hospitals.

"It should not be to manufacture more AKs and R1s but more tennis racquets and golf clubs. Not more tanks and Hippos but more tractors and harvesters."

Nkadimeng's vision of a saner and healthier society demands that much of the taxpayer's money currently allocated to the military would instead be spent on peaceful activity and on meeting the basic needs of the people.

Ernormous

An enormous sum of money is involved. In 1988/9 the official Defence Budget was R8 000m, roughly 15 percent of total state expenditure. In comparison, the Namibian defence budget in the first year of independence was only four percent of government spending.

Actual military expenditure in South Africa is considerably higher than the official figures indicate.

The Defence Budget does not include expenditure on the homeland armies, the housing of SADF personnel and the construction of military bases. Nor does it reflect the Special Defence Account or revenues from Armscor.

The Defence Budget also ignores the economic costs of the system of military conscription. Every year, thousands of white artisans and professionals are taken out of their jobs to serve in the army. This has an impact on productivity and means major disruption in the workplace.

Conscription has been one of the main reasons for the "brain drain"— the annual exodus of South African lawyers, doctors, engineers and business people who decide to live overseas. The costs of the "brain drain" were estimated at R11m a year in the mid-1980s.

The SADF claims that defence spending has remained constant over the years if one takes inflation into account. However, the Stockholm Institute for Strategic Studies estimates that between 1975 and 1985, military spending in South Africa increased 12 percent over and above the inflation rate.

This dramatic increase had nothing to do with protecting South Africa against an external aggressor and everything to do with defending the policies of apartheid.

The government in the past 20 years has spent billions maintaining its occupation of Namibia, destabilising the Frontline States and deploying its forces against its own people.

In the middle of Pretoria's war against Angola, the Minister of Defence admitted that more than R1m was being spent every day on arms and ammunition alone.

At the same time, the majority of South Africans were struggling to made ends meet and were deprived of the most basic social services.

This great injustice and inequality will have to be addressed as a matter of urgency in a democratic South Africa. The new government will have to reassess priorities and divert money away from the military to areas like education, housing, health, and other services.

Violence

This should not be difficult. A democratic South Africa might have a relatively high level of internal violence but it is unlikely the country would be confronted by external enemies.

When the system of apartheid and minority rule is finally gone, the major threat to peace in Southern Africa will disappear.

All countries in the region would be able to substantially reduce the size of their armies and military budgets.

The SADF could be cut by at least half and the system of conscription scrapped. There would no longer be a need to continually upgrade weapons systems and it is unlikely that a sophisticated airforce and navy would be necessary.

SADF experts argue against such drastic changes. They believe every country needs a large and well-equipped defence force to combat posssible threats to security, even if these threats are remote and not immediately apparent.

Yet the real threat to the security of the people of South Africa and Southern Africa is social and economic deprivation.

If we are concerned about preventing violence, we need to tackle issues like unemployment and poverty.

The road to lasting peace in the subcontinent lies in the creation of democratic political institutions and the elimination of poverty, disease and homelessness.

(Laurie Nathan is coordinator of the Project on Peace and Security, at the Centre for Intergroup Studies at UCT.)

PICNIC PARADE: Members of the SADF and their families enjoy a picnic on the banks of the Cunene River in northern Ovambola

Redirecting the Budget

(49)

South 14/3 - 20/3/91

◆ FROM PAGE 9

necessary. To my mind, there is a need for enhanced spending on housing, which provides almost immediate benefits to new occupants as well as work for a large number of people.

Similarly, if one wants to reach the poor, social pensions seem to provide a good system, for there already is a delivery system in place. Parity in social pensions can be introduced almost immediately without any increased administrative burden.

In education, on the other hand, the capacity of the system to be expanded is severely constrained. Undoubtedly, greater expenditure on education is also required, but it will take longer to bear fruit. More teachers are required, more schools need to be built, the administrative system needs to be improved, curricula and teaching methods need attention.

In the circumstances, it appears wisest to start restructuring the educational system, to eliminate racial disparities in resource allocation before contemplating considerably increased expenditures. All of this requires careful planning — and time.

In the political transition we have now entered, clarity is required on the economic and social priorities of our nation. In the end, these are political decisions, but if the political process ignores the crucial questions that need to be addressed, these decisions are going to be made by default.

For instance, financial constraints may make it impossible to address all the urgent needs, and therefore only those that can be most easily tackled within the existing structures may then receive funds.

This would indeed be an opportunity lost for reinvestigating our priorities. If resources are limited and the demands of our society are great, the challenge lies in accommodating expectations within the bounds set by limited resources.

This requires reinvestigation of the available scope for manoeuvre. The present government is likely to use the Budget to start redressing some of the wrongs of the past, but the crucial reallocation of resources away from white privilege will remain beyond their political will. Democratisation is essential to assure such a restructuring.

For such a process to be effective, however, the alternatives need to be carefully considered and the institutional structures planned and created in order to address the needs of our population.

(Servaas van der Berg is Professor of Economics at the University of Stellenbosch.)

Shopping list for R12-billion

South 14/3-20/3/91.

The government could have an additional R12 400m over and above its R80bn to spend in the national Budget this year. But what are its spending priorities going to be? **LIEB LOOTS** looks at what could be done with the additional R12 400m to alleviate some of the needs and aspirations of the people:

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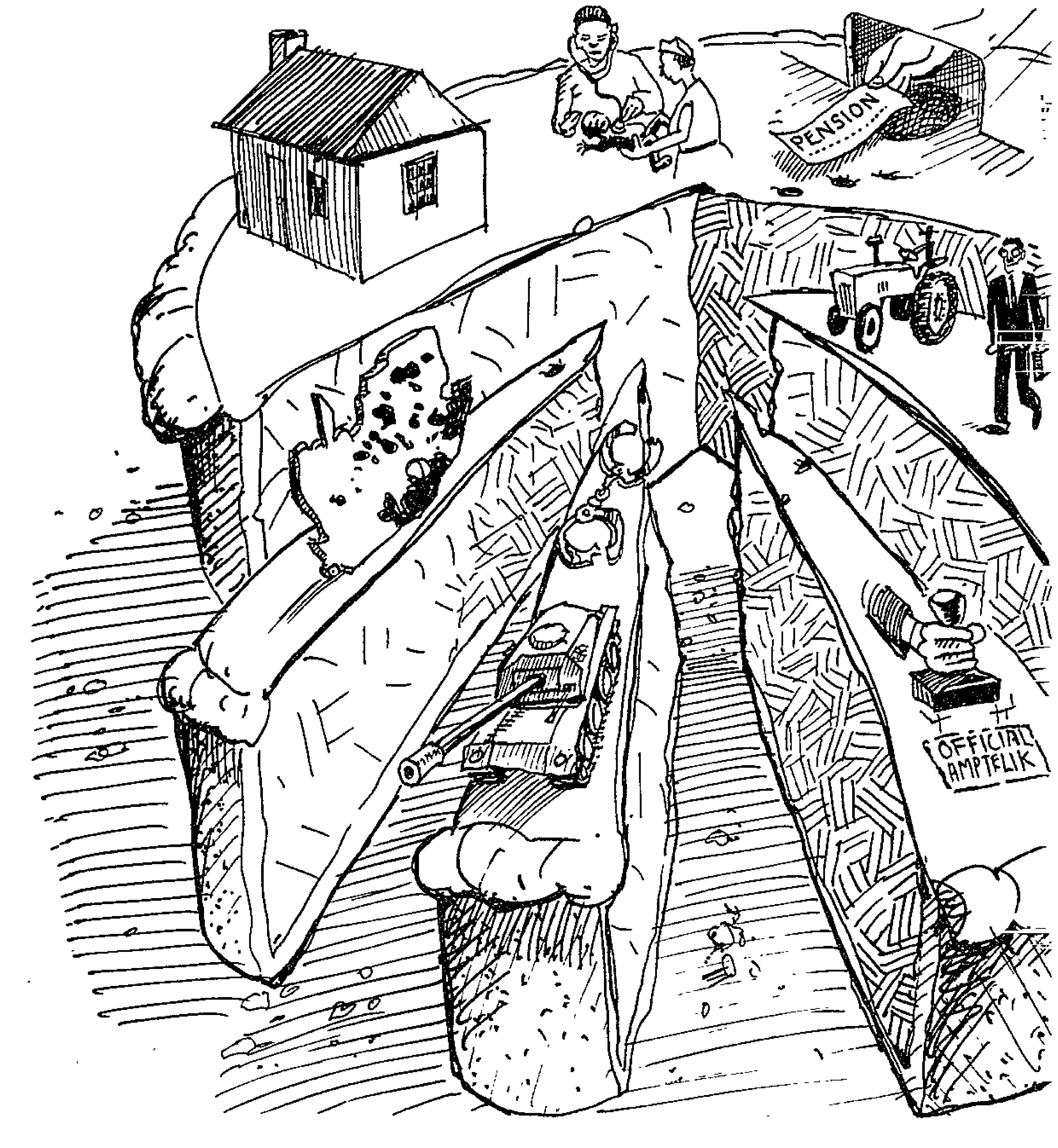


THERE are two questions which we can ask when the government presents its Budget: Does the Budget make a serious attempt to meet the aspirations of the majority of the people?

Does the Budget give credibility to the things the government itself says it wants to do?

Before answering these questions, it is important to remember that almost 30 percent of all the wealth we produce in one year in South Africa (economists call it the Gross Domestic Product, or GNP), is collected by the state in the form of taxes.

This could result, in 1991, in the government having at its disposal about R80 000 million, or R80 billion, to spend.

Priorities

The Budget tells us how much revenue the government intends to raise during the year, mostly in the form of taxes, and how it intends to spend that money.

It thus reflects the spending priorities and policy objectives of the government of the day.

The first change from previous Budgets should be a significant reduction in defence expenditure.

This should be followed by the elimination of all apartheid structures and all expenditure aimed at promoting apartheid, such as, for example, the industrial decentralisation incentives.

In this way savings of about 4.5 percent of the estimated R80 000 million could be achieved. This would free about R3 600 million for alternative uses elsewhere.

In addition, with a small increase in the deficit (the state borrows to finance its expenditure) of about 3 percent of GDP, giving about R8 000 million extra. If we, furthermore, were to have a 1 percent growth in the economy, we could probably add another R800 million to the state's revenue. All in all, the government could have an additional R12 400 million to spend on new or very important items.

Two of the most important issues to be considered in evaluating the Budget, are whether it makes a significant contribution to redistribution and whether it is conducive to the faster growth of the economy.

The latter is particularly important because it will provide the means with which redistribution can be sustained over a long period, as well as poverty eliminated and the living standards of workers improved.

Both the redistribution and growth issues must be evaluated by looking at the way the state revenue is spent, as well as how it is raised through taxes.

A general principle applicable to redistribution, is that the better-off in society should pay more taxes and that the poor should receive relatively more of the expenditure so that the net effect is a reduction in inequality.

Economic growth can also be affected by both the tax and expenditure sides of the Budget.

The state should not tax investments or anything which could enhance economic growth.

At the same time, some resources should be earmarked for the promotion of economic growth and employment creation.

As an example of what could be done, given the considerations and calculations above, the additional R12 400 million could be allocated to some of the items which would meet some of the needs and aspirations of the people.

Housing: R1 500 million. It can provide no less than 250 000 fully serviced sites at R6 000 each. It will also create thousands of jobs in the construction industry.

Urban Development: R1 300 million. Many townships can be upgraded and thousands of jobs created.

Employment Scheme: R1 500 million. About 1,25 million jobs can be created for the unemployed for 6 months each.

Employment Training: R500 million. Employment related training can be provided to more than 800 000 unemployed people.

Land Reform: R1 000 million. The beginning of a land reform programme which could, in the first year, help to establish up to 100 000 small farmers.

Rural Infrastructure: R 300 million. Infrastructure with off season labour and provide short-term employment for up to 1 million people.

Primary Health: R 300 million. The prevention of disease through provision of clinics, clean water, etc.

Adult Literacy: R 300 million. At least a million adults can be taught basic literacy.

Education: R2 500 million. Added to the existing expenditure on education, some R17,4 billion (21,5 percent of Budget) could begin to develop an education system to meet the country's needs.

Pre-school care: R 500 million. Hundreds of thousands of pre-school children could be provided with educare and a meal.

Industrial Growth: R1 000 million. Capital base for organisation(s) which can promote targeted industries as part of overall growth strategy.

Social Pensions: R1 600 million. Parity in old age pensions to bring poverty relief to as many as 8 million people, specially in the rural areas.

This example serves as an illustration of what a Budget which has a clear redistribution and growth orientation, and which also reflects to a greater extent the needs and aspirations of the people, could do with new, additional expenditure alone.

This will be additional to the redirecting of existing expenditure which a non-racial democracy will require.

It is against this background that the government's Budget must be evaluated.

(Professor Lieb Loots is head of department of Economics, UWC.)

Making welfare work

South 14/3-20/3/91.

Welfare spending should "invest" in people, not subsidise them, say **NICOLI NATTRASS** and **ANDRÉ ROUX**. They say the quality of life of the poor can be improved without having to divert an enormous amount to health care:

(49)

FOR WELFARE spending to have the maximum, long-term impact, resources should be channelled to "invest" in people rather than simply subsidise them.

The need to extend rather than deepen the welfare net in South Africa is paramount. There are hard choices to be made, even in welfare spending.

Rapid economic growth, job creation and providing basic social services to the poor are all necessary ingredients of anti-poverty programmes. A balance must be maintained between ensuring rapid growth in the economy and alleviating the poverty of the poorest South Africans.

Spending on education and primary health care is particularly important as these improve the productive potential of the poor and unemployed.

Giving people skills to earn a living is the most important way of alleviating poverty in the long run.

The countries that have succeeded in providing primary education and health care to the poor have been those that made adequate provision for this in their budgets.

Nevertheless, there is no clear relation between the proportion of social spending in GNP and quality of life indicators such as infant mortality and life expectancy.

Clearly, the more the state spends on health provision, the greater the chance of improving the quality of life of the poor. However, it is possible to improve the quality of life of the poor without having to divert an enormous amount to health care. Sri Lanka spends only 1,7 percent of its GNP on health, yet infant mortality is only 21.

Given that other low income countries have an average infant mortality of 98 for every 1 000, this achievement is more spectacular.

South Africa, by contrast, spends 3,2 percent of GNP on health — yet infant mortality averages 70 for every 1 000 births.

This is even more appalling when one considers that South Africa has more than five times the per capita income of Sri Lanka.

The crucial point is the degree of inequality (both of income and in state spending) in South Africa.

White infant mortality averages 12 for every 100 000, yet figures for black infant mortality range from 94 to 124.

The risk of contracting tuberculosis is 22 times greater for urban blacks than whites, and 25 times greater for rural blacks in Transkei.

These biases are reflected in state spending: per capita hospital expenditures range from R30 for rural blacks to R120 for urban blacks, to R230 for urban whites.

There is clearly a need to reorientate our welfare spending and eliminate these racial and regional biases.

It is now commonly accepted that it is impossible to extend welfare benefits to all South Africans at the level currently enjoyed by whites.

Using international studies of primary health care provision, it has been estimated that South Africa could introduce primary health care for all at a cost of less than one tenth of what is currently being spent on health.

Such a programme would include immunisation, essential drug provision, pregnancy management and oral rehydration therapy.

Such policies had a visible impact on the quality of life of the poor in other countries; there is little reason for South Africa not to move in this direction.

The most important way of alleviating poverty is to create income earning opportunities for poor people.

Special employment programmes (SEPs) should concentrate on providing low wage jobs to as many people as possible.

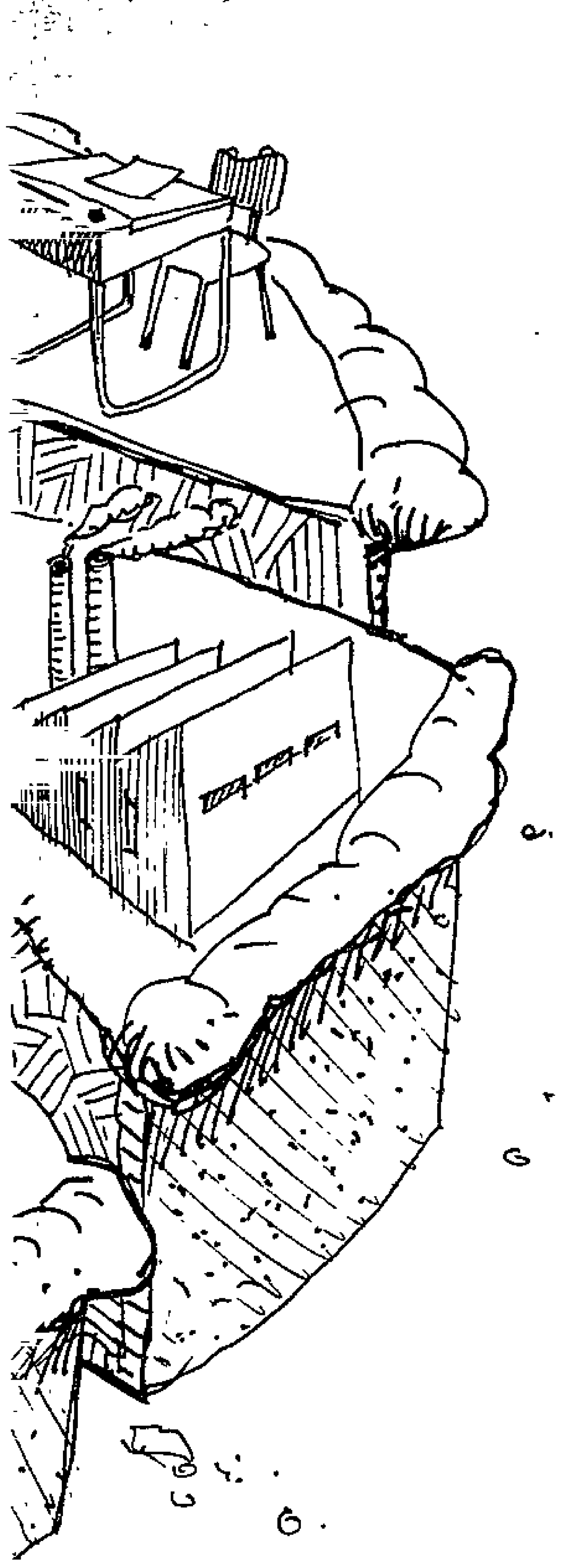
We could employ 500 000 destitute people at a wage of R175 a month for a mere R1,76bn — substantially less than one percent of our GNP and less than one fifth of current defence spending.

(Nicoli Nattrass is a researcher in the Department of Sociology at the University of Stellenbosch. André Roux is Professor of Economics at the UWC.)

Not much hope for education

There is relatively little scope for increasing resources for education either through the existing Budget or through increased levels of taxation, cautions **PUNDY PILLAY:**

South 14/3-20/3/91. 49



MANY people expect that political change in South Africa will produce budgetary shifts towards greater spending on social services, particularly education and health, for the disadvantaged sections of the community.

It is essential to consider broader economic issues, given that resources are urgently needed to address the unacceptably chronic unemployment levels, vast inequalities in income distribution and widespread of poverty.

The crucial issue in the education debate is to address the racial and regional inequalities in educational provision. How do we address the inequalities in education? Is it a question only of more financial resources? What is the scope for a budgetary redistribution of resources to education? Is it possible to increase sources of revenue like taxes?

Constant

In the fiscal year 1989/90, the total education expenditure was R11,6bn. This represented just over 18 percent of total public expenditure.

Education expenditure as a proportion of total government expenditure remained virtually constant during the 1980s.

Between 1982/3 and 1989/90, the proportion of total government expenditure on education fluctuated between 18 and 19 percent.

South Africa is at the top of the education spending league in terms of expenditure expressed as a proportion of the Gross Domestic Product (GDP).

In 1986, educational expenditure was already 5,6 percent of GDP, while the average for middle-income countries (South Africa is one) was 2,9 percent.

Middle income countries are those which have a per capita income of between R5 000 and R7 500 — some examples are Argentina, Malaysia, Mexico, South Korea and Venezuela.

By 1987/88, the expenditure figure had risen to 6,23 percent.

To many people, equality in education means equal expenditure on blacks and whites. But what would this cost?

Professor Servaas van der Berg of Stellenbosch University's Economics Department, estimates that equal spending on education at white levels, based on 1986 figures, would have cost an extra R17bn, increasing educational expenditure from 4,8 percent to 16,6 percent of GDP.

While such estimates are admittedly crude, an important factor not considered here is that provision for black education would be disproportionately at the primary level, given the population structure. Present resources would also not be able to finance secondary and tertiary education, which is more costly than primary education.

It is also important to keep in mind that a transitional or post-apartheid government would have to address the issue of greater spending not only on education but social welfare, housing and employment creation, among other things.

Resources can be redistributed from such sectors as defence, police and government services. However, it would be naive to assume that these sectors would disappear under a new dispensation.

Also, pruning these sectors would not generate adequate resources for addressing all or even most of the existing imbalances.

Increasing the level of taxation has been posited as an alternative means of raising resources. There is some scope for increased tax revenue through efficient tax collection through the impending VAT, and resources could be generated through increased wealth taxes.

The South African economy has been in a serious crisis since the 1970s, a crisis which manifests itself in little or no growth, high unemployment and inflation and severe, prolonged and frequent recessionary periods. This means that resources of the magnitude required for removing inequalities in education and other areas cannot be addressed only from budgetary resources.

Imbalances

What then can be done to address the racial and regional imbalances in educational? In the critical short-term period, it may be necessary to look beyond budgetary measures. A new educational policy must include strategies for more effective use of existing resources.

One strategy is to expose a larger number of disadvantaged to the pool of qualified teachers. This would be relatively easy to implement in urban areas. Underused institutions of higher education such as bantustan universities and white teacher training colleges must be put to better use.

A single, non-racial education system, effectively decentralised with a lean and efficient bureaucracy, must also be introduced. Considerable savings may be achieved through eliminating the wastage caused by apartheid structures.

Choices will have to be made regarding priorities for state financing, with the government trying to alleviate its fiscal crisis through spreading the burden of educational financing.

In the face of growing demand and continued economic austerity, it is unlikely that the state will be able to fund free, universal and high-quality school education at all levels in the short term.

Given such a situation, the state could decide to finance free and universal pre-primary and primary education. The historically low levels of investment in pre-primary education would justify this.

However, this may result in the neglect of secondary education — particularly in rural areas. This may seriously affect the chances of the disadvantaged to progress beyond basic education.

A preferable strategy would be to address specific deficiencies and imbalances in the education system. Apartheid education has resulted in serious inequalities in terms of access to and survival within the education system, teacher quality and quantity and educational facilities.

Some of these inequalities may be reduced by implementing a single, non-racial education system.

The bottom line is that — given the crisis in the South African economy as manifested in low growth and high levels of unemployment and poverty — the state has to make choices about the allocation of resources on social services, of which education is only one component.

(Pundy Pillay is a lecturer in economics at the University of Cape Town)

'Democratise' pension fund

South 14/3-20/3/91

Pensions constitute the only area on the Budget where apartheid can be disposed of overnight. The tax loopholes for the rich must be closed and the pension fund system democratised, suggests **PIETER LE ROUX:**

SOUTH AFRICA needs a dramatic increase in government spending on pensions. Of all forms of social welfare in South Africa, the pensions system is by far the best developed.

Many millions of the poorest people in South Africa would immediately experience a significant improvement in their standard of living should parity in pensions at white levels be introduced tomorrow.

This is the only area on the social expenditure side of the Budget where apartheid can be disposed of overnight.

From a social welfare point of view, it is not only the state old-age pensions which are of concern. The private retirement funds industry receives a massive injection from the government in the form of various tax incentives.

These injections presently serve the interests of the richest 10 percent rather than of most members of these funds, who often get a very raw deal.

Before considering how the social old-age pension (SOAP) can be restructured, we must recognise its most important shortcomings.

Firstly, as is the case with most social expenditures in South Africa, it is racially discriminatory. The monthly white SOAP in 1990 amounted to R275. For "coloureds" or Indians, the SOAP was 82 percent (R225) of that of the whites, and for Africans 63 percent (R175).

Secondly, there is a strict means test, and although the details differ for each of the groups, it soon penalises anyone who had made some provision for his old-age by 100 percent (for every R1 private pension one receives, one loses R1 of the SOAP — and, at the cutoff point, an African can lose R34 in SOAP for one additional rand of private pension!)

Further shortcomings are that the delivery system is at times bad and that the present level of pensions, even for whites, is low relative to the estimated minimum living level (MLL), particularly in urban areas where housing is expensive.

Estimated costs of old-age pensions in South Africa (excluding the TBVC countries), if paid out to everyone entitled, would have amounted to about R2,6bn during 1990, or to R3,5bn if the TBVC countries were included.

The additional cost of bringing about parity at white levels would have amounted to about R1,6bn, or R2,2bn if TBVC countries were included.

If our economy should remain stagnant, it will not be possible in the long run to finance parity at white levels (the number of pensioners is expected to increase threefold in the next three decades) and inflation will have to be permitted to decrease the real level of pension.

However, there are strong arguments for establishing parity at white levels overnight. About 1,6 million black South African pensioners would directly benefit from pension increases of up to R100 a month.

Benefit

This money would be used to the benefit of as many as six to eight million South Africans (given the assumption that two to three dependants also benefit from the old-age pensions).

Thus, as many as half of the 16m South Africans living under the MLL can immediately benefit quite dramatically from parity in SOAP.

Although other measures to help the poor, such as school-feeding schemes, nutrition clinics for pre-school children and public works must also urgently be launched, it will take a long time to have these schemes in place — particularly in the rural areas.

The nett additional annual cost of simply scrapping the means test will initially be about R1,4-bn. The benefit of scrapping the means test will primarily be felt by 415 000 lower-income whites, but given the corruption and the inequities caused by this test, it may nevertheless be a step a democratic government would consider.

An inflation-proof state-guaranteed contributory pension fund is also proposed to enable lower income people to save for a pension over and above the SOAP.

Since 1958, when the Pensions Fund Act (No 1 of 1956) took effect, the number of retirement funds — whether self-administered, underwritten, run by industrial councils or by the state — has increased from 2 800 to 12 950 in 1988.

The membership of funds (excluding pensioners) increased from about one million to six million. The most urgent reform needed on retirement funds is to close the tax loopholes for the rich.

The Minister of Finance, Mr Barend du Plessis, claimed in Parliament that retirement funds were given tax breaks of about R14bn a year.

Keeping in mind that the present old-age pensions cost about R2,5bn a year, the cost of encouraging the better-offs to save is clearly disproportionate.

However, this estimate seriously overestimates the tax break. Government probably forgoes income of about R4 bn to R6bn a year to encourage savings through the retirement funds.

To rectify the situation, a maximum of 20 percent tax rebate for each rand contributed could be permitted on contributions to retirement funds by individuals. (To assess the impact first, the percentage could initially be 25).

Someone who pays a marginal tax rate of 45 percent will under this system have to pay 20 cents in a rand tax on his contribution to a retirement fund. He thus receives an encouragement of 25 cents in the rand to save for retirement, rather than the present 45 cents.

Contributions made directly by the companies on behalf of a worker should be taxed as though they were the worker's own income.

Lump sum payouts made after retirement also ought to be taxed. These steps could bring in as much as R2,5bn — enough to finance much of the reforms in the SOAP.

(Pieter le Roux is director of the Institute of Social Development at the University of the Western Cape)

Budget will not stimulate growth

49

By Sven Lünsche

Star 14/3/91

Government expenditure in the 1991/92 fiscal year will not support economic growth, says UBS economist Hans Falkena in the building societies' latest Economic Perspective.

Mr Falkena forecasts a budget deficit of R10 billion, or three percent of Gross Domestic Product (GDP), during the year, given expected increases of 12,5 and 11 percent in expenditure and revenue respectively.

"This deficit will not really support economic growth in a major way."

And despite the absence of other economic factors to boost growth — a healthy balance of payments, strong gold and foreign exchange levels and a low inflation rate — the Government has little room to manoeuvre.

Part of the reason, says Mr Falkena, is that the authorities are faces with major off-balance sheet liabilities: a R30 billion shortfall in government pensions, an accumulated R10 billion loss on the forward book and R3 billion of liabilities due to stock discounts.

"The budget deficit should not exceed the capital expenditure of government, implying that no additional loan capital should be used to finance current expenditure.

"This effectively means that the current budget deficit should be limited to two percent of GDP."

Going even further Mr Falkena says that in order to limit the state's role in the economy the budget deficit should not exceed the long-term economic growth rate, which would limit the deficit to around 1,5 percent of GDP.

The Government also cannot lower domestic real interest rates below that of its main trading partners without increasing its losses on the forward book; and if cannot reduct taxes owing to the need to increase government savings as well as meet its huge social demands, Mr Falkena says.

"To avoid a too large budget deficit, productivity has to be increased in the public sector by directing the limited human and capital resources to the most productive use."

'Economy is on the way back up'

By Derek Tommey

Star 14/3/91. (49)

After five bad years during which the net foreign exchange reserves fell to R600 million and the Reserve Bank had to struggle to get foreign assistance, South Africa is at last on the way up again, says Dr Jan Lombard, senior deputy Governor of the Reserve Bank.

He told a meeting of directors of timber group Yorkcor in Pretoria yesterday that South Africa's net foreign reserves now amount to R3,5 billion and South Africa was no longer invisible to foreign bankers, he said.

However, these bankers and investors want to know "what will be the rules of the game in the future."

South Africa had not publicly debated constitutional affairs since 1910, he said.

South Africans now have to apply their minds to this, because it is not the next election which will be important but the one after that when whoever was running the country would have to make good on their promises.

"South Africa needs to devise a constitution that cannot be overturned by any political party," said Dr Lombard.

SOUTH, MARCH 14 TO MARCH 20, 1991

BUDGET

FOR A POST-APARTHEID SOUTH AFRICA

Redirecting Budget away from apartheid

South 14/3 - 20/3/91 (49)

Redirecting the South African Budget away from apartheid entails much more than simply cutting defence expenditure, argues **SERVAAS VAN DEN BERG**. A week before the Minister of Finance, Mr Barend du Plessis, announces his annual Budget, a panel of economists deal with the priorities and challenges in drawing up a Budget for a post-apartheid South Africa.

EXPENDITURE patterns in the Budget in the past few decades clearly reflected the apartheid basis on which our political, social and economic life has been built. We have seen apartheid bureaucracies, high defence expenditure and ideological expenditures in attempts to make apartheid work.

As a result, there is a widespread view that much expenditure could be saved by abolishing apartheid.

Unfortunately, the scope for this is not as large as many people believe. Overall defence and ideological expenditures, although high, are relatively small when compared to the needs of the population in terms of social programmes.

Committed

Defence expenditure, currently at about four percent of the value of Gross Domestic Product (GDP), can perhaps be cut by half, or perhaps even more if it is done immediately upon the transfer of power and if a future government is strongly committed to reducing our military role.

This is a major potential saving, yet far smaller than the present 11 percent of GDP spent on social programmes.

The cost of duplication in the bureaucracy is less than one percent of GDP, and the most expensive ideological expenditures — incentives paid to industrialists to decentralise — are only about 0,3 percent of GDP.

Together, potential savings related to apartheid are thus probably less than three percent of GDP, which in this year's Budget would be about R8-billion

If these estimates are of the correct magnitude, it implies that the financial costs of apartheid and the defence spending that it gave rise to are large, yet far from adequate to set enough resources free for the required increases in social spending

But that does not mean that there is little scope for redirecting the Budget away from apartheid.

Apartheid's costs in terms of direct apartheid expenditures were not as great as is often thought, but a far worse consequence of apartheid was that it bred large-scale inequality and misdirection of expenditure within social expenditure programmes

There lies a considerable scope for redirecting expenditure resources

In various workshops, a pattern of views has started to emerge on the question of redistribution through the Budget. The emerging consensus can briefly summarise as follows:

● There is some, though relatively limited, scope for increased taxes.

● There is some, though limited, scope for reducing ideological expenditure

● There is some, though limited, additional scope for shifting budgetary resources from other expenditure to social expenditure.

Thus, the greatest scope and also the greatest challenge lies in reallocating resources between and within social programmes Even without any additional resources for social expenditure, the consequences of reallocating resources within social programmes are great

If, in 1986, social expenditure on health, social pensions and education were allocated without discrimination, the white share in these expenditures would have been R2,8bn less, equivalent to two per cent of GDP. Today, after taking account of inflation, that amount would be considerably more.

Protests

Within the business community, strong protests have been raised against the spectre of redistribution. Yet often, the very people who complain about the prospect of redistribution profess they are against all forms of discrimination

Such people evidently do not realise that the elimination of discrimination is in its own right a redistributional measure of great magnitude, given the high level of existing inequalities

One cannot be for the elimination of discrimination and against redistribution through the Budget If somewhat more resources could become available to address social need — through somewhat higher taxes or borrowing, perhaps, or through reduced defence and ideological spending — there would be even more scope for redistributive programmes through the budgetary process

This would still be far from adequate to expand the expensive white education system to ensure similar levels of expenditure per pupil for all It would be far more realistic to accept that spending on white pupils would have to drop considerably.

This implies that we would have to reconsider our educational system to restructure it in such a way as to provide less expensive yet high quality education to all

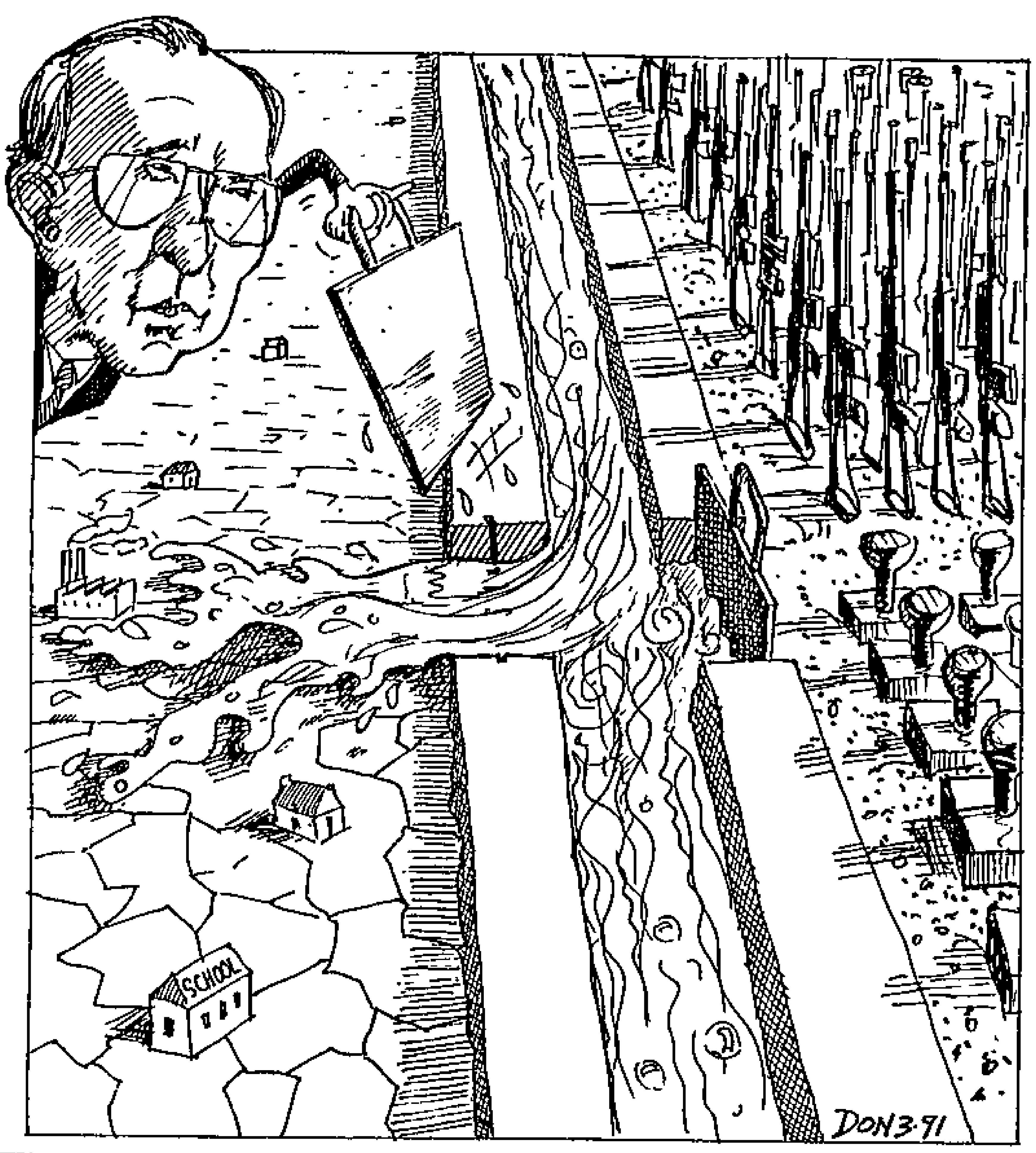
Where would potential additional social expenditures make the greatest impact?

In a previous budgetary exercise, I have argued that additional spending should go where it is most likely to have an immediate impact on people's perception's of social justice.

For instance, although education requires by far the most additional financial and other resources, results can be achieved in education only over a longer period

In a period of political transition in which we have to contend with high expectations, more immediate results in

◆ TURN TO PAGE 24



Redirecting the Budget

(49)

South 14/3 - 20/3/91

◆ FROM PAGE 9

necessary. To my mind, there is a need for enhanced spending on housing, which provides almost immediate benefits to new occupants as well as work for a large number of people.

Similarly, if one wants to reach the poor, social pensions seem to provide a good system, for there already is a delivery system in place. Parity in social pensions can be introduced almost immediately without any increased administrative burden.

In education, on the other hand, the capacity of the system to be expanded is severely constrained. Undoubtedly, greater expenditure on education is also required, but it will take longer to bear fruit. More teachers are required, more schools need to be built, the administrative system needs to be improved, curricula and teaching methods need attention.

In the circumstances, it appears wisest to start restructuring the educational system, to eliminate racial disparities in resource allocation before contemplating considerably increased expenditures. All of this requires careful planning — and time.

In the political transition we have now entered, clarity is required on the economic and social priorities of our nation. In the end, these are political decisions, but if the political process ignores the crucial questions that need to be addressed, these decisions are going to be made by default.

For instance, financial constraints may make it impossible to address all the urgent needs, and therefore only those that can be most easily tackled within the existing structures may then receive funds.

This would indeed be an opportunity lost for reinvestigating our priorities. If resources are limited and the demands of our society are great, the challenge lies in accommodating expectations within the bounds set by limited resources.

This requires reinvestigation of the available scope for manoeuvre. The present government is likely to use the Budget to start redressing some of the wrongs of the past, but the crucial reallocation of resources away from white privilege will remain beyond their political will. Democratisation is essential to assure such a restructuring.

For such a process to be effective, however, the alternatives need to be carefully considered and the institutional structures planned and created in order to address the needs of our population.

(Servaas van der Berg is Professor of Economics at the University of Stellenbosch.)

R10bn Budget deficit expected

(49)

B/Day 14/3/91

A BUDGET deficit of R10bn is expected in the 1991/92 fiscal year — a 33% increase on the current year's estimated R7,5bn, says United economist Hans Falkena in the March Economic Perspective.

He says the deficit, which will probably amount to 3% of GDP, will not support longer-term economic growth because it exceeds SA's 1,5% long-term economic growth potential. Structurally this will crowd out the private sector.

The estimate is based on an expected increase of 12,5% in expenditure and 11% in revenue.

Government should consider both on- and off-balance sheet exposures when considering the desirable stance of fiscal and monetary policy.

Government's off-balance sheet debt is more than four times its current annual budget deficit, he says.

SA's accumulation of major off-balance sheet liabilities is unusual among the industrial countries. Large off-balance sheet liabilities are incurred because the government finances current expenditure (interest payments on public debt) with long-term off-balance sheet liabilities.

Off-balance sheet liabilities include a R30bn shortfall in government pensions, an accumulated loss of around R10bn on the forward book

SHARON WOOD

and liabilities of nearly R3bn due to stock discounts, Falkena says.

The shortfall in public pension funds results because the Public Investment Commissioner has to take up government stock at unattractive yields.

The pension shortfall cannot be addressed by simply raising taxes, which are needed to finance expenditure. The government might even be forced to do the unthinkable — scaling down pension benefits and/or privatising the state pension funds.

The accumulated debt on the forward book is related to historically too low short-term interest rates. To avoid further losses on the forward forex book, the real effective value of the rand has to be supported at current levels, which implies only limited downward pressure for domestic real interest rates, he says.

To avoid a too large budget deficit, productivity has to be increased in the public sector and in the private sector, by lower real wages, privatisation, improved savings and higher exports, Falkena says.

A healthy balance of payments position, high level of gold and foreign reserves and a low inflation rate, all of which are lacking, will be necessary for contra-cyclical fiscal policy to have a beneficial impact on the economy.

DP budget 'rids SA of poverty'

CAPE TIMES 14/3/91

Political Staff

THE DP unveiled its "alternative budget" yesterday, putting forward proposals on eliminating poverty, improving social and economic stability and raising living standards.

DP finance spokesman Mr Ken Andrew said previous budgets had been designed to provide for the needs of five million whites, but the priorities had to be reassessed.

He said the budget had to reflect the rapid changes taking place in South African society.

The DP budget relies heavily on the guidelines of the DP's social market economy proposals adopted last year. It suggests defence spending be slashed by 9% (20% in real terms), own affairs be scrapped, the SA Police staff be doubled over five years and apartheid be ended immediately.

Mr Andrew said R2 billion of unused education resources in white schools had to be made productive.

He said the government and the private sector had to be encouraged to look at using labour-intensive small businesses.

The DP proposals form part of a longer-term development plan in which other key socio-economic targets are that:

- Education spending be increased over five years to 25% of the budget;
- Housing backlogs be eliminated within 10 years;
- Health spending increase to 4,5% of GNP over five years, and
- Pensions parity be introduced immediately.

The proposals are based on estimates that real GDP would decline by 0,9% in total over 1990 and 1991 and that inflation would average 14% a year over the same period.

The 1991/92 budget should show no real growth.

Food relief schemes must be in place before VAT on previously exempted foodstuffs is collected and the finance minister must report annually to Parliament the estimated amount of VAT collected on foodstuffs exempt from GST.

The import surcharge should be repealed with immediate effect.

Other savings and extra expenditure measures proposed include:

- A lottery which could raise R500m;
- All Ministers' Councils and own affairs be abolished (a R690m saving);
- The Bureau for Information be abolished (R47m saving);
- A 43% rise in foreign affairs spending;
- Public service salaries be increased by 12%;
- Trade and Industry be cut by R189m by stopping industrial decentralisation schemes;
- Education get an extra R854m, health R551m, housing R500m and local government R100m;
- Agricultural spending be cut by R160m by rationalising the own affairs departments, and
- An extra R400m be set aside for feeding schemes, channelled as far as possible through existing private sector charities.

DP budget advocates more social spending

B/Day 14/3/91 49

BILLY PADDOCK

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Andrew said R2bn of unutilised education resources in white schools had to be made productive.

He said government and the private sector had to be encouraged to look at using labour intensive and/or small businesses.

Developmental spending should focus on investment where possible, rather than on welfare spending.

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- Housing backlogs be eliminated within 10 years;
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- Pensions' parity be introduced immediately.

Growth

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- Trade and Industry be cut by R189m by stopping industrial decentralisation schemes;
- Education get an extra R854m, health R551m, housing R500m and local government R100m; and
- Agriculture spending be cut by R160m by rationalising the Own Affairs departments.

Investor confidence is the key, says Clewlow

(49)

BlDay 15/3/91

VERA VON LIERES

FOREIGN investor confidence was not being helped by talk of collectivist economic policies and rhetoric from those "who might be expected to know better", SA Foundation president Warren Clewlow said yesterday.

Speaking at the foundation's annual meeting he said participation of all economic players — employers, investors, and trade unions — was required to change the style of economic co-operation.

"Social contracts, negotiated between them, will help determine the shape of industrial and commercial life. But economic reality must underpin everything we try to do," Clewlow said.

Referring to overseas concerns about stability and violence, he said all societies experienced turbulence but there had to be a realistic expectation that SA's "endemic variety" would disappear.

"The key word here is confidence. There is some confidence that leaders of our country are committed to peaceful change and President De Klerk, particularly, is acknowledged as a leader with vision."

Clewlow said the rock against which the ideology of both the left and the right was foundering was economic reality.

He said no one could deny the legitimacy of calls by black people for the end of discrimination and a fair chance at opportunity.

"The skewed distribution of infrastructural development and services leaves a huge backlog to be redressed.

"Equally, no one can deny that without soundly based, world-class economic activity, the dreams of all South Africans will come to naught, together with those in the rest of southern Africa."

Clewlow said the challenge to business leaders to participate with skill and vision in building an economy stood with increased urgency.

The foundation's director-general Kurt von Schirnding said the foundation aimed to become increasingly representative of all sections of the SA business community.

"We know that one of the more deplorable legacies of our past were the restrictions placed on blacks entering business," Von Schirnding said.

He forecast that by the end of the year formal negotiations towards a new SA would be underway with a democratic constitution in the "not too distant future".

Despite this the need for a credible, independent, private sector organisation like the foundation was now more critically important than at any time before.

"If foreign investment and trade are to be revitalised, with SA as the West's partner in developing the sub-continent, then the foundation is ideally structured to shape the responses of outsiders of influence and standing to developments in this country."

Business wants a constitution that inspires trust

B/Day 15/3/91. (49)

RAYMOND PARSONS

FOR the average businessman, a new constitution must facilitate good government in the "new South Africa".

The new SA will have to be far more efficient than the old one if it is to survive and grow. It will need all its economic margin for its own proper purposes, and can afford to give nothing away to softheadedness or doctrinaire folly. Furthermore, any new constitution must inspire trust and confidence — not only internally but also abroad.

☐ PARSONS

As John Stuart Mill once said: "All trust in constitutions is grounded on the assurance . . . not that holders of power *will not*, but that they *cannot*, abuse it."

Ideally what this means at the end of the day is that we want a constitution in which, if your worst political enemy came to power, your basic rights would be safe.

These, of course, must include economic rights. We want a constitution which reconciles political aspirations and economic ambitions. Hence it is in the interests of business to play a pro-active role in the negotiating process and in helping to shape the constitutional debate. The SA Chamber of Business (Sacob) has set up a special committee to study the economic aspects of any new constitution and their implications for the business community.

If businessmen and investors are going to take a vigorous interest in the quality of the political system — the "rules of the game" — then there are five key strategic elements to be borne in mind.

Firstly, it should be accepted that a multiparty, pluralist, self-restraining democracy will not be easy to create in SA. The reciprocal dynamic — the "checks and balances" — will not necessarily emerge out of the fabric of our politics. It will have to be "crafted" in the process of constitution-making.

Secondly, SA has a unique opportunity to learn from the mistakes of others.

The events of Eastern Europe have shown us how important economic factors are in shaping the destinies of nations and how governments which could not deliver the goods have been rejected. Then there is also the collective wisdom of international bodies such as the IMF and the World Bank.

Thirdly, SA must also avoid its own previous mistakes. We have had our own extensive experience of social engineering in the past. The lesson is not just that it had no moral basis but also that state intervention on a large scale is bound to fail.

Fourthly, we must devote more energy towards the building of the "new SA" and indulge less in the rhetoric of recrimination and retribution. One way to facilitate this is to separate the immediate need for socio-economic upliftment from the fundamentals of a future economic and political system.

When constitutional negotiations begin the emphasis should be on the fundamentals of a sound economic and political system. We should take what is best from constitutional models around the world and adapt that to our conditions. If we allow constitutional negotiations to be bedevilled by redistribution issues, the risk of delay or even failure could be much higher.

The debate on the White Paper on land reform is a stark reminder of the real difficulties in this regard. It would be better for SA to commit itself to a separate agreed socio-economic programme, in which poverty and redistribution questions are given attention in their own right.

Finally, given the divisive forces and tensions which lurk just below the surface of our society — as well as the importance of negotiating a viable constitution — we must try to get it right the first time around.

We may not get a second chance to repair any serious mistakes if SA again locks itself into an unsuitable constitution. It therefore behoves us to ensure that the framing of a new constitution harnesses the best brains in the country. This includes inputs from the business sector on how it sees the "rules of the game" in a new constitution.

Business has to engage political and trade union leadership in dialogue about the nature of future political and economic structures. We must certainly try to get away from the highly centralised "Westminster" model of government as an open-ended source of uncertainty for business. Predictability and trust in the political system are paramount.

☐ **This is an edited extract from an address last night by Sacob director-general Parsons to the Institute of Bankers in SA.**

Govt debt 'at R90bn'

B/Day 15/3/91 (49)

GERALD REILLY

PRETORIA — Government has spent itself into massive debt which rose from R21bn at the end of 1981 to about R90bn at the close of 1990, says Pretoria Afrikaanse Sakekamer chairman Robbie Schilz.

Speaking at the chamber's annual meeting last night, he said government expenditure was rising faster than the increase in the growth rate so that the state's involvement in the economy in the past decade increased from 21% to about 30%.

An analysis of state spending showed that current expenditure particularly had risen strongly while capital spending dropped in real terms in the past few years by 25%.

To finance the increased spending, taxation was increased. At the same time government borrowed more and since 1984 had borrowed to help finance current expenditure, pushing the debt to R90bn.

SA's economic growth rate between 1981 and 1989 was a mere 1,2% a year.

He said salaries and wages, after adjustments for inflation, rose more sharply than production in the eighties.

AT THE SHARP END

FM 15/3/91 (49)

A year of unprecedented political reform has sent SA's political shares soaring in the West. But there's still serious concern about the country's economic future, according to representatives of the SA Foundation based in Washington, London, Paris and Bonn.

Back this week for the foundation's annual meeting, the four told the *FM* that foreign investors are waiting for a clear and unambiguous statement on economic policy — and an end to unrest.

Though the lifting of sanctions and other restrictions is now taken for granted, conflicting signals are confusing business assessments of SA. Continuing violence, Nelson Mandela's threat of unrest if investors return without the ANC's blessing and the Winnie Mandela trial — as a reflection on future leadership — are bad for the country's image.

"There are more inquiries than ever from potential investors but it's going to be a while before the money starts flowing. Violence deters investors and if you look at the cause of the unrest — socio-economic backlogs and unemployment — the situation on paper looks disastrous," says London director John Montgomery.

Desmond Colborne, of the Paris office, agrees. "We mustn't kid ourselves about our attractiveness as an investment. A cynic could ask: Who wants to invest in another Lebanon?"

German potential investors and the German government are equally disturbed by increasing crime and unrest, says Bonn director Rudolph Gruber. Though Germany is SA's principal trading partner, the willingness of German firms to enter the market or increase investments depends largely on their perception of stability.

"The perception has moved from politics — as the primary obstacle to better relations — to economics. Though the economic indicators show government is serious about reducing inflation and controlling State spending, there is concern about the low level of personal savings, poor productivity and the failure of both the private and public sectors to give absolute priority to productive investment.

"But above all it's the crime and unrest that disturb potential investors. It must be brought under control and there must be stability in labour relations. Investors are looking for the same good sense on the economic front to that which they've seen on the political front," says Gruber.

In the US a change of attitude towards SA is complicated by ignorance of developments in this country. "Outside of Washington the perception of what has happened in SA is way behind, because local politicians tend to be out of touch — even though SA remains a factor in parochial politics in many states," says Washington director Michael Christie.

The change in attitude towards SA among Western governments has been underpinned by the actions of President F W De Klerk and ANC deputy president Nelson Mandela.

"As the two major players, they've brought home the realisation that SA is getting to grips with its problems and there's no longer a need for the world to solve them," says Christie.

In spite of Mandela's threat to investors and the ANC's strong pro-sanctions line, decisions in Europe on lifting remaining trade and investment restrictions are unlikely to depend on the ANC's approval. Montgomery says the British government is already encouraging investment in SA.

In the US, says Christie, President George Bush has made it clear to the ANC that American foreign policy is made in Washington and it's there that the policy towards SA will be determined. "But if the ANC were to say sanctions are no longer appropriate, it would make Bush's life far easier."

Public opinion has also shifted favourably for SA, though in most countries public attitudes towards the country were never as strong as South Africans sometimes perceived them to be. Positive political change has also eroded support for anti-apartheid movements, particularly in Britain, Holland and the US.

European governments are increasingly seeing their future involvement in SA as part of a regional strategy. France, in particular, is showing unprecedented interest in SA as part of an overall review of its relations with Africa.

There's a belief that some European governments see involvement in the region via SA as an opportunity to put right some of the mistakes that caused economic collapse in post-colonial Africa.

"If not the last hope," says Colborne, "then SA must be seen as the best hope for Africa. As an outlet for investment and trade it's small pickings, but as a potential success story in Africa it's important to Europe."

However, Montgomery cautions against creating the perception that the West "will come riding out of the sunset on a white charger to save the SA damsel in distress. A lot will depend on the economic policies we follow. Parties to the negotiations must provide them as soon as possible. There's no more time to keep people on a string: they will start looking around for other investment opportunities."

Colborne agrees. "If SA can achieve a sustainable democracy and, if not an economic miracle, then at least a damage-limiting economic policy, it may create the right climate for investment."

There must also be a worthwhile return on investment. Colborne says Europe is suffering from "alms-giver's fatigue" and recent polls have shown that people are particularly opposed to pouring more aid money into Africa's bottomless pit.

Gruber says Germans are preoccupied with their own backyard — the former East Germany and the Soviet Union — but SA will receive attention if the prospects warrant it.

"There is a commitment by the German government not to decrease aid to Africa in spite of developments in eastern Europe. It accepts the need to check the collapse of Africa and believes a relationship with the southern African region using SA as a base is part of the solution." ■

WITHIN A NEW FRAME

FM 15/3/91
(49)

Edward Osborn is Nedbank chief economist

Another variant of African socialism, which emerged with the independence of Zimbabwe in 1980, is strongly concerned with economic emancipation of the masses and universal education, health and other social facilities.

An elaborate network of controls, covering trade, prices, labour and finance, was inherited from sanctions-constrained Rhodesia. A Transitional National Development Plan was prepared as a holding operation until the first Five-Year plan could be formulated, but the main thrust was there for rapid economic growth and socioeconomic development and an ownership structure more responsive to development needs. All familiar stuff in the SA debate today!

The first Five-Year plan in 1986 was the culmination of planning from village level right through to Cabinet. It envisaged annual plans and programmes for all agencies of the public sector. It was seen as a dynamic instrument for economic expansion and increased employment opportunities. Emphasis was given to rural development and redressing the imbalance between the urban and rural peasant sectors.

The Finance & Planning Ministry did a beautiful job in setting out plans, guidelines and national objectives, in time-honoured way surely sufficient in itself, as long as power and patronage remain undisturbed.

But implementation and achievement have been sadly wanting in the vital fields of economic growth, employment and welfare. Even the land distribution policies have, broadly, failed; limited resettlement has occurred but with it a reversion to subsistence agriculture, indigence and the denudation of natural resources. There has been no lessening of the pivotal dependence on white, or euphemistically speaking commercial, agriculture. The much vaunted success in African agriculture is largely the marketing of surpluses, hitherto retained and consumed in Tribal Trust Lands, through the improved distribution network.

Essentially Zimbabwe has become a defunct economy because it has been a consumption economy with none of the capital formation needed for expansion of capacity and economic growth. The foreign investor has not been welcome and domestic industry has not been profitable. In any case, foreign exchange has not been readily available for imports of equipment and plant.

Five years on there is no second plan but, rather a document titled *A Framework for Economic Reform (1991-1995)*. Associated with the admirable Senior Finance Minister Bernard Chidzero, but presumably prepared by foreign consultants because of its style, language and American spelling, it calls for a radical shake-out from the shackles of the past to achieve a recovery of investment and improved efficiency.

Curiously, the document includes terms of reference for a consultancy study on the reform of public enterprises. This is a key element of the *Framework*, as they are seen to be inefficient, a considerable burden on the budget and in many cases redundant.

The *Framework* intends to liberalise the economy. Its main features are:

☐ The budget deficit, now more than 10% of GDP, is to be cut to 5% by 1994-1995, by cost recovery programmes, cuts in subsidies and slashing the civil services by a quarter, together with a wage restraint policy;

☐ Public corporations are to be made more efficient and not reliant on State aid;

☐ Price, pay and labour controls and regulations are to be phased out;

☐ An active monetary policy;

☐ Foreign trade is to be liberalised by the removal of restraints on exports and having all items importable on open general licence by 1995;

☐ A social fund is to be set up to offset cutbacks in welfare services and special provisions to alleviate the distress of those laid off; and

☐ Improved measures to encourage foreign investment.

A growth rate rising to 5% a year by 1995 is seen to be possible as reform takes effect, but this is conditional on foreign financing doubling on recent trends to some US$700m a year. This is the crux of the matter: is such capital forthcoming for investment in an African country and hasn't Zimbabwe frightened the foreign investor away with its recent constitutional amendments denying the right of appeal on expropriation values?

Chidzero has gone out of his way to give assurances that the new land policy aims at optimal utilisation of resources, but this is unlikely to reassure foreign investors.

The *Framework* is strongly recommended to all lefties and ANC economists.

Foreign squeeze on economy easing off

Star 16/3/91

49

DEREK TOMMEY

WHETHER or not Dr Chris Stals, Governor of the Reserve Bank, cuts bank rate again this year or the Minister of Finance, Mr Barend du Plessis, makes substantial tax cuts in Wednesday's Budget, the South African economy should be expanding strongly by December.

This is the word from Pretoria which is excited about a major development that it expects will put billions of rands into circulation in the coming months.

The development is the ending of the capital haemorrhage which has crippled South Africa since 1984.

Government officials report that the drive by foreigners to get their money out of South Africa at last seems to have ended.

Changed political conditions appear to have given a major boost to foreigners' confidence. As a result overseas investors and lenders are no longer squeezing South Africa for their money.

The last time South Africa had a net inflow of capital was 1984, to the tune of R1,2 billion. This was the also the last year South Africa had a consumer spending and investment boom.

But then came disaster. The imposition of sanctions by the United States together with a serious loss of confidence overseas led toR8,3 billion fleeing the country.

This was followed by another hefty outflow of R5,1 billion in 1986. In 1987 the outflow dropped to R2,9 billion, but 1988 saw another huge jump to R6,2 billion and this was followed by an outflow of R4,3 billion in 1989.

In these five years South Africa suffered a net capital outflow of R26,8 billion. For a developing country such as South Africa is this was a major tragedy.

In order to offset some of the damaging effects of the capital outflow, the Reserve Bank stepped up the local money supply. But while this helped to keep the economy looking prosperous it also stimulated inflationary pressures.

Outflow

The first signs that the capital haemorrhage was easing came in the first quarter of last year, when the capital outflow dropped to R406 million from R1,1 billion in the last quarter of 1989.

But the outflow jumped to R2,2 billion in the second quarter only to swing into a net inflow of R1,5 billion in the third quarter.

According to Pretoria sources this favourable position persisted in the fourth quarter and apparently in the first quarter of this year as well.

Economists point out that after losing an average of R5 billion a year in the five years ended 1989, even a zero outflow represents a substantial improvement in our economic position.

Money not leaving the country is spent at home. So by not losing R5 billion, some R5 billion extra will be available for domestic consumption.

But there is even a bigger benefit than this. It is estimated that every rand spent in South Africa is turned over three times. So a nil outflow of capital means that domestic spending will rise, not by R5 billion but by R15 billion.

The injection of this fairly large sum into the economy should see a significant increase in business activity as the year progresses, say economists. By the time Christmas arrives they expect demand to have risen markedly.

But South Africans have more to look forward to than a nil capital outflow. There are hopes that by the end of the year there could be a sharp increase in borrowing from abroad.

American Government officials in discussions with South Africans say they believe their Government will have lifted most sanctions against South Africa by the end of September.

As South Africa's overseas image improves it seems that South Africans can start looking forward to better times.

DELUGE: For the last three quarters there has been a considerable inflow of capital from overseas which, if it persists, will see the economy pull out of the recession by the year-end.

VAT key to next week's Budget

Barend hints at lowering of some taxes

B/Day 15/3/91

(49)

BILLY PADDOCK

CAPE TOWN — Finance Minister Barend du Plessis has hinted that he will keep his promise to the electorate to reduce the top marginal tax rate by one percentage point to 43% in the Budget on March 20.

In an interview he said he had a commitment to reduce personal income tax by five percentage points over five years as stated in the NP five-year plan unveiled in June 1989.

The plan said personal income tax would be lowered and the marginal rate reduced to a maximum of 40% at an income level of R100 000 for married persons (R80 000 for unmarried people).

The plan also committed government to reducing company tax. Du Plessis could give some relief in this area as well, despite claims that the Treasury could not absorb this loss of revenue.

However, it is estimated that companies, through exploiting loopholes, have in effect been paying 30%-35% tax. Since government has plugged the last loophole by phasing out tax credits on debtor allowances, the Treasury stands to gain between R1,5bn and R2bn a year.

Du Plessis said preparing this Budget had given him more sleepless nights than the debt standstill Budget of 1985 and had been the most difficult in his seven years as Finance Minister.

He was extremely pleased that Reserve Bank Governor Chris Stals had announced the one percentage point cut in Bank rate last week because it offered some good news. The Budget is expected to be a fairly tight one, giving Du Plessis minimal scope.

To a large extent the Budget will be anchored to VAT; the rate at which the new tax is imposed will be politically as well as economically important.

Expectations of a low rate are likely to be disappointed because, with all the demands on a limited revenue, government will want to play safe, pegging it at about 12% and keeping it there for a number of years.

Revenue will also be lost through the VAT system of input tax credits on intermediate goods which does not apply under GST. Vatcom chairman and Deputy Finance Minister Org Marais said it would cost R4bn to phase in credit on intermediate goods immediately.

Sources said government would have difficulty selling 13% VAT to the public, especially with it being imposed on most basic foodstuffs.

Because of the pressures on this Budget for social spending, Du Plessis is unlikely to be able to make any real tax and other concessions. In reality he will hand back some of the surplus R1,7bn that accrued to the state coffers from fiscal drag.

There is the enormous pressure on government for special spending on education, housing, health, welfare, and, especially, pensions and direct relief for the poor.

Planning and Provincial Affairs Minister Hernus Kriel this week indicated that Du Plessis would also make some allocation to implement the proposals of the White Paper on land reform.

There is also pressure on Du Plessis for public sector pay increases. While government wants to lower inflationary expectations in wage negotiations, it does not want

☐ To Page 2

Barend

B/Day 15/3/91

(49)

☐ From Page 1

a demotivated public service. In particular government does not want police pay, brought up to standard last year, to fall behind when a motivated police force is badly needed to stem violence.

It is widely expected that Du Plessis will project an overall increase in spending of about 12%. With the R1bn contingency fund for unallocated items and R600m for food relief, he will be looking at expenditure of about R85bn.

Revenue could increase to about R76bn. The deficit of some R9bn could result in a mildly expansionary Budget which allows Du Plessis to stay within the 3% ceiling on the deficit before borrowing recommended by the IMF.

In the last Budget Du Plessis cut the import surcharge by 30% and he is expected to do the same this year. The cost of this could be offset by a R1bn cut in defence spending.

He has already announced that tax on dividends would not be reintroduced and no move would be taken at this stage to bring in a withholding tax of 10%.

● Comment: Page 10

DP 'Budget' aims to tackle key problems

Political Staff Star 15/3/91

The Democratic Party has unveiled an "alternative Budget" as an example of what it thinks can be done towards eliminating poverty, raising living standards and improving social and economic stability.

DP finance spokesman Ken Andrew said spending priorities had to be ruthlessly reassessed to meet the needs of all 35 million South Africans.

There would be no stability or growth without the elimination of poverty and inequality.

For this reason the DP advocated a "New Deal" programme to tackle key problems.

DP proposals for a long-term development plan include increasing education spending over five years to 25 percent of the Budget, eliminating housing backlogs in 10 years, doubling the size of the police force in five years, increasing health spending to 4,5 percent of the gross national product over five years, introducing parity in pensions immediately, and launching a crash programme to meet housing and education needs and create jobs.

Mr Andrew, whose alternative Budget is not based on precise figures, said he believed such proposals could have a significant impact.

Key items on revenue sources include:

- VAT at a lower rate than GST, with food relief schemes in place before VAT is collected on previously exempted foods.
- Immediate repeal of the import surcharge to encourage investment, growth and employment and to make businesses more competitive.
- A State lottery targeted for the electrification of schools, the building of primary health care facilities and the provision of pre-school child care programmes (estimated revenue R500 million).
- Tax reform to ensure taxes are internationally competitive and that South Africa has a growing tax base.

Key items on State expenditure with savings or extra-expenditure relative to the general 14 percent Budget increase include:

49 Defence

- Scrap own affairs with a modest saving in the first year of 3 percent (R690 million).
- Scrap the Bureau for Information (R47 million).
- Bring about extra spending of R106 million on foreign affairs to meet the needs of improved foreign relations.
- Cut defence spending by 20 percent (R2,2 billion).
- Limit public-sector salary increases to 12 percent, with a R320 million saving.
- Create research and back-up resources for negotiations, an extra spending of R16 million.
- Step up police recruitment, with a spending increase of 56 percent.
- Halt ideologically based decentralisation incentives, saving R189 million.

Need to reduce income disparities, says Anglo chief

CAA 11-75 16/3/91

49

By PIETER COETZEE
Financial Editor

SA's income distribution is not unusual when compared with other countries at a similar level of economic development and urbanisation, said Anglo American chairman Julian Ogilvie Thompson.

Speaking at the Sacob Transvaal regional conference, he said developing societies are prone to high levels of inequality precisely because they are developing.

"In the debate on the economic future of SA reference is often made to SA's Gini Coefficient (the standard measure of income distribution) being worse than any other country in the world.

"No one disputes apartheid's moral repugnance and that income disparities in SA are large. One goal of future economic policies must be their reduction.

"But it is vital that businessmen along with others understand the phenomenon of inequality in SA and elsewhere. It is simply not helpful to bandy about the Gini Coefficient as if it explains or summarises everything.

"To do so also leads to a misleading perception that among the population at large that SA is a rich country," he said.

"SA's difficulty lies not in the division between the 'haves' and 'have-nots', but in the fact that apartheid, by limiting participation in the economy, has ensured that this division has occurred mainly along racial lines."

He said the SA business community recognises, as does government, that the new SA must address the deeply felt and justified grievances of those South Africans who have benefited least from what economic growth there has been.

Its concern is to find the most effective means of doing so, not just in the initial years but in the long term — ensuring that immediate claims are not satisfied at the cost of increasing the incidence of poverty, as in many South American countries.

"If SA faces economic problems broadly similar to those of other developing countries, we have a pretty good idea of the general policy environment conducive to economic growth."

Countries both in Eastern Europe and throughout Africa are desperately attempting to move away from the old dirigiste models replete with a plethora of controls, to the only economic system that works. This is a market economy:

- Where factors of production are priced according to relative scarcity.
- Where inflation is kept under control, interest rates are positive in real terms to encourage savings and hence investment and taxes are broadly in line with international levels.
- Where the country's comparative advantage is turned to account in a way which maximises broad-based development and some appropriate incentives encourage exports.

If, however, business is successful to make its case for limited government and a market driven economy on a long-term basis, it needs to raise a constructive vision of the future.

This must demonstrate that the economic growth ensuing from appropriate macro-economic policies, together with sustained co-operative business/labour/government programmes to tackle poverty, will make a tangible difference in the short to medium term in the provision of secure shelter, elementary health care and at least primary education.

Ogilvie Thompson said that government and the private sector have both come to the conclusion that much greater socio-economic investment has to take place in spite of a tight economic policy and environment.

Over 40% of the Budget is now being allocated broadly to socio-economic investment.

The private sector, in addition to existing social investment funds, has now launched the Private Sector Initiative with some R550m over five years to complement the government-sponsored Independent Development Trust of R2bn created last year.

While recognising the need to maximise social investment, it is necessary to ensure that all programmes which the private sector contemplates, are based on sound holistic analysis and appropriate policy.

BARENDʼS BUDGET

R1,8bn masterplan to boost jobs

By MIKE ROBERTSON
Political Correspondent

FINANCE Minister Barend du Plessis is expected to allocate more than R1,8-billion for a Roosevelt-style job creation scheme when he unveils his Budget on Wednesday.

Mr Du Plessis, who has described this year's Budget as the most difficult in his seven years as finance minister, is expected to announce that the unemployed will be given jobs building schools to overcome the black education backlog. Others are expected to be given work servicing land for informal housing schemes.

Because of political developments, the focus of this year's Budget has fallen on social spending and how to address apartheid backlogs.

But, in attempting to meet these expectations, Mr Du Plessis faces triple contraints in the form of a depressed economy, a major change in the system of indirect taxation and an obligation to fulfil election commitments to reduce direct personal and company taxation. The phasing out of import surcharges will also result in a loss of revenue.

However, because of changed political circumstances, the government is in a position to reap a once-off windfall by selling off oil and other stockpiles built up to counter sanctions. These funds, together with huge cuts in the defence and public works budgets, will be used to fund social spending.

The NP promised in 1989 it would gradually reduce the marginal rate of taxation from 45 percent to 40 percent. The first drop of one percent came in last year's Budget — and a similar cut is expected this year.

Company tax is also expected to be cut by more than five percent from 50 percent.

(49)

At the same time, ~~however~~, a number of loopholes will be removed. This, too, is in line with NP election promises to eventually have a much lower company tax in SA with no exemptions.

S/ Times 17/3/91

The major unknown on the revenue side of this year's Budget is the introduction of Value Added Tax to replace General Sales Tax. Because businesses will be exempted from paying VAT on capital purchases and intermediate production costs, it has been estimated that the Receiver will lose R7,5-billion.

To offset this, even if all exemptions on foodstuffs are removed, VAT would have to be introduced at 13,3 percent.

However, VAT exemptions on capital purchases are to be phased in. Mr Du Plessis will announce the phasing-in period on Wednesday, but indications are that it will be relatively short and that the initial percentage of purchases that can be deducted will be quite high. As a result, it can be expected that VAT will be introduced at 12 percent or even higher.

The retention of tight fiscal and monetary policy is certain and overall government expenditure is expected to increase by less than the rate of inflation, to about R84-billion.

The deficit before borrowing is likely to be higher than last year's, but still in the vicinity of the internationally approved benchmark of three percent of gross domestic product.

Defence Minister Magnus Malan has already indicated that a real cut of about R1,5-billion in his budget can be expected. The public works budget is also said to have been cut by a similar amount.

Despite the clamour for all pensions to be equalised, the government is reluctant to commit itself to major items of recurrent expenditure prior to an economic upswing.

A contribution to equalisation is expected, but this will be a gradual process.

Instead, the government appears to favour projects such as job creation scheme which, while providing employment and training, also begin to address backlogs in shelter and education.

Planning and Provincial Affairs Minister Hernus Kriel has indicated that the government has identified some 107 000 ha of land for informal housing settlements in metropolitan areas. Funds will have to be provided to purchase this land.

Provision will also have to be made for a one-off capital grant scheme which Mr Kriel has said the government will introduce.

To offset the effects of VAT on food prices, the government is also understood to be considering food assistance schemes.

These could take the form of a subsidy for white maize products, or feeding schemes. With regard to the latter, a figure of R600-million has been mentioned.

Foreign squeeze on economy easing off

Star 16/3/91

(49)

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TOWARDS THE FUTURE SA

PETER BERGER last week appealed for markets to be allowed to do their work in a future South African economy. This week **MERLE LIPTON** argues that some state intervention will be needed

S|Times 17/3/91 (49)

Why the state can't be bound in a free market

PETER BERGER reflects the fashionable view that governments are not good at stimulating economic development and "should at least get out of the way" of the market forces and private entrepreneurs that are better at doing so.

Such beliefs have been reinforced by the overthrowing of communist systems in Eastern Europe and by the disillusionment with socialist experiments in Third World countries such as Tanzania and Mozambique. Within Western countries, too, there has been a reaction, among both socialist and capitalist political parties, against the growing state sector and its unpopular bureaucracy, and scepticism about the state's capacity to play an effective role in economic management and, especially, in production.

However, the alternative "untrammelled free market" prescriptions of the last decade, symbolised by the privatisation and supply-side policies of the Thatcher and Reagan governments, and by the "structural adjustment" policies of the World Bank and the IMF, have not been an unqualified success either.

These strategies have not improved the position of the poorer African countries, whose output and per capita incomes declined during the 80s (though middle-income countries, unless heavily indebted, gained more from these policies). In the developed world, privatisation has usually moved ownership, not from monopolies to competitive firms, but from public to private monopolies.

Meanwhile, excessive financial deregulation contributed to the banking/savings-and-loans crisis in the United States and Britain, while the social effects of Friedmanite policies have been divisive, leaving both countries with a large and alienated under-class.

It is not, however, easy to draw simple lessons for South Africa from this complex record. Currently, the anti-statist reactions of the 80s are being reassessed. Indicative of this is the shift from the World Bank's 1981 Berg Report on Africa, with its dogmatic insistence on reliance on untrammelled market mechanisms, to the more qualified approach evident in the bank's 1989 report, **Sub-Saharan Africa: From Crisis to Sustainable Growth**, which displays less hostility to state action and pinpoints the need to remedy Africa's "crisis of governance".

In Africa and Latin-America, the once privatising World Bank now presses for loans to be conditional upon expanded public investment in areas such as education and the provision of agricultural and rural infrastructure.

A new consensus is emerging that, while there are some areas that the state should stay out of, there are important functions the state must fulfill if markets are to function effectively. The state should *not*:

- Substitute bureaucratic diktat for the efficient allocation of resources and investment by the price mechanism;

There are many cases where the state does too much of what it should not do, and too little of what it should do

- Substitute bureaucratic management for risk-taking private entrepreneurs in directly productive activities, such as agriculture, manufacturing, mining and commerce;
- Permit the untargeted growth of social services, as the demand will prove unlimited and the distribution of gains respectful of political influence rather than need. The costs of this — and of the huge bureaucracy it spawns — will lead to soaring taxes and/or fiscal deficits, with disincentive effects on effort of both recipients and taxpayers. Indeed, it is likely to spark a tax revolt and reaction against what, increasingly, is being perceived as a parasitic, rent-seeking bureaucracy.

The state *should* perform the following functions:

- Provide a legal framework for regulating property relations and economic institutions such as stock markets, banks and business contracts;
- Macro-economic management that produces stability in the price level, aggregate employment, state budget and balance of payments;
- Provide public goods, such as roads, sanitation, police and education that the private sector does not supply, or undersupplies, because charges cannot be effectively gathered from many beneficiaries;
- Provide merit goods, such as basic individual health care, for which there is consensus that access should not depend solely upon affluence;
- Regulate the effects of externalities, such as the adverse effects of private economic actions on public health and safety and on the environment;
- Regulate economic activities in the public interest, for example, by ensuring the accuracy and completeness of information supplied to the public by sellers and advertisers, and by maintaining freedom of entry against business monopolies and cartels and against restrictive practices by organised sectional interests such as doctors, lawyers and mineworkers;
- Maintain, or regulate production in some sectors of unavoidable "natural monopoly" (due to high fixed costs as in railways and electricity) where private suppliers would otherwise face few or no competitive incentives to efficiency, or limits on price policy;
- Provide a safety net for the disabled, aged, sick and orphaned where private insurance would be incomplete or inefficient;
- On occasions, undertake reform of economic structures which society considers unjust, anachronistic or an obstacle to social cohesion and political stability.

Unless the state performs these functions, society will lack a framework within which market forces can operate effectively. Obviously, there are many cases where the state does too much of what it should not do, and too little of what it should do. South Africa is surely a prime example of such a state.

As the general-secretary of the SA Communist Party, Joe Slovo, remarked, the SA economy is "not a free market system", but is characterised by a high level of state regulation. The state has been too protectionist towards, and has over-provided for, the white minority (apartheid surely constitutes one of the most brazenly institutionalised cases of "monopoly rents"); meanwhile there has been underprovision, combined with over-regulation, for the black majority.

To create the conditions for effectively functioning markets, the state must not only abolish apartheid, it must also take additional transitional measures to "level the playing fields". It needs to do so in a way that avoids entrenching new rent-seeking elites, which would result in a new set of inefficiencies, distortions and injustices.

White farmers should be compensated for any land they lose — not left alone to bear the costs of this politically essential change

South Africa's "two agricultures" provide a striking case of the state's hitherto unbalanced role. What is needed — along with the abolition of apartheid — is the switching of support from over-subsidised white agriculture to neglected (indeed repressed) black agriculture. Action is also required to rectify the gross inequality (contrived by state action) between landholdings of blacks and whites.

A progressive land tax might provide a non-disruptive mechanism for promoting this outcome. This tax would work through the market. It should be zero on smallholdings and increase along with the value of the land (although improvements and structives on the land would not be taxed).

This would encourage farmers to break up farms without arbitrary seizure or costly compensation. Such a policy would favour (hitherto discriminated against) black farmers in a colour-blind way, while correcting the bias in favour of larger farmers that has characterised SA agricultural policy.

In a number of countries, land taxes have not worked because of the lack of detailed land registration records. But SA, like Zimbabwe, has such records for commercial farms. Zimbabwe failed to take the opportunity to introduce a land tax in 1980. The subsequent failure to secure satisfactory land redistribution has now resulted in more disruptive proposals to deal with the land problem.

A progressive land tax would not suffice to correct the huge historic bias against black smallholders; research, extension, irrigation and other rural infrastructures should be redirected towards them. Probably, too, some direct land redistribution to smallholders will be needed.

There is evidence (for example, in World Bank studies of Japan and South Korea) that such redistributions can improve farm efficiency in cases where labour is plentiful. But the costs of any redistribution should be fairly shared. White farmers should be compensated for any land they lose — not left alone to bear the costs of this politically essential change.

An encouraging convergence is emerging on some basic issues between the government, the ANC and others engaged in the economic debate.

An example is the consensus that the Budget should be a major instrument of redistribution. Currently, the SA Budget amounts to 28 percent of GDP (and social spending for about 40 percent of that). In many countries, a budget accounting for 35 percent of GDP is not thought excessive.

Both the government and the ANC state that they wish to keep down the level of personal taxes, because of the disincentive effect. The ANC suggests higher corporate taxes, which could, however, conflict with the desire for higher savings and investment.

One of the obvious alternatives is higher inheritance and gift taxes. As inherited wealth is unearned, it can distort incentives and competition in relation to recipients; this solution should therefore appeal to free marketers (though a tax that is set too high could have disincentive effects on bequeathers).

Space does not permit discussion of other important issues, including:

- The costs and benefits of the proposed social contract between business, labour and the government aimed at reducing the risk that industrial unrest and an explosion in wages could lead to the replacement of labour by capital, accelerating inflation and international uncompetitiveness;
- Some worryingly dirigiste tendencies evident in recent ANC discussion documents which suggest, inter alia, state direction of industrial investment and the establishment of a "state minerals marketing authority . . . which would control all minerals marketing". Neither of these are areas in which state intervention has an encouraging record;
- Counter-proposals by some businessmen that constitutional limits be imposed on the state's capacity to tax and to borrow.

These issues highlight the need to find the proper balance between state and private action and to avoid establishing new monopoly rents — whether of organised capital and labour or of bureaucrats who believe they know better than risk-taking enprepreneurs how to make investment and marketing decisions.

In accordance with the principles outlined above, the state should not be so constrained that it is unable to perform its essential functions. Views of what these are change over time, but they include the provision of public and merit goods; the control or close supervision of some natural monopolies; the limitation of external costs to natural resources and the environment; the provision of a regulatory framework for the operation of business; the reduction of poverty by the redistribution of wealth and income via the Budget; stimuli to private saving and the stabilisation of fluctuations in aggregate demand, in the incomes of the poor, and in the foreign exchanges.

But the state should not substitute for the operation of market forces and it should support (and, where required, co-ordinate) the efforts of the country's wealth-creating entrepreneurs and avoid adopting a confrontational attitude that makes them feel their skills and efforts are not valued.

The state has been too protectionist towards, and has over-provided for, the white minority

The wide-ranging debate on economic policy, involving shifts in principles and policies on both sides, is encouraging evidence of shared interests and values and of political will and leadership among South Africans. These elements are much less evident in some other countries also attempting to combine economic reconstruction and democratisation, which are in danger of sliding into anarchy or relapsing into authoritarianism.

The contribution of economic policy to this hazardous process will depend on the extent to which it achieves the central goals of growth, poverty reduction and stability, and the extent to which it does this in a way that proves economically and politically sustainable.

☐ *Merle Lipton is VisitingResearch Fellow at Sussex University, Britain. She is the author of* Capitalism and Apartheid.

Civil service wage bill 'may hit new high'

Bday 18/3/91

GERALD REILLY

PRETORIA — Almost a quarter of government spending in the new financial year will go to paying the 760 000 central government and provincial workers, estimates show.

This would bring the total pay bill to a record figure of more than R20bn.

Economists say goverment spending in the 1991/92 financial year will amount to about R85bn.

It will cost more than R4bn to pay the 180 000 own affairs personnel alone.

Economists estimate government revenue in 1991/92 will be no more than R75bn — leaving a deficit before borrowing of about R10bn.

Volkskas chief economist Adam Jacobs said a disturbing trend noticeable in recent state revenue figures was that collections were shrinking, possibly because of taxation and the slide in company profits and the gold mining industry. (49)

DP finance spokesman Ken Andrew said dismantling own affairs structures could save R700m

DP offers alternative to Budget

(49)

Sowetan 18/3/91.

THE Democratic Party has proposed an alternative to the Government's Budget which is to be announced on Wednesday.

By ISMAIL LAGARDIEN
Political Correspondent

The DP's budget is aimed primarily at eliminating poverty and is part of a long-term developmental plan.

Mr Ken Andrew, the DP's spokesman of finance, said in his draft proposal that South Africa's Budget had in the past been designed ostensibly to provide for the needs of five million whites.

Updated

The rest of the country was budgeted for only incidentally, Andrews said.

He said that a budget for all 35 million South Africans "cannot simply be a modified or updated version of past budgets".

"We need to re-assess priorities ruthlessly but constrictively with a view to obtaining the maximum benefit for all our people from our limited resources.

"To start with, representatives of those previously excluded must be brought into the process of determining priorities.

"It is essential that a social contract be negotiated to determine agreed parameters, without which we have little hope of meeting the many socio-economic challenges that face us.

"This can only be done if all interested parties are involved," Andrew said.

Policy

He said that in terms of DP policy, the "either/or" debates on economic growth, redistribution and welfare are "misleading".

These subjects are interrelated, he said.

"Without the alleviation of poverty and the removal of inequality, there will be neither stability nor growth.

"Without growth, there will be increasing poverty, few opportunities for upliftment and endemic instability."

The DP put forward a set of proposals dealing with key problems like unemployment, housing and schooling.

The DP proposes that:

* Education should increase over five years to 25 percent of the Budget;
* Housing backlogs should be eliminated within 10 years;
* The police force should double in size over five years;
* Health should increase to 4,5 percent of the Gross National Product over five years;
* Pension parity should to be introduced immediately; and
* A crash programme to build homes and classrooms should be introduced.

49

The Barend Billions

A look at where all the money went in the past five Budgets

By BLAISE HOPKINSON
Business Staff

GOVERNMENT spending has more than doubled from R37,5 billion to R73 billion in the past five Budgets.

Each has been characterised by an increasing emphasis on bringing a better standard of living to the people of South Africa. Tax changes, increased spending on education, higher pensions and housing aid are a common thread.

FINANCE

Defence spending began to decrease in real terms but the overall outlay on "protection services" including defence, police, justice and prisons has shown a steady increase.

Finance Minister Barend du Plessis was appointed on June 28, 1984 and this year's will be his seventh Budget.

If we take a brief look at key points in the past five Budgets, the spending clearly mirrors political progress in South Africa. The shift from defence to socially orientated development is clear.

In effect, the Budgets chronicle the cost of change in this country.

1986 BUDGET

THERE was a 5 percent cut in income tax, a new deal for working wives and no increase in GST in the R37,5 billion Budget.

The minister said it was a Budget which addressed itself primarily to the people and their needs giving relief over a wide spectrum, where the need was greatest.

There was, in contradiction of this statement, a reduction in the bread subsidy from R200 million to R150 million signalling an increase in the price of the staple.

Education got a R1 billion boost and there was a R1 billion or 10 percent pay rise for public servants.

Key spending areas included:

- Education - R6,08 billion.
- Defence - R5,3 billion.
- Police - R1 billion.

1987 BUDGET

THERE were no tax changes but extra relief for struggling farmers and huge boosts in government spending on education, the police and defence in the R47 billion rand budget.

Mr Du Plessis said blocked foreign funds would be used to help finance the R10,9 billion shortfall between estimated revenue and expenditure.

He also announced the introduction on July 1 of a Senior Citizens Savings Bond earning 15 percent interest — the so-called "Granny Bonds".

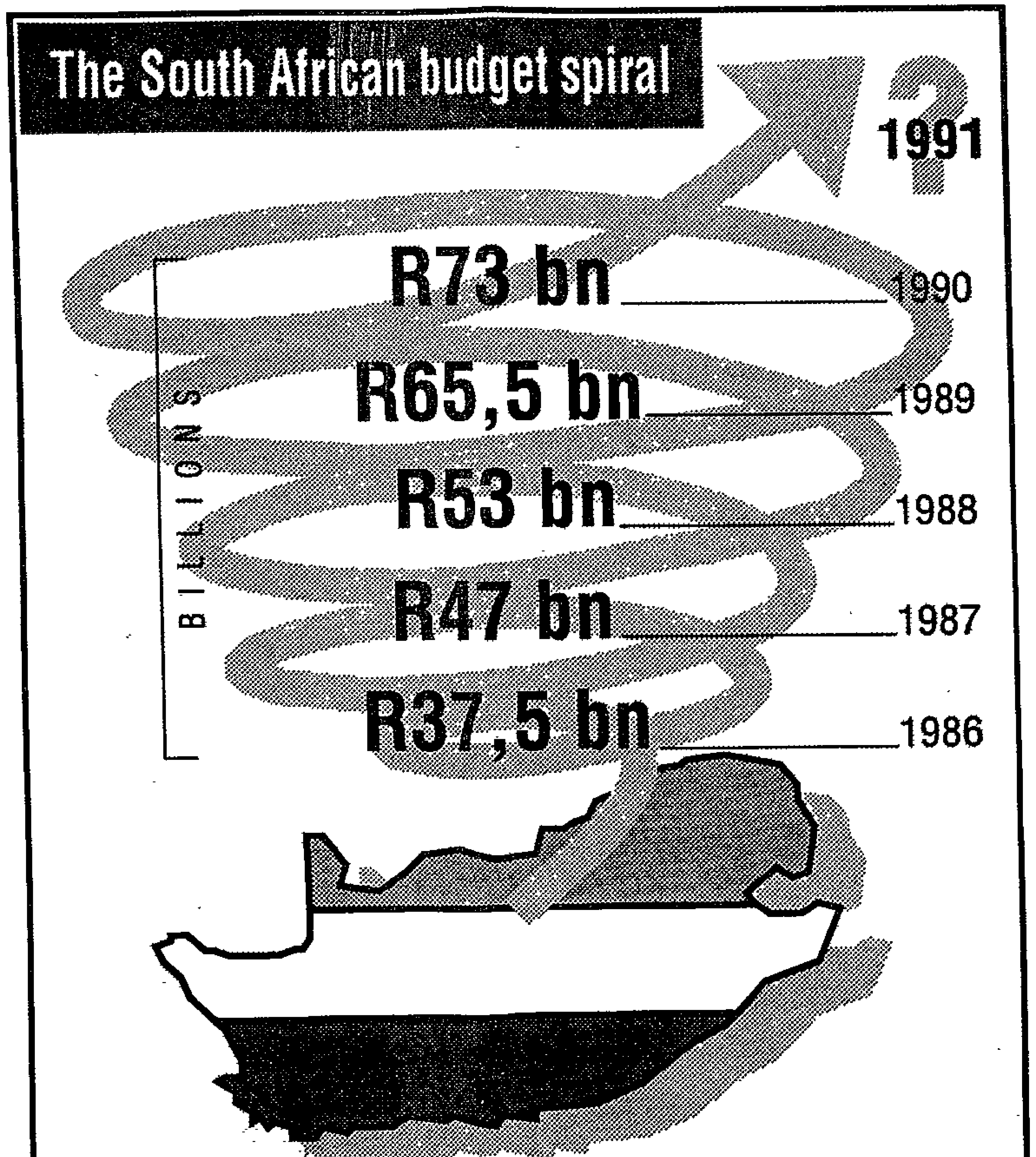
He also gave his boss, President P W Botha, a R26 000 pay hike to R135 000 in tax-free salary and domestic allowances.

Mr Du Plessis predicted the economic revival would continue through 1987 and 1988 and the real GDP would grow by about 3 percent in 1987.

The five-year expenditure plan starting with the 1987 Budget would have to give shape to the Government's declared aim of allowing greater room for private sector activity. The plan envisaged a relative reduction in total public sector spending from almost 38 percent of the gross domestic product in 1985/86 to about 34,5 percent in 1991-1992.

He said the Budget was aimed at boosting consumption and investment to raise production, employment and economic growth.

He added that inflation was not the number one target.



THIS graphic shows how Government spending has spiralled over the past five Budgets. The Minister of Finance, Mr Barend du Plessis, will present this year's Budget on Wednesday.

He predicted that if new demand inflation or wage inflation could be avoided the rate should gradually fall lower than its then current 15,1 percent.

- Defence - R6,68 billion.
- Police - R1,53 billion.
- Education - R9 billion.

1988 BUDGET

MODEST tax relief for most taxpayers but more expensive beer, spirits and cigarettes were major components of the R53 billion Budget.

It contained a comprehensive reform of the taxation system, reducing tax rates, scrapping or dramatically amending various rebates and introducing a better deal for most working wives.

It was described as a "Robin Hood" Budget because Mr Du Plessis gave more to the poor than to the rich.

The new-look Granny Bonds were introduced for people over 65 who invest R30 000 upwards for three years.

The marginal tax rate became payable for individuals earning R80 000 instead of the previous R60 000.

Company cars were to be taxed at a higher rate and non-resident's tax on interest was abolished.

Mr Du Plessis said the government placed a high degree of importance on granting tax relief.

- Education and training — R9,9 billion.
- Defence — R8,2 billion.
- Police — R1,8 billion.

1989 BUDGET

The 1989 Budget was characterised by the 1 percent hike in GST to 13 percent and the slapping of heavy duty increases on cigarettes, hard liquor, beer and soft drinks to help balance his R65,5 billion Budget.

The only good news was the increase in primary tax rebates which were of particular benefit to the senior citizen.

And married women, subject to the major qualification that they did not work for their husbands or any business connected with their husbands — were to be taxed separately for the first time on their full earnings — but not on their investments.

More bleak news was the increase in stamp duties, doubling costs of agreements and contracts including marriage contracts.

The increase in GST was expected to net the exchequer R1,1 billion extra to total about R15 billion a year.

It was announced that VAT legislation would be introduced during the session.

- Education — R11,8 billion.
- Defence — R9,9 billion.
- Police — R2,5 billion.

1990 BUDGET

IN the R73 billion Budget last year, the first of the "new South Africa", Mr Du Plessis said it was designed for a new era. He announced a cut in real terms in defence spending and a special fund to tackle the backlog in human services.

He also announced tax savings of R4 billion to taxpayers, tax relief on dividends and more money for pensions.

"Compassion and balance emerge in the expenditure side of the Budget. The Budget must help the developed and formal sector of the economy to create through economic growth, expanding opportunities for the developing and informal sector so that an increasing number of South Africans may raise their standards of life."

He added that the Budget provided a launchpad for fiscal policy as a key element in establishing the balance between restructuring and socio-economic development.

"I am confident that we shall be given greater thrust today on the trajectory to the new South Africa," he said in his speech.

The final announcement of the introduction of VAT in 1991 was made.

- Education - R13,3 billion.
- Defence - R10 billion.
- Police - R2,9 billion.

'Income distribution in SA not unusual for a developing economy'

Star 18/3/91

South Africa's income distribution is not unusual when compared with other countries at a similar level of economic development and urbanisation, says the chairman of Anglo-American, Julian Ogilvie Thompson.

Mr Ogilvie Thomspson, speaking at the South African Council of Business (Sacob) Transvaal Regional conference on Friday, said developing societies experienced high levels of inequality because they were developing.

"South Africa's difficulty lies not in the division between the haves and have-nots, but in the fact that apartheid, by limiting participation in the economy, has ensured that this division has occurred mainly along racial lines."

Commenting on the South African economy, Mr Ogilvie Thompson said the country's overall level of foreign indebtedness was currently low and improved access to foreign capital markets in the past year could bring a period of zero net outflows and a return to some inflows.

"Ironically, the ending of the outflows and a return of some inflows will now provide a significant support for the domestic economy just when the global economy is slowing."

Higher growth

With the change in direction in government economic thinking in the past few years, the macro-economic framework necessary for sustained higher growth in South Africa was now in place.

Mr Ogilvie Thompson warned, however, that without a major breakthrough, economic performance in South Africa in the next five years would probably be so poor that it would neither stem the disintegration of black society, nor meet minimum black socio-economic expectations, nor prevent a further decline in white living standards. — Sapa.

Is Stals quietly giving up the fight against inflation?

B/Day 18/3/91

GRETA STEYN

49

LESS than a week after Reserve Bank Governor Chris Stals announced a cut in Bank rate, disturbing inflation figures were released. At 15,5%, the rate of increase in the producer price index (PPI) is uncomfortably close to its peak of 15,8% at the start of Stals's war against inflation. Is the governor quietly giving up the fight? What are the odds on him winning a decisive victory?

Before Stals took the monetary policy reins, the central bank's mission included the pursuit of economic growth. Stals removed that objective last year, and honed in on the fight against inflation and for a stable exchange rate. Rejecting the short-term, cyclical approach of his predecessor, he declared the Bank had a responsibility to maintain the domestic and external value of the currency. It had no responsibility for getting SA out of recession.

Yet Stals's interest rates cut contradicts this hardline approach. Stals acknowledged monetary policy "must have sympathy for the many hardships being suffered by some sectors of the economy in the present adverse economic climate".

But there can be little room for sympathy when the prime focus of monetary policy is to combat inflation, as the "monetarist experiments" of the early 80s in Britain and the US showed.

In Britain, the Thatcher government wanted to squeeze inflation out of the system by cutting the money supply and reducing government spending. It succeeded in bringing down inflation from an average of 18% in 1980 to 4,6% in 1983. At the same time, it suffered a worse collapse in output and employment than in the Depression of the 30s.

Manufacturing employment fell by 21% — or 1,5-million jobs — between 1979 and 1982. Total employment was down 9% — 2-million jobs — over the period. Real GDP fell by 2,2% in 1980 and a further 1% the next year. In the first year of the monetarist experiment, inflation rose, peaking at 22% in May 1980.

Scottish academic John McInnes wrote: "Critics of Thatcherism ... saw it as a programme to use high unemployment to force down wage rates and therefore labour costs in order to boost profits and increase competitiveness. Put in rather different terms, this was also what the monetarists expected.

"Squeezing inflation out of the system through controlling the money supply would force employers and unionists to bargain down wages in order to maintain production, profits and employment. By making money tight, and making it clear that it would not intervene to stop unemployment rising, the government would force workers to price themselves back into jobs. Thus the vicious circle (of forces) fuelling an inflationary spiral would be broken."

The US monetarist experiment had a similarly dramatic effect on jobs, with the level of unemployment in 1983 67% higher than four years previously. Nominal wage increases fell and IMF statistics show inflation was down to only 3,2% in 1983 from 11,4% in 1979.

Ten years after the rest of the world, SA embarked on its own version of the "monetarist experiment" — an anti-inflation strategy relying heavily on high interest rates. But the SA experiment takes place at a time of rising political and economic expectations.

Stals realises SA cannot afford to pay the same price in unemployment that the major industrial economies did to beat inflation. He admits "inflation cannot be cured by monetary policy alone, at least not without intolerable hardships".

In theory, high interest rates will put some firms out of business and force others to become more efficient. This, in turn, will dampen the demand for labour. As a result, the rate of increase in nominal wage levels should fall, pulling the inflation rate down.

The process will be reinforced by the depressing effect on demand emanating from high interest rates. A tight monetary policy should also have a positive effect on the balance of payments, preventing inflationary pressure caused by the depreciating exchange rate.

Can this be achieved without inflicting "intolerable hardships"? What is the ideal interest rate?

In spite of 18 months of relatively high real interest rates, little progress has been made in combating inflation. The rate of increase in the consumer price index (CPI) is little more than a percentage point lower than its previous cyclical peak. This places a question mark over the effectiveness of monetary policy in combating inflation — especially a policy tempered by sympathy and the need to avoid "intolerable hardships".

Why did inflation remain stubbornly high in the face of 18 months of tight monetary policy? Stals answered that question in his statement: "Various cost-push factors such as the temporary fuel price rises in the wake of the Gulf crisis and excessive increases in wages and salaries continued to support a relatively high level of inflation, and also propped up obstinate expectations of further price rises."

Stals has repeatedly noted that the labour market is an essential link in the strategy. "One major further action is required, and that is for wage and salary adjustments also to come into line," he said last year, noting that domestic demand was not exerting any undue pressure on prices. The Reserve Bank's December Quarterly Bulletin laid much of the blame for inflation on "wage pressures" in a cooling economy.

Figures released by the Labour Research Service show the labour market has not behaved as the classical model says it should. Labourers won wage increases averaging 21,9% in the period July to December 1990 against average inflation of 14,2% over the same period. This occurred despite Stals's and Finance Minister Barend du Plessis' repeated calls for wage restraint to help the fight against inflation.

It is only logical to expect unions to continue fighting for large real wage increases, especially against a background of rising expectations. The IMF, in its confidential report on the SA economy last year, noted the danger that increased claims on the available national income could cause an upsurge in inflation in the "new" SA. Stals's moral suasion is unlikely to cause the unskilled and semi-skilled section of the workforce to scale down its claims.

Stals's statement clearly linked the next cut in the Bank rate to evidence of "real" progress in combating inflation. But it is doubtful that the current level of interest rates is high enough to make a visible dent in inflation — in reality, reducing the rate to single figures.

Minimising economic hardships might become an overriding factor even before progress is achieved. At best, monetary policy will check further rises in inflation. But to believe SA is poised to enter an era of single-digit inflation is wishful thinking.

The engineer who taught politicians about business

B Day 19/3/91 (49)

WIM de [illegible], described variously as SA's economic messiah, a financial authoritarian or an enemy of the free market, died yesterday a few days before his 70th birthday. However his protagonists and critics might have described him, no one would call him anything but straightforward and honest in an era when business expediency all too often takes precedence over ethical behaviour.

De Villiers, Administraton and Economic Co-ordination Minister, was born in the eastern Free State hamlet of Jacobsdal on April 4 1921. In 1938 he matriculated at Grey College, Bloemfontein, and enrolled at UCT where he completed a doctorate in engineering, which, in those days, led to a job as a junior switchboard attendant at the Pretoria power station.

Last year he recounted in Parliament how he had personally experienced discrimination. Forty years ago, he said, it was extremely difficult for Afrikaners to get jobs and there were no Afrikaans university engineering faculties.

Spectacular

De Villiers was one of a band of entrepreneurial managers who exploded the myth that business was the preserve of English-speakers. In 1959 he entered the English-dominated mining industry and a meteoric business career was launched.

After joining Anglo American, he was posted to what was then Northern Rhodesia in 1950 to be employed as a power station engineer. Within a very few years his organisational talents were recognised and he was promoted to engineer in charge of technical research and development of Anglo's Nchanga copper mine.

In this capacity he transformed the mining philosophy of the Copper Belt by eliminating labour-intensive "gang" mining and replacing it with small but well-trained teams. Within two years he halved Nchanga's labour force, increased production and contributed to a doubling of the mine's profits. Unwittingly, De Villiers had paved the way for the copper mines' later Africanisation when independence came to Zambia.

These spectacular successes resulted in Anglo bringing him back to SA in 1961 to introduce the concept of concentrated mining in its gold mines. Pilot projects were started clandestinely in several mines on the Rand and in the Free State in 1965 where De Villiers demonstrated the feasibility and profitability of his methods, provided the mines could have more "resident" skilled black labour rather than the usual masses of poorly skilled migrants. Political considerations overruled economic wisdom and the De Villiers' "experiments" were abandoned.

He was promoted to the position of MD of LTA Engineering, where he played a pivotal role in establishing the consortium which built the giant Cahora Bassa dam in Mozambique.

But he was never really happy in the very Brit environment at Anglo, and gladly accepted the invitation to join the Sanlam stable in 1969 which led to his moving to General Mining in 1970, becoming MD the following year. In that position he was instrumental in launching the hotly contested and successful takeover of Union Corporation which resulted in the formation of Gencor. His reward was the executive chairmanship of Gencor.

☐ DE VILLIERS

During his 12 years at Gencor, De Villiers revitalised the group, increasing profitability and its positioning in the market. His labour policies were more *verlig* than they had previously been, and he constantly exhorted management to follow his philosophy of training and using manpower to the fullest extent possible.

He was pushed into "early retirement" in 1982 after a bitter dispute in which he opposed Sanlam's Andreas Wassenaar's proposals that Gencor acquire a faltering computer company controlled by Wassenaar's son. This led to an open confrontation between Gencor's two majority shareholders, Sanlam and Rembrandt, which soured relations between Afrikanerdom's two largest groups for years afterwards.

Government, however, did not allow his talents to lie fallow. He served on several commissions of inquiry, including those into Eskom and Transport, Posts and Health services. As chairman of a 1983 commission of inquiry into Eskom, De Villiers managed to persuade then Prime Minister P W Botha to refuse Eskom's request for R105bn for two new power stations. He did so because of his then unfashionable belief that SA was generating excess electricity — a belief only recently fully vindicated when the utility mothballed 10 power stations. At the time, however, he was severely criticised for unwarranted interference.

Other directorships he held included Perskor, the Atomic Energy Corporation, Reserve Bank, Development Bank, the Armaments Development and Manufacturing Board and Armscor. He was also chairman of Dagbreekpers, Perskor's controlling body.

In 1985 De Villiers was the man selected to spearhead SA's privatisation and he was appointed government's special adviser.

In September 1989 he was appointed Minister for Administration and Privatisation and became a nominated MP. Insisting he was no politician, De Villiers was freed of party political duties to concentrate on his Cabinet portfolios.

His major privatisation achievement was Iscor, while scores of other state utilities — Sats, Eskom, Transnet, Sasol and Foskor among them — were prepared for privatisation. Under De Villiers' tutelage Transnet and Eskom were successfully converted into strongly business-orientated organisations.

There were fewer kudos, however, for his directive last year to these two parastatals to restrict tariff increases in De Villiers' one-man anti-inflation drive. The directive provoked allegations of over-interference, with one financial magazine even labelling him an enemy of the free market.

At 69, the oldest Cabinet member, De Villiers embarked last year on the daunting task of fundamentally restructuring SA's economy when he was given the portfolio of Economic Co-ordination.

Problem

His vision was to cash in on SA's comparative advantages — its minerals, its good agricultural base and its excess capacity in transport and power. He intended to bring down inflation to make SA competitive in international markets. A supply-side economist, he vigorously attempted to boost exports in an effort to regenerate an ailing industrial sector.

"Our biggest problem is unemployment. The aim of any strategy must be an employment-creating economy. We are exporting our employment opportunities," he said in a recent report.

Despite his responsibilties, De Villiers succeeded in maintaining a low profile.

On Wednesday it was announced that De Villiers would also take on the weighty Transport portfolio on April 1. He collapsed on Thursday while making a speech in Cape Town.

His death yesterday has left much of his work undone. Changing political demands have left privatisation firmly on the back burner and most of his restructuring plans remain unimplemented — and even unknown to the public.

De Villiers leaves his wife Francie, two sons, a daughter and six grandchildren.

No agreement on size of deficit before borrowing

(49)

B.Day 19/3/91

SHARON WOOD

ECONOMISTS have widely differing expectations of how large the government deficit before borrowing will be in tomorrow's Budget — predictions range between 2,5% and 3,2% of GDP.

They agree that in the 1991/92 Budget there will be a shift in expenditure away from defence towards social and welfare spending.

But government will be constrained by its commitment to reduce personal and corporate tax burdens, which will depress urgently needed revenue, they say.

Sanlam's estimates lie at bottom of the range with a predicted budget deficit of approximately 2,5% of GDP. Expenditure is expected to rise by 11% and revenue by 11,5% from the previous year's Budget.

The comparatively high growth in revenue is based on existing tax rates. Sanlam economists say that a reduction in the marginal tax rate is unlikely because government cannot afford the associated loss of about R2bn in revenue.

Sanlam does, however, anticipate tax relief on fiscal drag, to counter the effect of inflation.

Old Mutual economist Dave Mohr also predicts a 2,5% budget deficit as a percentage of GDP but expects implementation of tax reform to result in a smaller 10% growth in revenue.

Mohr expects expenditure to grow by about 12% because of proposed social and security spending.

At the top end of the range Bankorp economist Emile van Zyl predicts that the deficit as a percentage of GDP will amount to around 3,2%. Expenditure is expected to rise by 11,1% and revenue by 8,0% — the lowest expected rate of growth in revenue surveyed by Business Day.

Van Zyl attributes the low growth in revenue to a conservative approach by government to the implementation of VAT later this year.

A reduction in the marginal tax rate and compensation for fiscal drag will also pull down revenue, he says.

Government will probably budget for a low growth in expenditure to indicate its intention to enforce a strict fiscal policy, he says.

UBS's predictions are in the middle of the range. UBS economists expect the budget deficit to amount to about 3% of GDP, with an increase of 12,5% in expenditure and 11,0% in revenue.

Possibility

They say government cannot meaningfully reduce taxes because of the need to increase government savings to meet huge social demands.

Economists say this will be a very important Budget because it will set the scene for major political changes in the 1991/92 fiscal year.

There is a real possibility that this will be the last budget that the National Party delivers as the sole governor of SA, they add.

The International Monetary Fund sets a 3% ceiling on government budget deficit as a percentage of GDP. Any percentage beyond this figure means the government's role in the economy stunts private sector growth, the IMF says.

...D ...NCE	ADJUSTMENTS		ADJUSTED TRIAL BALANCE	
CR	DR	CR	DR	CR

Billions in private funds to be tapped

BDay 19/3/91 49

A SPECIAL supplement to tomorrow's Budget is expected to outline government's new plan to facilitate the transfer of billions of rand of private funds into socially desirable investments.

KEVIN DAVIE

The supplement flows from an investigation by Japie Jacobs, Finance Minister Barend du Plessis's special adviser on institutional savings and social investments.

Jacobs was given a brief by Du Plessis to draw up a co-ordinated plan to facilitate the movement of funds from potential sponsors to recipients. His investigation included input from the Life Offices Association (LOA), the Development Bank, the Small Business Development Corporation (SBDC) and the Independent Development Trust (IDT).

The need to channel institutional savings into social development has been a hotly debated issue for some months. Political parties such as the ANC have said the life and pension industry should invest a portion of its assets, say 10%, in housing, health and education.

The LOA has conducted its own inquiry but has argued strongly against a return to a policy of prescribed investments. Its view is that a market return on investment is essential, and that the paper should be tradeable. With adequate underwriting by government, billions of rand of private savings could be released for development spending, industry sources say.

A Finance Ministry source said yesterday the supplement to the Budget would contain general comments on the contractual savings industry.

The Cabinet, meanwhile, has been briefed on a major new confidential plan by Old Mutual and Nedcor which recommends that sweeping changes be implemented before 1994, when the new constitution is expected to come into effect.

The plan envisages a massive housing, jobs, electrification and education programme which would have to be put in place immediately to stem the disintegration of black society, meet minimum black socio-economic expectations and prevent a

☐ To Page 2

Private funds

BDay 19/3/91

☐ From Page 1

decline in white living standards.

The plan has also been presented on a confidential basis to the ANC, Inkatha and the PAC, but is yet to be completed, Old Mutual and Nedcor sources say.

Pierre Wack, a leading scenario planner in the Old Mutual and Nedcor report, also played a prominent role in developing Anglo's "high road, low road" scenarios which were popularised by Anglo executive Clem Sunter.

The Old Mutual and Nedcor scenario argues that SA faces a Beirut situation unless there is rapid economic growth within the next few years. A two-stage growth plan is proposed so that desired political change is not fatally undermined through lack of economic growth.

The first, or "kick start", phase involves investment in poor communities to give the economy a rapid boost; the second calls for an export-oriented strategy to make this growth sustainable. 49

The first phase has four parts including the provision of housing on a massive scale (200 000 homes and 400 000 serviced sites every year for the next five years), the electrification of a million homes a year for five years, a massive skills training programme to be partly financed by tax breaks for companies which do the training, and the creation of a government-funded jobs corps of one-million workers to build houses and install electricity.

The plan could create 800 000 jobs (excluding the jobs corps), the scenario planners say.

Hidden spending on parastatals 'distorts Budget'

BDay 19/3/91 (49)

BILLY PADDOCK
in Cape Town

TOMORROW is Budget Day and all media will devote substantial time and space to record its every detail. Economists, businessmen and politicians will analyse its every nuance and proclaim on its merits or otherwise, and base their strategic planning on it.

But all this intense activity is concentrated on a presentation representing only one part of central government's financial affairs. While the Budget is by far the most important exposition government gives each year about financial matters, it gives very sparse information about the off-Budget parastatal sector.

The Budget tomorrow will reflect just the allocation from central Budget to the parastatals. The state of those parastatals will remain so clouded that even the most knowledgeable analyst will not be able to get a comprehensive picture of government's financial affairs.

Financial affairs of the parastatals are kept apart from the Budget. Details are published at various dates throughout the year, usually up to two years after the end of the relevant financial year. Parastatal spending in any one year is not the same as the amount allocated in the Budget, and they also have alternative sources of revenue. Once the money is allocated to them it disappears and, for all but the expert, reappears years later.

The Central Statistical Service (CSS) publishes tri-annual expenditure figures. But these statistics are also always out of date.

Last year the CSS announced it would publish its first consolidated list of public entities together with details of their financial affairs towards the end of this year.

The number of parastatals is not easily obtainable. Finance director-general Gerhard Croeser said on inquiry it was more than 100. But he could not give a precise answer, nor could he give a ballpark figure of the amount being administered off-Budget. Nor could financial administration chief director Coen Kruger. In 1987, an IMF report said 114 bodies were being administered off-Budget.

A further complication is the lack of agreement within the state on what constitutes a parastatal. The IDT is regarded as one by the CSS, but the Reserve Bank does not include it on its list. Croeser explains it was decided the IDT should remain off-Budget for political reasons, although its primary source of initial income was from government. This sector can be said to include the IDT (R2bn), the IDC, Transnet, Eskom, the CSIR, the SABS, the SADT and, in a year or so, the Post Office.

Nobody in the Finance Department wanted to hazard a guess on the total value of these enterprises, or how much they spent. However, after some research and juggling off-the-record guesstimates, it would appear that their total expenditure is about 15% of on-Budget expenditure, and their asset value about R91bn.

Auditor-General Peter Wronsley is of the opinion that this situation is a serious flaw in our financial system. Expenditure is severely distorted and the integrity of the Budget is affected because there is no clear picture of state debt. If individual parastatals overspend their budgets by just 10% it could have a significant effect on the fiscus.

Finance Department sources said what was required was that if the practice of administering funds off-Budget were to be continued then consolidated figures for these should be submitted with the Budget.

Government is aware of the problem. Finance Minister Barend du Plessis, during his Budget speech two years ago, made mention of the negative effects. But while there have been many studies there have been few tangible changes. One recent exception was that of the National Energy Council being pulled back into The Department of Mineral and Energy Affairs.

Croeser said in the past it was necessary to operate off-Budget companies because of sanctions. Government did not want too much information on international deals open to public scrutiny.

Over the years these groups, like the NEC and IDC, had tended to try and become independent. Government policy was to centralise the Budget and wield stricter control over scarce resources.

SA's isolated position had now changed and, as a result of the late Administration and Economic Co-ordination Minister Wim de Villiers' investigations and restructuring plans, he expected things to change.

He said government wanted as much on Budget as was possible because it would make administration more coherent, and was following IMF recommendations in this respect. Government could then wield more control over expenditure, and contradictions such as in salary scales could be avoided.

He said this applied to those entities where the state was the major funder. Those that fell outside this net and were raising revenue predominantly from other sectors would, over time, be privatised.

Until that happens, however, the Budget will give us an incomplete picture of what the State is doing with our taxes, and parliamentary and other scrutiny will be limited to piecemeal analysis.

LETTERS

Reserve Bank functions reallocated in reshuffle

BDay 20/3/91

LESLEY LAMBERT

CAPE TOWN — Reserve Bank Governor Chris Stals has reallocated the central bank's main functions following the designation of B P Groenewald and Jaap Meijer as replacements for retiring Deputy Governor Jan Lombard.

Their appointments become effective on May 1.

As Senior Deputy Governor, Groenewald will deputise as Governor in Stals's absence. He will retain his current responsibility for the internal administration and organisation of the Bank and assume new responsibilities for internal strategic planning and broad policy decisions.

He will remain in charge of the Departments of Administration, Finance, Personnel and Secretariat and Internal Audit. He will also continue to supervise the Exchange Control Department.

As Deputy Governor, Meijer will be responsible for all the economic and statistical services of the Reserve Bank and the Information Technology Department. He has also been assigned the task of maintaining relations with other central banks, including the monetary authorities of the members of the Common Monetary Area in Southern Africa.

Meijer will take charge of the Bank's relations with international financial institutions, such as the IMF, the World Bank and the Bank for International Settlements.

Current Deputy Governor Chris de Swardt will remain responsible for the operations of the Bank's Money and Capital Market Department and the Bank Supervision Department and will take on additional responsibility for the operations of the Gold and Foreign Exchange Department.

He will also be responsible for relations with overseas banks and take charge of the Bank's foreign loans and the administration of SA's debt standstill arrangments with creditor banks.

FLASHBACK: this was the scene at Jan Smuts Airport on March 7 when 97 exiles returned from Lusaka. Another batch have delayed their return.

Budget does not excite us - groups

49

Sowetan 20/3/91.

TOMORROW is Budget Day, but political organisations are not excited.

PAC spokesman Mr Barney Desai said Finance Minister Mr Barend du Plessis could do "what he wants".

"We don't think that the Government is legitimate and putting myself in its position is wrong.

"We want the people to be in control of the Budget and do not want them to expect any largesse from an illegitimate regime."

An ANC spokesman on the economy said: "We have not worked out a detailed expectation of the Budget because our view is that the decision on how to spend the money still lies with the National Party."

But the ANC wants Du Plessis to cut defence spending.

"Of course there needs to be an increase in expenditure in health services and housing. These are some of the key issues we expect the Budget to focus on," he said.

South African Communist Party spokesman Mr Essop Pahad said the Budget would be the last one delivered in a white Parliament.

"The immense problems facing the country can only begin to be dealt with if Parliament is a democratic institution and representative of the people," he said.

Any resources allocated to alleviate the country's socio-economic problems would be welcomed, Pahad said. - *Sowetan Correspondent.*

FLASHBACK: this was the scene at Jan Smuts Airport on March 7 when 97 exiles returned from Lusaka. Another batch have delayed their return.

Exiles' return on hold

THE second batch of exiles returning to South Africa, due on March 21, has been postponed. 330

This is pending a Government decision on the role of the United Nations High Commission for Refugees, the committee organising the return of exiles said yesterday. Sowetan 20/3/91

In a statement, the National Co-ordinating Committee for the Repatriation of South African Exiles said the Government was due to decide today whether the UN body could participate in the programme. - *Sapa.*

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Housing and education likely to gain

(49)

Sowetan 20/3/91.

ISMAIL LAGARDIEN and ALI MPHAKI

THERE is widespread speculation that black education and housing and the unemployed would benefit most when Minister of Finance Mr Barend du Plessis announces his Budget today.

Tax experts have predicted a one percent drop in the maximum marginal tax rate.

They expect it to be reduced from 44 to 43 percent.

As the majority of individual traders are the small black businessmen, the expected tax relief will help stimulate their involvement in economic activity.

Independent tax consultant Matsheru Matsheru said the expected tax reduction would improve after-tax earnings and would enable many to save and invest.

Earlier this year Minister of Education and Development Aid Dr Stoffel van der Merwe said socio-economic spending would receive top priority.

Simultaneously, less money could be allocated for defence.

The most Van der Merwe was able to say was: "One will see a greater deal of socio-economic spending."

Reports say a defence spending cut of about R1,5 billion is expected.

Perhaps the single area that would benefit most is housing and/or the resettlement of communities.

The Government last week announced its plans for land reform, part of which was the conversion of leasehold properties to freehold in urban areas.

Broad details were also announced of a plan to aid the settlement and development of aspirant black farmers.

It is believed certain basic foodstuffs such as maize products, rice, bread and milk would be exempted from tax.

This would, however, come as a disappointment to millions of poor people who had hoped that all food would not be taxed.

NEWS FOCUS

No secret about the plan for tomorrow

(49)

B|Day 20/3/91

KEVIN DAVIE

ONE of this country's worst-kept secrets is the confidential Old Mutual and Nedcor scenario plan for SA.

The Cabinet, politicians, businessmen and editors have been briefed, there have been some reports on the plan, and aspects have been publicly criticised by Anglo chairman Julian Ogilvie Thompson.

Yet the plan, which so far has been presented in lecture form only, is still to be completed as a written document. Nedcor sources say they expect it to be released next month, while an Old Mutual source indicates there is no timetable for the publication of the plan.

The major thrusts have already been aired by Ogilvie Thompson, at Sacob's southern Transvaal regional conference last weekend, by Azapo, and by the Labour Research Service (LRS), a Cape Town-based service used mainly by the trade union movement.

The chief architect of the plan is a Frenchman, Pierre Wack, who has made a name for himself as one the world's foremost scenario planners. Shell and Anglo have used his expertise, the latter study resulting in Clem Sunter's celebrated "winning nation" scenario.

The main difference between the Anglo and Old Mutual/Nedcor scenarios is that the latter details what must be done within the next few years to get on the high road of economic growth. The Anglo scenarios dealt with the same issues, but in general rather than specific terms.

SA's downside potential is an African version of Beirut, according to the Old Mutual/Nedcor scenario. Massive interventions are needed now to prevent this. If successful, the plan would create hundreds of thousands of jobs and boost GDP growth by several percentage points.

The planners believe SA will have its new constitution by 1994/95, but argue that a two-stage solution needs to begin now for the new negotiated order to succeed. The first depends on a kick start to get the economy going, the second involves consolidation to change into higher gear.

Skills

The kick start has four parts:

☐ The provision of housing on a massive scale. The plan calls for 200 000 houses to be built and 400 000 serviced sites to be provided every year until 1995. Government would spend R2,4bn annually in subsidies, and financial institutions a further R2bn;

☐ The electrification each year of one-million houses with pre-payment meters, at a cost of R2bn. The housing and electrification components of the package will add an estimated 3,5% to GDP;

☐ The restructuring of education to provide state-funded compulsory free primary education and a state/private sector partnership to fund skills-orientated secondary education. Participating companies would get tax breaks to encourage investment in skills training; and

☐ The creation of a community-based, government-funded jobs corps to provide work for the lost generation. Accommodation would be provided, there would be a small wage, and training in building and other skills would be given.

The gear change, or phase 2, calls for the restructuring of the economy to push manufactured exports.

The Bargaining Monitor of the LRS says the plan depends on social compacts (peace treaties) to succeed. Unions will have to sign these compacts with companies and the state. Strikes need to be reduced, there will have to be wage restraint, and violence will be banned.

● OGILVIE THOMPSON

Communities must likewise agree not to launch boycotts. Ogilvie Thompson said at the weekend the Old Mutual/Nedcor planning team believed SA could not rely on foreign capital and needed forced saving. Further devaluation of the rand was required to encourage exports.

He said the proposals "were compatible with the general direction government and business are already taking. Both conclude that much greater social investment has to take place despite a tight economic policy and environment."

But Ogilvie Thompson said while he broadly supported the proposals, he did have some criticisms.

One was that the analysis tended to regard SA's mineral resources as a burden, as they have retarded potential developments elsewhere.

He said the appropriate mix for SA should be the efficient further development of the minerals sector, including beneficiation where possible, and complementary efforts to develop manufactured exports.

Oglivie Thompson said problems could arise from stressing the need for forced saving rather than mass consumption, which was needed to achieve a larger domestic base.

Another problem was that currency depreciation and lower interest rates would have inflationary implications: "Social compacts in this scenario may be difficult to achieve."

A further criticism made by Ogilvie Thompson is of the suggestion by the planners that there should be a return to prescribed investments, although at market-related rates.

Budget will boost social spending

Barend set to give teeth to FW's reforms

BlDay 20/3/91 (49)

BILLY PADDOCK

CAPE TOWN — Finance Minister Barend du Plessis is expected to give teeth today to government's commitment to address disparities in social spending.

In today's Budget, building on President F W de Klerk's sweeping reform announcements, Du Plessis is likely to announce that about R35bn is to be allocated to social upliftment.

Expenditure on education, housing, health, welfare, poverty alleviation and pensions is expected to increase from 38% to about 42% of a total Budget of R85bn, and will include the R1bn contingency fund and R600m in food relief.

The past year's political developments have placed the focus squarely on social spending and how to address backlogs created by apartheid policy.

However, Du Plessis faces constraints in having to introduce a major new system of indirect taxation, VAT, a depressed economy and an obligation to fulfil commitments to reduce tax burdens on individuals and companies in order to encourage supply-side growth.

Reducing import surcharges by about 30% will also result in a loss of revenue.

However, government is unlikely to offer real tax cuts.

A one percentage point reduction in the marginal rate from 44% to 43% would be illusory, as Du Plessis would, in effect, be handing back the bonus accrued to the Treasury as a result of fiscal drag.

Likewise, companies will end up paying more tax even if they are given relief. It has been estimated that companies pay only about 35% tax due to loopholes in the system. The last loophole was plugged by phasing out tax credits on debtor allowances, resulting in an estimated extra R2bn going to the Treasury each year.

Speculation has it that company tax will be reduced by about five percentage points from 50%.

Government has already announced that because of the changed political circumstances, there is no longer a need to build up stockpiles of strategic goods. Du Plessis used R319m from the National Supplies Procurement Fund to meet shortfalls in

To Page 2

Budget Special

BUSINESS Day will produce a Budget Special tomorrow, including a pull-out supplement with the full text of Finance Minister Barend du Plessis' speech. For all the news on the Budget, plus expert assessments and the handy supplement to keep for future reference, don't miss Business Day.

Budget

BlDay 20/3/91 (49)

From Page 1

revenue for social expenditure in the Additional Appropriation. This money was supposed to come from the proceeds of privatisation, which did not materialise.

Government is now in a position to reap the benefit of a once-off windfall by selling off oil and other stockpiles built up to counter sanctions.

These funds, plus redirected funds earmarked for building up stockpiles, and savings from defence and public works budget cuts, will be used to fund social spending.

The major unknown factor in the Budget is the introduction of VAT to replace GST. Government sources have indicated that expectations of a low rate are unrealistic and it is understood the rate will be pegged at about 12% and kept there for a number of years.

The IMF team that has been in SA to advise on VAT's implementation is understood to have suggested this figure — taking into account that government is phasing out tax on capital goods.

There is also a plan to introduce tax on interest of over R1m which would bring in an extra R500m a year to the Treasury. This, however, may not be announced during the Budget speech.

For the first time, government will be presenting a Budget for 35-million people — as opposed to the 5-million whites who have taken precedence over the past several decades.

On the expenditure side, it is expected that about R1,8bn will be allocated for a job-creation scheme in which the unemployed will be given jobs building schools and clinics to overcome the severe backlogs in black education and primary health care.

Former Administration and Economic Co-ordination Minister Wim de Villiers had apparently worked out a plan to create thousands of jobs at "reasonable pay rates" with on-the-job training to develop skills.

Planning and Provincial Affairs Minister Hernus Kriel also indicated government had identified 107 000ha of land for informal housing settlements in metropolitan areas. He also said provision was going to be made for a once-off capital grant scheme.

To offset the effects of VAT on food, government is understood to be considering food assistance schemes — in the form of subsidies for white maize products — and feeding schemes.

Government insists that the equalisation of pensions is impossible — but Du Plessis will announce a programme to narrow the gap.

The retention of tight fiscal and monetary policy is certain and it is expected that the deficit before borrowing will be higher than last year's but still within the IMF's recommended ceiling of 3% of gross domestic product.

See Page 3

Social projects win Budget nod

(49)

B'Day 20/3/91

SHARON WOOD

MOST economists would like to see a restructuring of Budget expenditure towards social projects, but without an increase in total government involvement in the economy.

In a snap survey conducted yesterday by Johannesburg's branch of the London School of Economics the majority of economists said they expected the government deficit to be in the vicinity of 3% of GDP.

On average the economists expected budgeted government expenditure to rise by 12% in the 1991/92 Budget but expected the actual increase in expenditure to be between 1% and 2% above the budgeted figure, in the vicinity of 13,5% and 14%.

Most economists advocated the alleviation of the personal income tax burden but were sceptical as to whether the reduction in income tax would offset the effect of fiscal drag.

A majority supported a tax policy of increasing indirect tax and decreasing direct tax.

Several economists suggested that this could be the last "traditional" Budget in SA. JCI group economist Ronnie Bethlehem pointed out that in future other political movements, such as the ANC and Inkatha, could have a much bigger say.

Frankel Max Pollak Vinderine chief economist Mike Brown said the forthcoming Budget could be the last conventional one. Future budgets would be less meaningful as off-Budget public funds would play an increasing role in total public expenditure, he said.

Sanlam chief economist Johan Louw pointed out the need for economic growth and investment. Government should create a climate in which personal saving could be promoted to provide the internal resources for investment, he said.

Fergusson Brothers chief economist Gad Ariovich argued that government should pay more attention to quality and effectiveness of government expenditure and not only to the amount of money spent.

He said the proportion of SA's social expenditure in total government spending was already among the world's highest. But the final outcome provided by expenditure on education, housing, health care and social security was not very impressive by international standards.

Contrary to the other economists, Bureau of Economic Research head Ockie Stuart said government should adopt a stimulatory fiscal policy to address social needs. This should be on a moderate scale because of possible inflation rate escalation.

Pretoria University Economics Department head Geert de Wet said government expenditure should be as small as possible, as this would be better for the economy. He said the Budget was a balance sheet of government financial activity and not an economic policy tool.

Peace will elude SA if poverty is not checked — prof

49

B/Day 20/3/91

GERALD REILLY

PRETORIA — Peace and reconciliation in SA would be beyond reach unless aggressive policies to attack poverty were instituted, Unisa's professor of economics Stef Coetzee said last night.

In his inaugural lecture he said the situation of the poor had been aggravated by increasing capital intensity in the formal sector and the high level of unemployment since the mid-70s.

The average labour absorption capacity of the formal sector had declined from 73,6% between 1965-70 to 12,5% for the period 1985-89.

This implied that only 125 of every 1 000 entrants a day to the labour market could be accommodated as full-time employees during this period.

Upswings

Between 1974 and 1989 the formal sector created only 1,2-million jobs while the labour force increased by 4,7-million.

Coetzee said the percentage of the labour force outside the formal employment sector had risen to 41,9%.

"Unemployment has continued to rise during upswings in the business cycle which strongly indicates unemployment has assumed structural characteristics," Coetzee said.

Urban Foundation research indicated the metropolitan population would increase from 12-million to 32-million between 1980 and 2010, while the total number of (metropolitan) blacks would quadruple from 6,6-million to 23,6-million over the same period.

Coetzee said the foundation also estimated that 42% of the black population would be in the under-14 age group, and that some 7-million were already living under informal housing conditions — 2-million in the PWV area.

He said the SA economy had shown persistent decline in growth since the 70s and was characterised by a highly unequal distribution of wealth and income, rising unemployment, poverty and socio-economic imbalances and backlogs.

The economic growth rate measured by the GDP declined from an average of 5,5% between 1960-74 to 1,8% in the 1975-88 period. During this period per capita income declined by 1% a year.

The attack on poverty would have to go beyond the efficient allocation of scarce resources. It would have to address issues such as access to and control of resources backed by changes in the economic, social, political and institutional mechanisms to bring about a rapid improvement in the living levels of the poor.

Coetzee said the costly duplication of apartheid structures had a negative effect on the economy.

Government interventionist policies, such as those aimed at promoting strategic industries and import substitution, had also served to undercut efficiency.

"The plethora of legislation to keep the political system intact has had a severe impact on the control over resources and access to opportunities."

In addition, Coetzee said, government expenditure had favoured the affluent minority leading to a skewed allocation of resources.

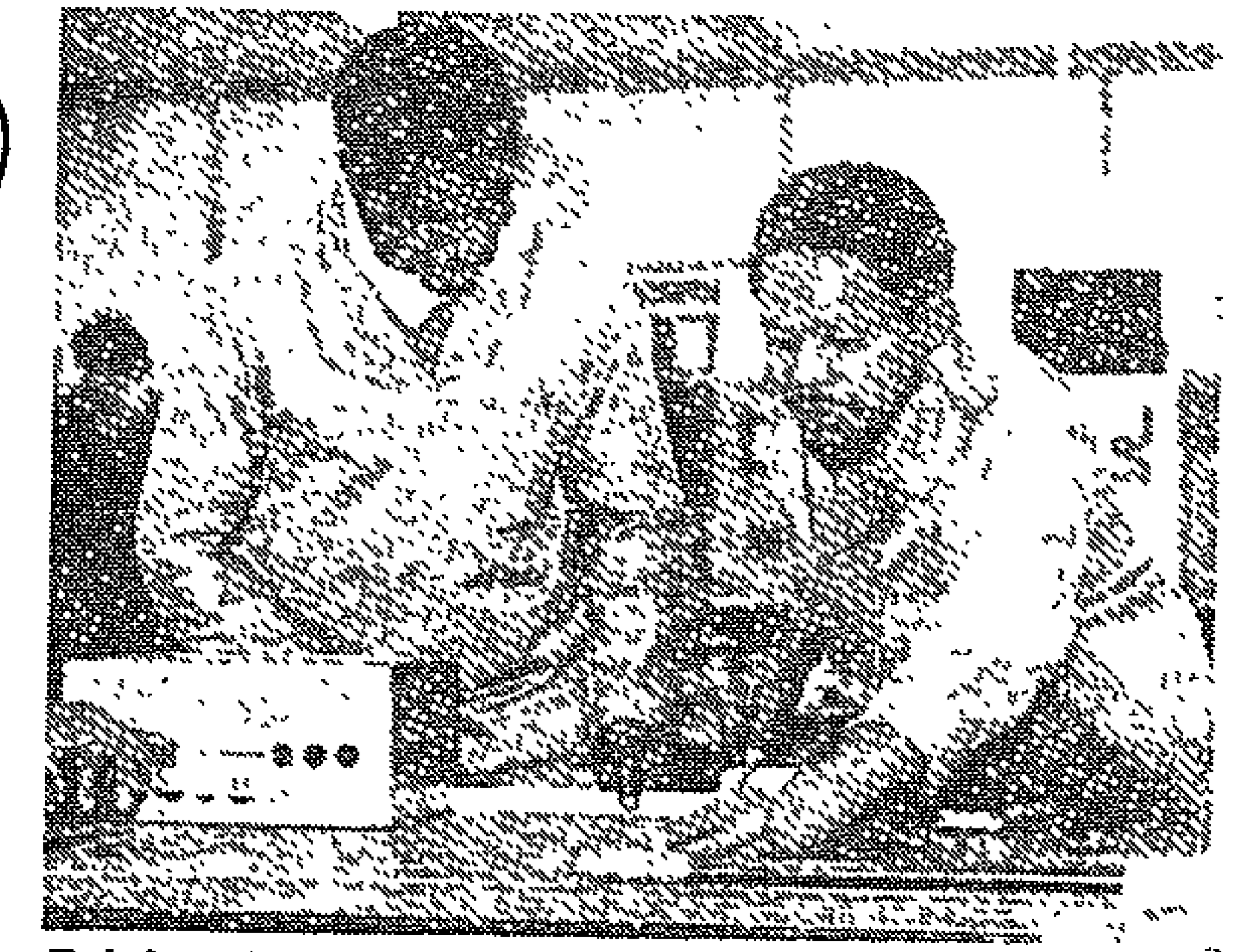
He stressed a political settlement would not be a panacea for the country's development problems.

It could be regarded as necessary but not sufficient condition to resolve conflict in SA.

BUDGET '91

Huge social spending for calm, productivity

Sowetan 21/3/91 49



Driving business and labour towards a more prosperous new South Africa.

THE Minister of Finance, Mr Barend du Plessis, yesterday launched the Government into a unilateral social accord with the poor - mostly blacks and their political leaders - to reward massive social spending with calm and productivity.

He also cut the reins on the business sector and provided them with what fat there was in the 1991/92 budget with the clear directive: "Now go and create the jobs."

Between these two poles Du Plessis has aimed for a balance between stability and growth from which the Government hopes to extract a strong enough measure of equity to keep on driving business and labour in partnership towards a more prosperous new South Africa.

Although the minister concedes he was taking an imponderable risk, particularly in his proposals for radical reductions in the disparity of social pensions, he is confident that a failure to respond to his challenge will clearly lay the blame for continued impoverishment at the door of those who disrupt the economy.

Equity

The Budget speech clearly sought to lay down parameters for the economic management of a new post-apartheid South Africa, with the constitutional bargaining process still likely to remove him from the portfolio and to give the Government another two years of socio-economic re-engineering, Mr du Plessis tried to put the helm over hard enough to keep the economy on its new course beyond the life of the current constitution.

The principle which applied was equity through growth and stability. What it meant in simple terms was that the Government could not take or tax away growth, he said.

Taking assets from the haves or overtaxing those with income would not promote the climate for investment, growth and work creation.

Equity meant the Government "shall not unjustly" disposses anyone of their assets, nor allow such a thing to take place.

"We shall therefore not be able to accept, even in the new South Africa, that in total more tax is taken from taxpayers than is being taken now," he said.

Consequently the middleman, mostly the white taxpayer, was left with a little altered economic state, the imponderables of the new 12 percent VAT excluded.

Increase

Civil servants, also mostly white, were given a R3,7 billion increase - to be specifically allocated on professional differntiation.

Although this may leave the Government with a measure of comfort regarding its own political constituency, the spending on black upliftment holds the potential for political backfiring, a fear expressed in certain business circles.

On the whole, first reactions to the Budget appear to acknowledge at least a measure of the effort made to restructure South Africa's extreme contrasts in wealth.

It remains to be seen whether this perception will crystalise sufficiently in the midst of the poorer masses to start turning the tide of mistrust and dispair towards stability and prosperity.

Businessmen were quick to put a question mark behind Du Plessis' relative largesse which covered the total social spectrum of housing, health, education and pensions.

Nobody questioned the need but expressed some doubt over the unilateral way the minister was throwing money at the problem without some structured consultation and commitment by representatives of "the other side".

The problem is so vast, analysts point out, that unless the money was spent in an effective, monitored manner, it could all disappear down a "political black hole". - *Sapa*

Balance between social demands and revenue limits — economists

SHARON WOOD and
BRENT VON MELVILLE

Business Day 21/3/91

GROWTH objectives were maintained in a Budget which achieved a balance between social demands and revenue contraints, economists said yesterday.

A primary concern of economists was that the Budget failed to address the impact of fiscal drag on the individual taxpayer.

The adjustments to personal income tax levels would probably be neutral, even though there was a reduction in the maximum marginal tax rate by 1% to 43%, economists added.

Government had probably underassessed the extent of average salary increases, which in real terms would make the effect of fiscal drag even more potent, said Nedcor chief economist Edward Osborn.

Bankorp economist Emile van Zyl said the 28% jump in expected tax revenue during the 1991/92 Budget year was probably an indication that the Finance Department had become more realistic about the amount of revenue they would receive.

Actual tax revenue received in the past had vastly exceeded the budgeted amount.

Sacob economist Ben van Rensburg endorsed the decision to provide immediately for full input credits for tax paid on capital and intermediate goods in the VAT system.

This and the reduction in the import surcharge, and the lower corporate tax, would help to reduce business costs and thereby assist in making the SA economy more internationally competitive.

This sentiment was also reflected by Anglo American Corporation which stated that it welcomed the reduction in the corporate tax rate and the granting of full VAT input credit for capital goods. The reduction in import surcharges on capital goods was also seen positively.

Syfrets economist Elmien de Kock said the middle-income wage-earner had been the most harshly treated.

"No attempt has been made to address the problems of fiscal drag, and these wage-earners will feel the impact almost immediately on their wage packets."

Meanwhile, the market responded on a generally favourable note to yesterday's Budget proposals.

JSE president Tony Norton said: "With the huge socio-economic demands that the Minister had to deal with, we feel he has obviously done his best to address the issues and it would be churlish to have expected more.

"We were grateful for the softer mining tax, the reduction in company taxes and of the import surcharge and the tax reduction on marketable securities (MST)," he said.

JSE President Peter Redman said the Budget was "very responsibly done".

Not enough money for social spending, says ANC

B/Day 21/3/91

(49)

TIM COHEN and PETER DELMAR

THE African National Congress last night criticised the Budget for providing inadequate social spending, too much on defence and not enough for equalising pensions.

An ANC statement said the Value Added Tax rate of 12% was "far higher than all reasonable expectations and that it would cause extreme hardship for the poor".

Social spending on housing, special aid programmes and pensions was hopelessly inadequate, the ANC said in its initial reaction.

"In the case of pensions, there is no justification for the state not to have moved to immediate parity at white levels."

The ANC realised that this would cost billions but believed the funds could be found if the budget was restructured, a source said.

The statement added that defence expenditure remained excessive. "Most countries not in a state of war spend proportionately half of what was allocated in this year's Budget."

The ANC will formally comment on the Budget today, but a member of its Department of Economic Policy said the organisation was unlikely to criticise the 53% increase in spending on the police.

He said that if defence spending had remained at pre-Angolan war levels, South Africa would have saved about R70bn.

Despite a 16,1% increase in education spending and Finance Minister Barend du Plessis's statement that spending on education was "exceptionally high", the ANC is likely to be critical of this aspect of the Budget.

This is mainly because of racial inequalities and because of past deficiencies in education.

Two significant Budget omissions as far as the ANC was concerned were the lack of provision for land redistribution and the electrification of townships.

WILSON ZWANE reports Pan Africanist Congress publicity secretary Barney Desai said the PAC would not comment as it did not recognise any "handout from an illegitimate regime via the Budget".

ANC, unions in Barend's firing line

49

Political Staff

CAPE TOWN. — Finance Minister Barend du Plessis launched his speech with a fierce attack on the ANC and certain trade unions.

Speaking on the need for stability to promote growth, Du Plessis said government needed the support of certain organisations and movements "that in the name of political, social, and economic equity advocate sanctions or are involved in violence and labour unrest".

He said US Congressman Tom Foley had said his recent call for the maintenance of sanctions was made at the behest of the ANC.

"Emotional and rabble-rousing statements of leaders over the political spectrum may perhaps sound satisfactory or even favourable to themselves and their followers, but such pronouncements undermine business and investment confidence, to the detriment not only of their opponents but also of their own adherents," said Du Plessis. B/Day 21/3/91

Strikes and wage demands that did not keep pace with productivity chased away investors, and with them the possibility of better economic and social opportunities.

Limited relief for the poor, business favoured, say critics

B/Day 21/3/91. (49)

Political Staff

BUDGET 1991

CAPE TOWN — Finance Minister Barend du Plessis's Budget has met with widespread disapproval, with some critics charging that it favours business and gives limited direct relief to the poor.

The real increase in individual income tax and the introduction of VAT at 12% have drawn particular criticism.

Du Plessis announced a budget of R84,9bn, a 13,7% increase over last year. Revenue is expected to amount to R74,8bn, an 11,1% increase.

The deficit, as a percentage of GDP, is 3,4%.

DP chief finance spokesman Ken Andrew described it as "an uncaring budget doing little for those who need help most".

The CP's Willie Snyman slammed the fact that for the "umpteenth year" white pension increases — 10% — had been below the expected inflation rate.

Andrew pointed out that the man in the street would pay an average of 28% more in individual income tax next year.

He said the middle-income group would be the hardest hit as it would get no relief from the reduction in the top marginal rate.

"This increase in taxation comes about because the Minister has not adjusted the income tax brackets to take account of the effects of inflation and salary increases on people's tax rates," said Andrew.

This is in spite of the fact that the maximum marginal rate of tax for married men and unmarried people drops from 44% to 43%. Tax rates for unmarried women are unchanged.

Other main points of the budget include the introduction of VAT at 12% from September 30. Input credits on capital and intermediary goods will be introduced immediately.

A dumpy of beer goes up 3c while whisky, brandy and gin will increase by 1,5c a tot. Cigarettes will cost six cents more for a packet of 20.

Fortified wine and sparkling wine go up 1,8c for a 750ml bottle.

The SITE tax ceiling is raised to R50 000 from March 1 and company tax reduced from 50% to 48%. The rate of tax on insurers will be reduced by 2% to 43%.

Fringe benefits will be fully taxable from 1992. Import surcharges on capital goods are halved to 5% while the surcharges on intermediate goods go down 33% to 5%.

Education spending was boosted by 16,2% — to R16,2bn — and will now amount to 6,2% of GDP.

The police budget will go up to R5,1bn, much of which will be met by a Defence budget cut of R3,6bn in real terms.

A sum of R505m will be poured into narrowing the pensions gap between whites and other races while R620m has been set aside for aid to the poor. This includes zero VAT rating for brown bread and mealie meal.

A total of R220m will be directed at feeding schemes and R200m for low cost informal housing for blacks.

A fuel levy of 5c on petrol and 2c on diesel will also be introduced — but Mineral and Energy Affairs Minister Dawie de Villiers later announced that both would be cut by 5c/l.

The DP's Carole Charlewood, MP for Umbilo, said the moves toward parity in pensions meant "all hope was not lost" but it was extremely distressing that elderly whites would be getting an increase below inflation.

Andrew said: 'This Budget will come as a nasty shock for those who were hoping for vital issues such as poverty and inequality to be tackled vigorously. Real spending per capita on social services has dropped," he said.

Further decline in GDP expected during 1991

B/Day 21/3/91 (49)

ANDREW GILL

A FURTHER fall in gross domestic product (GDP) was expected in 1991, yesterday's Budget Review said, contrary to recent predictions of no growth and even expansion.

Presenting a poor short-term outlook for the economy, the Review said the chances of an upswing in 1991 were small.

The GDP fall would be accompanied by too small an increase in job opportunities and consequently a further rise in unemployment.

Little hope was given of any chance of further relaxation in monetary policy. "It would be wise to adjust economic policy wisely and slowly," it said.

Although some measures attained much success in 1990, certain problems continued, the Review said.

Relaxation

"In particular, inflation and wage expectations were still in most cases unrealistically high, and the gold and foreign reserves had not reached a satisfactory level.

"A reasonably restrictive monetary policy would have to be continued with if the problems are to be confronted. The prospect is at best one of a gradual and very slight relaxation that does not thwart the objectives of slower growth in the money supply and lower inflation."

The slowdown in world economic growth, coupled with unfavourable domestic agricultural prospects, is expected to have an adverse effect on the volume of SA merchandise exports, which had shown a sharp upward trend since the start of 1983.

Declining commodity prices could further contribute to the decline in SA export earnings in 1991, it said.

At the same time, the higher cost of imported oil and a rise in agricultural imports could neutralise a fall in the volume of merchandise imports and contribute to a mild increase in the overall value of imports.

"It therefore seems realistic to expect a considerable reduction in the surplus on the current account of the balance of payments, from about R6bn to between R3bn and R4bn."

SA's foreign debt repayment liabilities would be about R4bn in 1991, it said. It was expected a portion of this would be rolled over, extended or replaced by new loans.

The net capital outflow size would depend on local political developments and on economic factors such as expected and realised exchange rate changes, forward cover rates and interest rate differentials.

The Review disclosed SA borrowers had, for the first time since the 1985 debt standstill, placed issues on the German capital market.

Four private debenture issues were placed on the German capital market to the tune of DM285m and three were placed on the Swiss capital market worth Sf100m. This represented almost R700m.

The success was despite negative market sentiment arising from the Gulf conflict and the increased loan requirements of Eastern Europe.

Significant results were achieved in foreign project financing, it said. The loans involved here would help relieve pressure on the domestic capital market while also protecting the capital account.

A strong indication the Reserve Bank was nowhere near getting out of the forward cover market was given. "For the efficient functioning of the domestic market in foreign exchange it is necessary that the Reserve Bank presently remains closely involved," it said.

Apart from the expected decline in foreign demand for SA products, a further fall in domestic demand was expected. A further fall in real gross domestic expenditure could thus occur as a result of a slowdown in virtually all the major components of domestic demand.

The factors responsible for a strong upward trend in domestic real private consumption expenditure in 1990 would probably lose much steam

Weaken

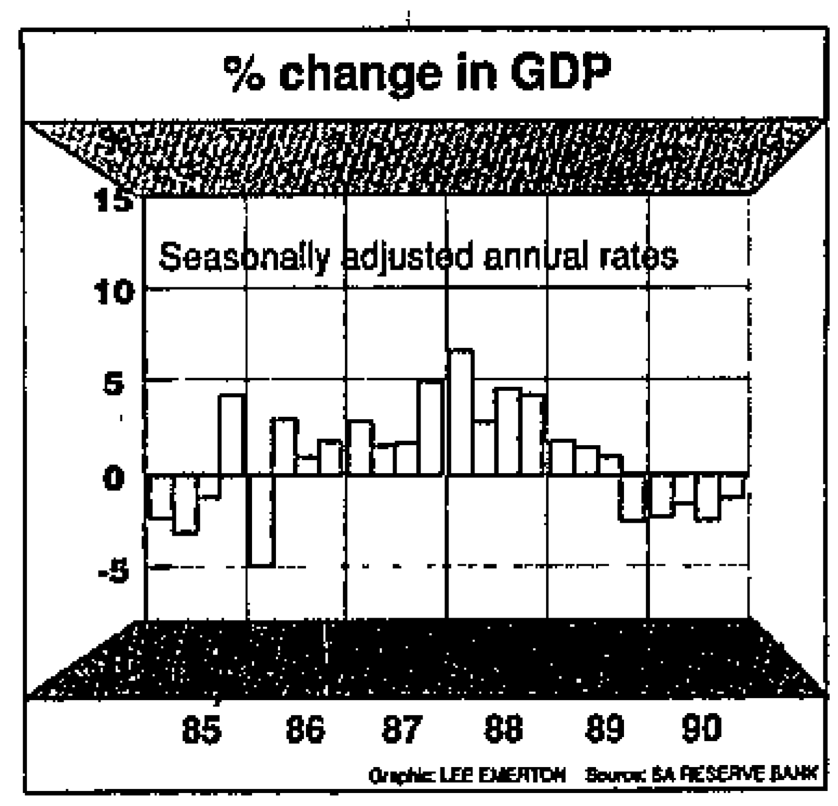
A small decline in real personal disposable income was projected. This was linked chiefly to poor harvests, lower operating surpluses and limited employment growth in certain economic sectors.

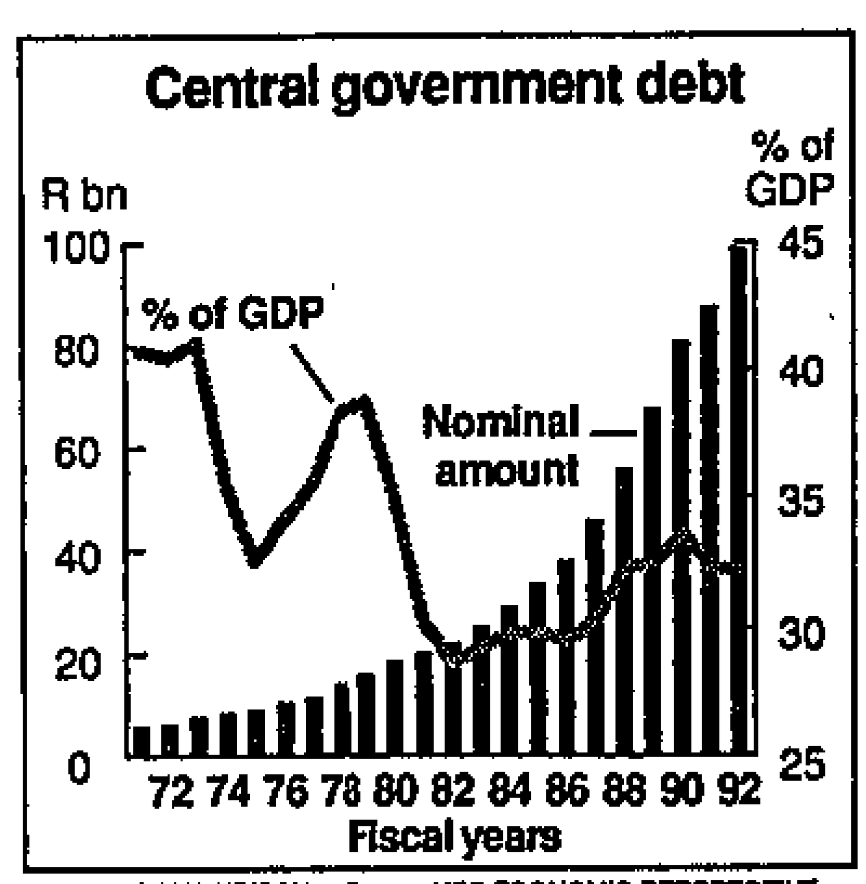
The rate of increase in real private consumption expenditure should weaken considerably in 1991 and the nominal figure could actually fall.

Real consumption expenditure by general government could rise slightly once again.

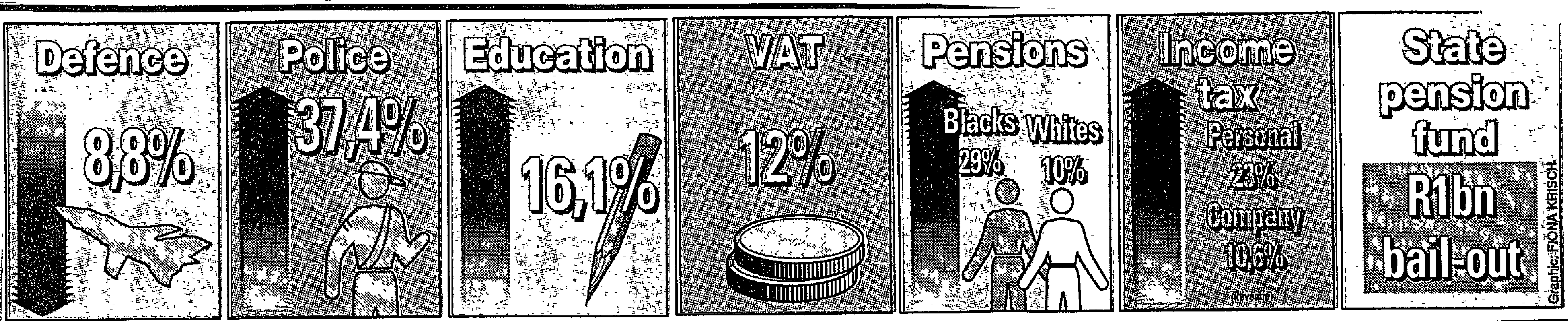
Real gross domestic fixed investment was expected to fall more sharply than in 1990. This was supported by factors such as the comparatively low level of capacity utilisation in most economic sectors, expected lower operating surpluses, unfavourable harvests, political uncertainties and difficult labour conditions.

A further mild decline was expected in the inflation rate, should certain factors such as relatively large increases in oil prices not thwart this. If success could be achieved in demolishing the inflationary expectations syndrome, and more realistic wage and salary settlements, the inflation rate could fall appreciably.





Graphic: FIONA KRISCH Source: UBS ECONOMIC PERSPECTIVE



Barend's bid for growth

49

B/Day 21/3/91


● DU PLESSIS

BILLY PADDOCK

CAPE TOWN — Finance Minister Barend du Plessis yesterday handed business R5bn in tax concessions to stimulate growth and warned that if it did not use this to create jobs it would have to answer to the needy and unemployed.

In his mildly expansionary R84,98bn Budget, Du Plessis stressed government's belief that redistribution of wealth could be achieved only through increased investment, growth and job creation.

"We shall not, through the taxation process, take from those earning income, more than can be borne by a climate promotive of economic growth. The government's view is therefore that the total tax burden in the new SA too must under no circumstances be higher than that ceiling above which economic growth withers," he said.

Du Plessis said government was committed to eliminating the disturbing unequal distribution of wealth in SA, but equity could be achived only through growth and stability.

To facilitate this he increased the police budget by 37% to R5,1bn and handed an equivalent amount in tax and tariff cuts to business to stimulate growth.

As a first step towards eliminating apartheid backlogs he increased spending on black education by 27%, while white education went up by only 6%. He also allocated R505m to reduce racial disparities in pensions.

Overall, social spending was increased to 38,2% from 36,5% of total Budget. To achieve this, defence spending was slashed by a massive R3,6bn in real terms.

The main features of Du Plessis' Budget were:

□ VAT will be introduced at 12% on September 30;

□ Aid to the poor of about R620m, including the zero-rating of maize meal and brown bread accounting for R400m and R220m for feeding schemes;

□ A R505m contribution towards reducing racial discrimination in pensions;

□ A one percentage point reduction to 43% in the top marginal rate of personal tax, which is likely to be more than neutralised by fiscal drag;

□ A two percentage point cut in company tax;

□ Large-scale excise duty increases on alcohol and cigarettes;

BUDGET 1991

□ **Full text of the Minister's speech special supplement**
□ **Reaction** Page 5
□ **Fighting poverty** Page 6
□ **How tax will bite** Page 7
□ **Leap of faith, or faltering step?** Page 8
□ **Comment** Page 8

□ A fuel levy of 5c on petrol and 2c on diesel;

□ Expenditure of R200m on low cost informal housing for blacks; and

□ Government departments and parastatals have been instructed to insist that all spending including spending on education and housing projects be used to create maximum job opportunities.

He said revenue for the year was expected to total R74,87bn, leaving a deficit before borrowing of R10,12bn (3,4% of GDP) with expected further decline in GDP in 1991. Government will raise R950m from selling strategic stockpiles and if this and a R206m carryover from last year's borrowing was not taken into account the deficit before borrowing would be equivalent to the international benchmark of 3% of GDP.

In his package of tax cuts for business, the Finance Minister announced:

□ VAT would be implemented on September 30, with the scrapping of tax — with some exceptions — on all capital and intermediate goods, resulting in a R3,75bn saving for business;

□ A decrease in company tax by two percentage points from 50% to 48% and a reduction of tax on long-term insurers resulting in a total saving of R378m;

□ Halving the import surcharge on capital goods and reducing by a third the surcharge on intermediate goods means business has an extra R756m to invest elsewhere;

□ The phasing out over three years of tax on marketable securities, starting on April 1 with a reduction from 1,5% to 1% of the purchase price of the security; and

□ The lower tax formula for gold mines will be put into full force this year and the third step of phasing out the surcharge on non-gold mines will start. This will cost R49m.

Du Plessis said that although the present scale and lower maximum marginal rate of tax for married women remains unchanged at 38%, the primary rebate increase from R700 to R800 "gives modest relief".

As an alternative to VAT on financial services, he announced a 0,75% turnover tax on interest income and finance charges of institutions and persons providing financial services is to be levied from September 30, bringing in an extra R170m in six months.

VAT on previously untaxed, unprocessed food stuffs would bring in an additional R2bn to government coffers.

THE MAIN POINTS

□ Company tax rate cut from 50% to 48%
□ Individual top marginal tax rate down from 44% to 43%
□ Married women to be taxed separately
□ VAT to be introduced on September 30 at no less than 12%
□ Race gaps narrowed, not eliminated in state pensions
□ Life assurers' tax rate reduced to 43%
□ Marketable Securities Tax cut to 1%
□ Import surcharge on capital goods halved to 5%
□ Beer, spirits, wine and cigarette prices up
□ Fuel prices cut but levies go up
□ Further relief for gold mines
□ Housing benefits now fully taxed
□ Site threshold up to R50 000 from R40 000
□ New tax on interest earned for financial institutions

[redacted]

BUDGET /'91

Sowetan 21/3/91

A spoonful of syrup

(49)

Mr Barend du Plessis, the minister of Finance, delivered his R84,9-billion Budget in Parliament yesterday.

THE Budget asked, for the sake of the country, the cooperation of all - from those who would this year have to swallow some bitter pills and those who would get a spoonful of syrup, the Minister of Finance, Mr Barend du Plessis, said yesterday.

The theme of the budget was "Equity through Growth and Stability".

Du Plessis' tax proposals included:

* The VAT rate of 12 percent;
* Slightly reduced personal tax;
* The margin of SITE increased from R40 000 to R50 000;
* Increases in the prices of beer (3 cents per "dumpy"), spirits (37,7 cents per 750ml), cigarettes (3 cents per 10), cigarette tobacco (3 cents per 50g), pipe tobacco and cigars (25c per kg) and fortified and sparkling wines (1,8 cents per 750 ml);
* Reductions in the surcharge on capital and intermediate goods;
* An increase on the tax on fuel accompanied by a reduction in fuel prices; and
* Income tax on companies reduced to 48 percent.

The income, including that from investments, of married women would also be completely divorced from that of their husbands in the calculation of their income tax.

Du Plessis said the large number of tax reforms in the budget, specially designed to promote an investment climate, unfortunately meant tax relief for individuals this year could not match that of last year.

The marginal rate for married men would be reduced from 44 percent to 43 percent, the primary rebate simultaneously being reduced from R2 100 to R2 000. The maximum marginal rate for unmarried persons was reduced to 43 percent while their rebate dropped from R1 800 to R1 625.

Although the present scale and lower maximum marginal rate of tax for married women remained unchanged, the primary rebate would be increased from R700 to R800.

Expanding on the proposed VAT which is to be introduced at the end of September, Du Plessis said the necessary Bill would be introduced in Parliament next week.

Included in the provisions would be a zero-rating for graded mielie-meal for human consumption and brown bread, which means they would not be subject to VAT.

He said Vatcom had indicated the insuperable problems in applying a classical VAT to financial services, banks, pension funds and other financial intermediaries.

This would not form part of VAT but was a tax in its own right and its introduction would coincide with that of VAT.

Du Plessis said high priority was being given to education, particularly for blacks, and housing.

He proposed education expenditure of slightly more than R16 billion, which was 16,1 percent higher than the revised expenditure in 1990/91. This meant that 18,5 per cent of the budget was going to education, compared with the 17,5 per cent last year.

The maintenance of law and order meant that a large part of the reduced Defence Force spending of R3,6 billion had to be allocated for this purpose.

The budgeted expenditure for social aid and welfare would be R6 billion, which represented an increase of 26,8 percent on the previous year.

Old age pensioners would, from April 1, receive the following:

* Whites R304
* Coloured and Asians R263
* Blacks in the Republic and self-governing areas R225. - *Sapa*

Barend tries to make up

Sowetan 21/3/91

49

DU PLESSIS

'Redress Budget' to uplift the poor

THE hallmarks of the Budget for next year are attempts to redress political wrongs of the past and the upliftment of the poor.

By ISMAIL LAGARDIEN
POLITICAL CORRESPONDENT

Black housing and education get the biggest shares of the social spending announced by Minister of Finance Mr Barend du Plessis in his Budget speech in Parliament yesterday.

Thirty-eight percent of the Budget will go towards social spending and about 20 percent of this will be on education, with black education receiving the biggest cut of the education budget.

Of the R16 billion allocated to education, R6,8 billion - a 27,4 percent increase on last year's amount - will go to black education.

An amount of R5,9 billion (6,2 percent up on last year) will go to whites, R2,3 billion (13,9 percent more than last year) to the "coloured" and R1 billion (18,9 percent up on last year) to the Indian education departments.

However, defence was allocated a massive 9,187 billion and the police R5,1 billion.

● See also Pages 13-19

Health will receive about 10 percent of the social spending budget, social assistance and welfare seven percent, housing 1,6 percent and recreation and culture about ,5 percent.

Black pensions will be brought to within 20

● To Page 2

UP . . .

- Beer - 3 cents for a 340ml bottle
- Spirits - 1,5 cents a tot or 37,7 cents for a 750ml bottle
- Cigarettes - 6 cents for 20s
- Cigarette tobacco - 3 cents for 50g
- Pipe tobacco and cigars - 25 cents a kilogram
- Fortified and sparkling wines - 1,8 cents a 750ml bottle
- A further sharp increase in education spending
- Special relief programmes for the destitute

DOWN . . .

- Price of petrol - by 5 cents a litre
- Price of diesel - by 4 cents a litre
- Price of paraffin - by 9 cents a litre
- The maximum marginal tax rate for married men has been reduced from 44 percent to 43 percent

Huge share for black education

From Page 1

percent of those of whites but there are no signs of equality in the near future. 49

Housing gets a whopping R1,3 billion, with black housing receiving the lion's share of R1,2 billion.

The defence budget has been slashed by R3,6 billion but instead of this being taken into socio-economic spending a large part of the reduction was allocated for law and order "to reduce the exceptionally high incidence of violence and crime", Du Plessis said.

An additional R20 million from the extra R269 million set aside for urgent capital requirements has been allocated to "efficient policing and the need for more emergency police stations". Sowetan 21/3/91

"Once greater internal stability is achieved a downscaling in the growth of spending on protection services (security) should eventually create budget room for more social development," Du Plessis said.

Total expenditure for 1991/1992 adds up to R84,9 billion, including a reserve of R1,2 billion.

The new Budget is 13,7 percent bigger than last year's.

Gap between pensions to be closed

BUDGET/'91

Sowetan 21/3/91 (49)

BLACKS will still get smaller pensions than whites but the gap will be narrowed by 20 percent from April 1, the Minister of Finance, Mr Barend du Plessis, said yesterday.

By ISMAIL LAGARDIEN
Political Correspondent

He said in his Budget Review that it would cost a conservative R4 billion to achieve pension parity and abolish the means test in the Republic and the TBVC states, and this expense might be higher than the economy could bear.

He said the Mouton Committee on pensions believed that the change to parity in old-age aid should take place in one go rather than moving there gradually.

Expenditure

"To do this, but with retention of the means test, it is estimated that it will involve R1,6 billion in additional expenditure (excluding the TBCV countries), over and above the increases already included in the printed estimate for 1991/92.

"The abolition of the means test would cost a further R1,8 billion. If the TBVC countries were included, the total rises to over R4 billion - which is still on the conservative side.

Increase

"Moreover, the Government would thereby be committed to an increase in expenditure that, for demographic reasons, might be higher than the budgetary growth the economy could bear.

"If both these steps were now implemented, it would not only seriously cut short other social reform expenditure, but also raise the tax pressure appreciably, which, with a view to the promotion of the growth capability of the economy, simply cannot be afforded now."

Options

The idea of abolishing the means test clashed with the idea of targeted aid, which was the only viable option at this stage, since blanket aid was too expensive.

Cutbacks and serious limitations amid growing pressure for spending on education and health were scarcely reconcilable with a scheme where everyone above a certain age, irrespective of income, would qualify for old age assistance.

The Government could therefore now commit itself only to accept the principle of ending disparity, but this could definitely not be achieved at one go.

Revision

However, there was an urgent need for the revision and better application of the means test, and a start had been made with this.

"As a first step it is therefore proposed that after providing for the increases for all population groups included in the printed Estimate for 1991/92, the gap still remaining between old age assistance be further narrowed by 20 percent with effect from April 1." - *Sapa.*

Black pensioners remain at the bottom of the heap compared with white senior citizens. Mrs Lydia Thulo (75) and Mrs Maria Tshumi (69) of Phiri, Soweto, will still have to wake up at dawn and go to their usual street corner to sell sweets, biscuits and other goodies to make ends meet.
Pic: MBUZENI ZULU

R220-m boost for the needy

Sowetan 21/3/91.

(49)

AN amount of R220 million would be set aside in the Budget for aid programmes for the needy, Minister of Finance Mr Barend du Plessis said yesterday.

He said in his Budget speech that the Government had a special responsibility to help provide the most basic needs of the "outright impoverished".

The Government's Task Force on Poverty was investigating the combination of programmes required to target one or other form of food aid and would consult widely to ensure the correct package of measures.

Because of high and rising unemployment the position of those suffering extreme privation was a cause for great concern. This problem might even worsen in the transitional phase of economic restructuring.

"It is therefore imperative that, within the constraints of affordability, there be an appropriate expansion of the safety net to assist the needy.

"The planned introduction of a broadly-based VAT lends this still greater urgency," Du Plessis said.

The Government believed that any relief action should supplement the improvement in income of people through economic growth and job creation.

Of greatest importance was the community's involvement in relief schemes, with maximum linkage to development and job creation activities.

The task force's investigation thus far had shown that the really vulnerable segments of South African society were pre-school children and expecting and nursing mothers.

Others were children in the six to 12 age group, the aged, other social dependants and certain classes of the unemployed.

There was evidence that undernourishment had already assumed critical dimensions in some cases.

However, acute poverty was not confined to food. The more pressing requirement ranged over a wide spectrum of basic living needs, such as basic medical services and clean water.

The R220 million would be made available to Government departments or non-government organisations after "further urgent consultations".

Du Plessis also said that while higher economic growth and job creation by the private sector was the only viable path for a meaningful longer-term attack on the country's poverty problem, the Government also had a responsibility to provide social infrastructure and services such as education and health care and to help provide the most basic needs of the poor.

He said 38,2 percent of the total Budget would be spent on social services.

Socio-economic development and creation of equal opportunities could be achieved only through a combination of higher economic growth and reallocation of public funds. - *Sapa*.

Chance of upswing 'small'

Growth rate fall, unemployment rise predicted — but rosier long-term

Financial Editor

THE chances of an economic upswing in 1991 are small and a further fall in the growth rate (GDP) is expected, Mr Barend du Plessis said in his budget preview.

This will be accompanied by too small an increase in job opportunities and consequently a further rise in unemployment.

However, it appears that economic growth over the long term will be rosier than the results of the past few years. There are now gratifying signs that the basis is being laid for a higher growth phase that will be maintained longer than the previous one.

This more favourable course will, however, necessarily depend on favourable economic developments in the rest of the world, purposeful and concrete structural adjustments in the domestic economy and local social conditions.

Should favourable results flow from socio-political developments, the constraints on the South African economy emanating from international action could greatly diminish or even disappear.

This would mean less necessity to maintain a surplus on the current account of the balance of payments, which in turn would permit the maintenance of higher and more stable economic growth rates.

There are other positive developments, such as the falling foreign debt ratios, increase in the gold and foreign reserves, a more stable exchange rate and improved political and economic relations with overseas trading partners and international agencies such as the IMF and World Bank.

Arising out of relatively stable financial conditions, a further mild decline in the inflation rate is anticipated, should certain special factors — such as relatively large increases in oil prices — not thwart this.

Mr Du Plessis said that if success can be achieved in demolishing the inflation expectations syndrome and more realistic wage and salary settlements can be reached, the inflation rate could fall appreciably.

The introduction of VAT, which for a time will distort the comparability of price indices, should itself lead to lower average price levels. The year-on-year inflation rate could fall to 12% or even less by December 1991.

He said at this stage it would appear that the downswing in the economy can reach its lower turning point towards the end of the year or early next year.

The degree and pace of improvement are, however, closely connected with the outcome of the political negotiating process, a drop in unrest and violence, the stabilisation of conditions in the labour market and the course of the sanctions campaign, which has clearly already lost much of its momentum.

Mr Du Plessis said the slowdown in world economic growth, coupled with unfavourable domestic agricultural prospects, is expected to impact adversly on the volume of South African merchandise exports.

A slight fall in international commodity prices, and perhaps even in the gold price, can further contribute to the decline in South African export earnings in 1991.

At the same time the higher cost of imported oil and an increase in agricultural imports can neutralise a fall in the volume of merchandise imports and contribute to a further mild increase in the overall value of imports.

The expectation is therefore that there will be a considerable reduction in the surplus on the current account of the balance of payments, from around R6 billion in 1990 to between R3bn and R4bn in 1991.

Although lower than in 1990, the amount of South Africa's repayment liabilities in respect of foreign debt will be some R4bn in 1991. However, it is expected that a portion of this will be rolled over, extended or replaced by new loans.

A further fall in domestic demand is also expected and therefore a further fall in real gross domestic expenditure could occur in 1991. The factors responsible for a continuing upward trend in domestic real private consumption expenditure in 1990 will probably lose steam in 1991.

'Climate for growth' welcomed

JOHANNESBURG. — The SA Chamber of Business (Sacob) has welcomed the fact that the importance of maintaining a climate conducive to economic growth was emphasised in the budget.

Sacob president Mr John Hall said: "While it is difficult to assess the possible inflationary impact of this budget, the broad message will be to help strengthen business confidence."

Sacob agreed with the Minister of Finance, Mr Barend du Plessis, that the total tax burden must be gradually reduced to maintain an environment for investment, growth and job creation.

Sacob regretted that the opportunity was not taken to eliminate import surcharges completely.

Mr Leon Louw, director of the Free Market Foundation, said Mr Du Plessis had tried to achieve a fine balance between the need for growth and social spending under difficult circumstances.

However, he should have considered some more unorthodox and bolder possibilities such as creating a tax holiday or a tax-free zone in depressed areas to attract rapid investment.

THE president of Cape Town Chamber of Commerce, Mr Lionel Hartmann, said yesterday that the chamber was "disappointed that the rate of VAT has been pitched as high as 12%, as this tax will have a much wider impact on the consumer than GST".

"But as business people we certainly welcome the bold step that the minister has taken in allowing capital and intermediate goods inputs as a deduction, thereby eliminating double taxation.

Mr Hartmann said the chamber was "disappointed that the minister has been unable to move personal tax rates so as to compensate entirely for fiscal drag". But this was understandable in the light of the political needs for social spending.

He said the reduction of corporate tax rates to 48% was "unexpected and is welcomed".

"We welcome the further scaling down of the import surcharge — an import which the chamber has argued against consistently."

The Steel and Engineering Industries Federation of SA (Seifsa) said the budget would help raise business confidence and lay the groundwork for reduced inflation and increased investment opportunities.

The SA Junior Chamber of Commerce and Industry expressed its concern at the effect of VAT on the lower-income groups, especially its imposition on electricity and other services.

Mr Rees Mann, national president of the junior chamber, said a delegation would seek an interview with the minister about the issue.

The Chamber of Mines said the budget's emphasis on providing funds for social upliftment would contribute to the reduction of political tension and violence in South Africa. — Sapa

Barend hits out at ANC on 'equity'

Political Staff

MR Barend du Plessis lashed out at the ANC yesterday over his budget theme of "Equity through Growth and Stability". The minister said there were differing interpretations of what was meant by "equity".

As a result the concept had the potential to cause confusion, and even tension between the "haves" and "have nots". These tensions were aggravated by the "careless and reckless use of over-simplified versions of the concept" by people who were ignorant or who sought to exploit fears and expectations for political gain.

Mr Du Plessis said he wished to make it clear that the government had no intention of repeating failed political or economic experiments "involving taking assets from those who have and giving them to those who don't".

SA blocked

Equally it would not, through taxation, take from those earning income more than could be borne by a climate did so "at the behest of the ANC".

"This sanctioneer maintains that sanctions cause merely so-called 'inconvenience' for black people in South Africa."

Mr Du Plessis said if it was true that the ANC advocated the retention of sanctions then basic questions arose: Was the ANC part of this attempt in the US to move the sanctions goalposts; how did this dovetail with the recent call by Mr Nelson Mandela in Windhoek that South Africa needed investment, growth, and work creation, and was this hardship really the price the ANC was asking its members to pay when the State President had indicated his willingness to negotiate?

The minister said the message to the ANC was clear:

- Equity was not advanced by economically destructive action.
- Strikes and wage demands that did not keep pace with productivity, confused overseas investors and frequently even chased local investors out of the country.

Auto manufacturers back VAT


Mr Spencer Stirling

JOHANNESBURG. — National Association of Automobile Manufacturers of South Africa (Naamsa) president Mr Spencer Sterling yesterday said his organisation fully supported the proposed 12% VAT.

He said the decision to deny an input credit in respect of company cars, meant that corporate vehicles would be placed in a different category from other capital goods. He predicted that people would not refrain from buying new cars before VAT was introduced.

Naamsa endorsed the emphasis in the budget on a strategy to reduce inflation and reform South Africa's tax system, through the introduction of VAT to replace general sales tax.

VAT reduced tax evasion, and removed the iniquity of double taxation on capital and intermediate goods.

The budget proposals, once implemented, would lay the foundation for renewed growth and development during the latter part of 1991 and beyond. In this context, Naamsa welcomed the minister's strong emphasis on economic restructuring, private initiative and private sector-led growth and job creation — all within the framework of a reasonable degree of financial discipline in official monetary and fiscal policy measures.

Moreover, the zero rating of exports would render South African goods and services more competitive internationally.

Overall, the budget was expected to have a mildly stimulatory impact on the South African economy and the motor vehicle manufacturing and associated industries, Mr Sterling said.

Whilst little or no real economic growth could be expected in the short term, implementation of the budget proposals would lay the foundation for economic growth in the future, he added. — Own Correspondent and Sapa

Company tax slashed from 50% to 48%

Financial Editor

COMPANY tax is to be cut from 50% to 48%, Mr Barend du Plessis announced during his budget speech yesterday.

This can be viewed as the first step in reducing the nominal rate of company tax to an eventual 40%.

And on the basis of the trustee principle the rate of tax applying to long-term insurers is brought into line with the maximum marginal rate for individuals and reduced from 45% to 43%.

Instead of VAT, a turnover tax of 0,75% is introduced on the interest income and finance charges of

Oil search backing on hold

Political Staff

GOVERNMENT support for the search for oil and for the officially controlled company that buys oil for South Africa has been put on hold for this year.

It was originally expected that Soekor, which has spearheaded the search for oil, would receive R171,4 million in the budget but its current commitments will again be financed by the Central Energy Fund

Life industry 'disappointed'

JOHANNESBURG. — The life assurance industry has expressed disappointment at the lack of progress shown in this year's budget towards the full implementation of the trustee principle.

This had been agreed to by the government in 1989, according to Mr Mike Levett, chairman of the Life Offices Association.

In his reaction to the budget, Mr Levett said the industry was disappointed that tax on dividends received by life offices had not been scrapped. — Sapa

Mr Du Plessis said that for years, the US Congress had used legislation and policy to block South Africa's return to the facilities of the International Monetary Fund and thereby to international financial markets.

The economy had "survived these shocks", and "we can continue to do so indefinitely" — although the economic growth rate suffered as a result, to the detriment of mainly the lower-income groups.

Now that the lifting of sanctions was being considered in the near future a member of Congress had called for the retention of sanctions stating that they production costs and inflation and caused mines and manufacturers to be forced out of overseas markets.

● Emotional and rabble-rousing statements by leaders across the political spectrum undermined business and investment confidence, reduced the size of the "proverbial cake and ultimately promotes the equal distribution of poverty".

The message of the budget, he stated, was that "we must work together" to make an active and positive contribution in every sphere of life "to the creation of a climate that will promote investment, growth and job creation".

vices.

It has also been decided not to introduce a withholding tax on interest income.

Mining companies, however, will benefit from the fact that the proposed phasing in of a uniform lower formula for gold-mining tax will be implemented in full this year.

The first step in phasing out the marketable securities tax has also been announced with a reduction from 1 April 1991 from 1,5% to 1% of the purchase price of the security.

On the fringe benefit side, taxation on housing fringe benefits will be fully taxable from the 1992 tax year. Further measures regarding fringe benefit tax will be introduced during the present session of Parliament.

...ved ... from ... government.

The SFF Association, which is controlled by the CEF, received R24,2m last year but has been given a nominal R1 this year.

No reasons have been given, but the government's decision to sell off some of its strategic stockpiles of oil indicates that the threat of the oil boycott is receding.

Govt overruns budgeted expenditure and revenue

Financial Editor

THERE was an overrun in both total government expenditure and revenue for the 1990/91 year.

The total revised expenditure level for 1990/91 is R74,73bn, against the main estimate of expenditure of R71,93bn for fiscal 1990/91. At the time the budget was introduced, provision was made for a contingency reserve of R1bn.

When the state of emergency was lifted, the reserve was increased to R2bn. The total expenditure level therefore was R73,93bn.

This represents an increase of 14,1% on the actual expenditure for 1989/90, and is the lowest rate of increase since 1978/79. During the 1980s the average annual increase in expenditure was about 19%.

Of this 36,5% went to social services, 20,2% to protection services, 14,8% to state debt cost, 12,5% to economic services and 10,9% to general services.

On the revenue side, the state collected R2,44bn more than was budgeted for. At the time of the 1990/91 budget, total tax revenue was estimated at R64,94bn.

The revised estimate is R67,38bn — 10,3% higher than the previous year.

Total tax income is R58,95bn — R1,88bn more than the budgeted amount.

The main reason for the undershoot in estimated individual income tax, was the initial underestimate of the salary adjustments for the country as a whole. The effectiveness of income tax collection also rose appreciably as a result of the implementation of SITE.

Income tax collected from gold mines and revenue from gold mining leases were lower than budgeted. Higher commodity prices contributed to the larger revenue from other mining companies.

Non-mining company income tax revenues were some R200m lower than budgeted, due to poorer company profits.

Different ways of saving spotlighted

Financial Editor

CONTRACTURAL saving was not responsible for the negative element in discretionary saving in SA, according to special economic adviser to the Minister of Finance, Dr Japie Jacobs.

In an annexure to the budget review, Dr Jacobs said there was no reason to believe that discretionary saving would grow if contractural saving fell.

He said contractural savings institutions did not function as entrepreneurs in opening new factories or mines. The supervisory authorities would not permit them to make such risky investments.

In the analysis of their activities, and having regard to their responsibilities towards policyholders or pension fund beneficiaries, there was no evidence that their funds were utilised unproductively, that personal saving was metamorphosed into consumption spending (apart from pension payments used in this way), or that their activities harmed the financial market.

Contractural saving was not responsible for the negative element of discretionary saving, he said.

Inflation 'likely to go on falling'

Staff Reporter

INFLATION should continue to fall to 12% by the end of this year, helped by the switch to VAT and by lower petrol prices, says Dr Ockie Stuart, director of the Stellenbosch Bureau for Economic Research.

Dr Stuart said the fact that VAT of 12% would be charged on food, apart from brown bread and mealies, meant that the inflation rate for the lower-income group would rise.

But the inflation rate overall should come down, even with VAT pitched at 12%. "The price of some consumer goods could actually come down, and the price of petrol has been reduced."

Dr Stuart said the amount to be spent on education meant this was "a budget for the long term". He thought it was the first of similar budgets.

16/3/12 ST. ...

CA Tms 21/3/91

Cape Times

THURSDAY, MARCH 21 1991

Budget '91

BUDGET '91 is indeed a bold commitment to the socio/economic upliftment of the majority worthy of popular support, but with the perhaps unavoidable caveat that the endurance of the heavily-burdened middle class is being severely tested.

Laudably, the R85-billion Budget represents a negligible increase in real expenditure at 13,7% (or 12,9% if expenditure from privatisation proceeds is excluded) and the deficit before borrowing has been contained at a safe 3% of Gross Domestic Product.

The most sour note of the entire package must be the implicit 27% pay rise voted to Members of Parliament. We await with great interest justification of this callous and incredibly short-sighted insult to all South Africans.

Finance Minister Barend du Plessis has most of his other priorities right in placing the emphasis on justice based on equity through growth and stability. The aim is to build on the World Bank's prescription for alleviating poverty: create human income-earning skills and activate them via employment-inducing economic growth. All the good intentions, and government's credibility, can be sustained only if the effective redistribution of wealth implied in the Budget is handled with the greatest efficiency and considerable tact. After all, uncertain, recession-ridden, predominantly white taxpayers with declining living standards are now being asked to foot a still heavier bill to get people working and the economy growing in a process which knows no alternative but which could and probably will be long and arduous. The reduction in the maximum marginal tax rate on individuals by one percentage point to 43% is worthless when inflation is taken into account, particularly since the primary rebate has been lowered by R100, and Mr Du Plessis candidly accepts that fiscal drag has not been eliminated. That means effe ctively higher personal tax rates and, of course, the pitching of VAT at the upper end of expectations at 12% will begin extracting a heavy toll on a wide range of new goods and services, including rates, from September 29. No, the average taxpayer will hurt harder.

Yet few could find fault with those segments of society recognised in the Budget as being most in need: children, expecting and nursing mothers, the aged, social dependants, and certain classes of unemployed. They stand to benefit from the continuation of the previous budget's emphasis on spending for social welfare, housing, education, and pensions including a substantial narrowing of the racial gap, extra funds for job-generating bodies such as the SBDC, and special VAT relief aid for the needy.

ONE YEAR OLD . . . Warrant Officer David Stacey of the First Battalion of the Black Watch adjusts a member of the guard of honour during rehearsals yesterday for today's celebrations to mark Namibia's first anniversary of independence. Picture: REUTER

INCOME TAX PAYABLE 1991 and 1992 (MARRIED, UNDER 62)

INCOME	NO CHILDREN			1 CHILD			2 CHILDREN			3 CHILDREN		
	1991	1992	REDUCTION	1991	1992	REDUCTION	1991	1992	REDUCTION	1991	1992	REDUCTION
R	R	R	R	R	R	R	R	R	R	R	R	R
10 000	-	-	-	-		-	-	-	-	-	-	-
11 000	-	-	-	-		-	-	-	-	-	-	-
12 000	-	-	-	-		-	-	-	-	-	-	-
13 000	200	170	30	100	70	30	-	-	-	-	-	-
14 000	400	360	40	300	260	40	200	160	40	100	60	40
15 000	600	550	50	500	450	50	400	350	50	300	250	50
16 000	820	760	60	720	660	60	620	560	60	520	460	60
17 000	1 040	970	70	940	870	70	840	770	70	740	670	70
18 000	1 260	1 180	80	1 160	1 080	80	1 060	980	80	960	880	80
19 000	1 480	1 390	90	1 380	1 290	90	1 280	1 190	90	1 180	1 090	90
20 000	1 700	1 600	100	1 600	1 500	100	1 500	1 400	100	1 400	1 300	100
25 000	2 900	2 750	150	2 800	2 650	150	2 700	2 550	150	2 600	2 450	150
30 000	4 250	4 050	200	4 150	3 950	200	4 050	3 850	200	3 950	3 750	200
35 000	5 750	5 500	250	5 650	5 400	250	5 550	5 300	250	5 450	5 200	250
40 000	7 400	7 100	300	7 300	7 000	300	7 200	6 900	300	7 100	6 800	300
45 000	9 200	8 850	350	9 100	8 750	350	9 000	8 650	350	8 900	8 550	350
50 000	11 150	10 750	400	11 050	10 650	400	10 950	10 550	400	10 850	10 450	400
55 000	13 150	12 700	450	13 050	12 600	450	12 950	12 500	450	12 850	12 400	450
60 000	15 200	14 700	500	15 100	14 600	500	15 000	14 500	500	14 900	14 400	500
65 000	17 300	16 750	550	17 200	16 650	550	17 100	16 550	550	17 000	16 450	550
70 000	19 400	18 800	600	19 300	18 700	600	19 200	18 600	600	19 100	18 500	600
75 000	21 550	20 900	650	21 450	20 800	650	21 350	20 700	650	21 250	20 600	650
80 000	23 700	23 000	700	23 600	22 900	700	23 500	22 800	700	23 400	22 700	700
100 000	32 500	31 600	900	32 400	31 500	900	32 300	31 400	900	32 200	31 300	900
150 000	54 500	53 100	1 400	54 400	53 000	1 400	54 300	52 900	1 400	54 200	52 800	1 400

NOTE: The above amounts have been calculated on the basis that the taxpayers wife received no taxable income in the 1991-tax year.

INCOME TAX PAYABLE 1991 and 1992: UNMARRIED

INCOME	UNDER 62			OVER 62 BUT UNDER 65			OVER 65		
	1991	1992	REDUCTION	1991	1992	REDUCTION	1991	1992	REDUCTION

Married women get new tax deal

Political Staff

MARRIED women are to be taxed separately.

At the same time, the primary rebate for married women is to be increased from R700 to R800.

When a married woman reaches the age of 65, she will become eligible for the additional rebate of R2 100. This means her tax threshold will rise from R4 556 to R15 048.

These concessions could cost the state R46 million.

Dealing with policy issues in his Budget, the Minister of Finance, Mr Barend du Plessis, said one of the key recommendations of the Margo Commission had been that the individual should form the unit for personal tax purposes.

The government had accepted this as a long-term objective.

Despite the administrative problems and financial implications of such a "changeover", it had been possible to make drastic adjustments within a fairly short period, Mr Du Plessis said .

This had meant that a married woman, starting with the 1990/91 tax year, had been taxed separately on her business income. This would change and, as from the 1992 tax year, a married woman would be "fully taxable in her own right".

Mr Du Plessis said that rather than introduce minimum tax on companies, it had been decided to address the underlying causes of the problem. Tax concessions or tax expenditure appearing in the Income Tax Act would be removed or reduced as far as possible.

Greater attention would be given to refining "general anti-avoidance clauses and to the inclusion of specific anti-avoidance measures".

The new tax ruling means that they and their husbands will each separately be able to enjoy the benefit of the tax concession which exempts the first R2 000 of investment income from tax.

A working couple with an investment income will therefore enjoy the benefit of this tax concession twice.

Mr Graham Cochrane, a tax expert of Price Waterhouse, said the present budget was "great news for working couples".

The more investment income the couple earned that was attributable to the wife, the greater the impact of the minister's announcement, he said.

"This is because the wife's marginal tax rate (the rate at which your next rand earned will be taxed, as opposed to your overall average tax rate) will be 38%, whereas the husband's will be 43%," he said.

Mr Colin Wolfsohn, a partner at Kessel Feinstein Chartered Accountants, said that if a husband earned more than R50 000, it would pay him to put investments in his wife's name.

"He moves out of the 38% marginal rate from R50 000 upwards, while she stays in it," he explained.

Combined income

Elderly married women also benefit from this year's budget, in that they used to pay tax on annual incomes over R4 556, while now they pay tax on their annual incomes only if they are more than R15 084.

Mr Cochrane worked out that a couple with a combined salary income of R70 000 and investment income of R5 000 would be taxed R15 160 this year and R14 160 next year.

On a combined salary of R150 000 and investment income of R10 000, the tax payable falls from R48 580 to R46 760.

On R200 000 and investment income of R15 000, tax payable falls from R71 280 to R69 015.

Singles, husbands pay less

Political Staff

THE Minister of Finance, Mr Barend du Plessis, announced limited tax concessions for individuals in yesterday's budget.

The cuts he did announce — a reduction by one percent of the marginal rate of income tax for married men and single people — will, however, not amount to an effective relief because of fiscal tax reforms in this budget meant tax relief for individuals could not match that for 1990/91, when the maximum marginal rate was cut from 44 to 43%.

The marginal rate for

The maximum marginal rate for "unmarried persons" is also being reduced to 43% while their rebate drops from R1 800 to R1 625.

The lower maximum marginal rate for married women remains unchanged but their primary rebate will be increased from R700 to R800, "which gives modest relief", said Mr Du Plessis.

Mr Du Plessis an-candidate for cuts, although the R9,2-billion vote still seems high at 11% of the Budget. At least the sum represents a saving of R3,6-billion on an extrapolation of the previous vote and it makes sense to devote much of that money to the South African Police who will doubtless have their hands full for some years to come.

Business can use its drop in tax from 50% to 48% and will heave a collective sigh of relief over the decision to grant full credit for capital and intermediate VAT inputs, implying lower manufacturing costs while emphasizing that SA-style VAT is essentially a consumption tax, as it should be.

Thumping petrol and diesel with still heftier levies while reducing the price to consumers is a clever ploy, full stop.

The Budget's financing requirement is not expected to reverse the trend towards lower interest rates and assuming the economy moves as expected out of recession towards year-end or in the first quarter of 1992, a reasonable basis has been set to bet on a relatively long upturn.

10 000	–	–	–	–	–	–	–	–	–	–
11 000	150	135	15	30	15	15	–	–	–	–
12 000	360	345	15	240	225	15	–	–	–	–
13 000	600	555	45	480	435	45	–	–	–	–
14 000	840	765	75	720	645	75	–	–	–	–
15 000	1 080	975	105	960	855	105	–	–	–	–
16 000	1 320	1 225	95	1 200	1 105	95	–	–	–	–
17 000	1 590	1 475	115	1 470	1 355	115	–	–	–	–
18 000	1 860	1 725	135	1 740	1 605	135	–	–	–	–
19 000	2 130	1 975	155	2 010	1 855	155	30	–	–	30
20 000	2 400	2 225	175	2 280	2 105	175	300	125		175
25 000	3 930	3 675	255	3 810	3 555	255	1 830	1 575		255
30 000	5 640	5 325	315	5 520	5 205	315	3 540	3 225		315
35 000	7 530	7 125	405	7 410	7 005	405	5 430	5 025		405
40 000	9 520	9 075	445	9 400	8 955	445	7 420	6 975		445
45 000	11 580	11 075	505	11 460	10 955	505	9 480	8 975		505
50 000	13 700	13 125	575	13 580	13 005	575	11 600	11 025		575
55 000	15 850	15 225	625	15 730	15 105	625	13 750	13 125		625
60 000	18 040	17 365	675	17 920	17 245	675	15 940	15 265		675
65 000	20 240	19 515	725	20 120	19 395	725	18 140	17 415		725
70 000	22 440	21 665	775	22 320	21 545	775	20 340	19 565		775
75 000	24 640	23 815	825	24 520	23 695	825	22 540	21 715		825
80 000	26 840	25 965	875	26 720	25 845	875	24 740	23 865		875
100 000	35 640	34 565	1 075	35 520	34 445	1 075	33 540	32 465		1 075
150 000	57 640	56 065	1 575	57 520	55 945	1 575	55 540	53 965		1 575

the government was committed to its five-year plan to reduce the marginal rate from 45% to 40%, equal progress could not be made every year.

The large number of while the primary rebate is being reduced from R2 100 to R2 000.

"A married man with two children earning R40 000 a year will pay R300 less annually," said Mr Du Plessis.

come will now be taxed separately.

A married woman who had reached the age of 65 would now also become eligible for the additional rebate of R2 100.

INCOME TAX PAYABLE 1991 and 1992 (MARRIED OVER 62)

INCOME	OVER 62 BUT UNDER 65			OVER 65		
	1991	1992	REDUCTION	1991	1992	REDUCTION
R	R	R	R	R	R	R
10 000	–	–	–	–	–	–
11 000	–	–	–	–	–	–
12 000	–	–	–	–	–	–
13 000	80	50	30	–	–	–
14 000	280	240	40	–	–	–
15 000	480	430	50	–	–	–
16 000	700	640	60	–	–	–
17 000	920	850	70	–	–	–
18 000	1 140	1 060	80	–	–	–
19 000	1 360	1 270	90	–	–	–
20 000	1 580	1 480	100	–	–	–
25 000	2 780	2 630	150	800	650	150
30 000	4 130	3 930	200	2 150	1 950	200
35 000	5 630	5 380	250	3 650	3 400	250
40 000	7 280	6 980	300	5 300	5 000	300
45 000	9 080	8 730	350	7 100	6 750	350
50 000	11 030	10 630	400	9 050	8 650	400
55 000	13 030	12 580	450	11 050	10 600	450
60 000	15 080	14 580	500	13 100	12 600	500
65 000	17 180	16 630	550	15 200	14 650	550
70 000	19 280	18 680	600	17 300	16 700	600
75 000	21 430	20 780	650	19 450	18 800	650
80 000	23 580	22 880	700	21 600	20 900	700
100 000	32 380	31 480	900	30 400	29 500	900
150 000	54 380	52 980	1 400	52 400	51 000	1 400

NOTE: The above amounts have been calculated on the basis that the taxpayer's wife received no taxable income during the 1991-tax year.

INCOME TAX PAYABLE: 1991 and 1992 (MARRIED WOMEN)

INCOME	UNDER 65			OVER 65		
	1991	1992	REDUCTION	1991	1992	REDUCTION
R	R	R	R	R	R	R
4 500	–	–	–	–	–	–
5 000	80	–	80	80	–	80
5 500	170	70	100	170	–	170
6 000	260	160	100	260	–	260
7 000	440	340	100	440	–	440
8 000	620	520	100	620	–	620
9 000	830	730	100	830	–	830
10 000	1 040	940	100	1 040	–	1 040
12 000	1 460	1 360	100	1 460	–	1 460
14 000	1 940	1 840	100	1 940	–	1 940
16 000	2 420	2 320	100	2 420	220	2 200
18 000	2 960	2 860	100	2 960	760	2 200
20 000	3 500	3 400	100	3 500	1 300	2 200
25 000	5 020	4 920	100	5 020	2 820	2 200
30 000	6 660	6 560	100	6 660	4 460	2 200
35 000	8 420	8 320	100	8 420	6 220	2 200
40 000	10 260	10 160	100	10 260	8 060	2 200
45 000	12 160	12 060	100	12 160	9 960	2 200
50 000	14 060	13 960	100	14 060	11 860	2 200
55 000	15 960	15 860	100	15 960	13 760	2 200
60 000	17 860	17 760	100	17 860	15 660	2 200
70 000	21 660	21 560	100	21 660	19 460	2 200
80 000	25 460	25 360	100	25 460	23 260	2 200
90 000	29 260	29 160	100	29 260	27 060	2 200
100 000	33 060	32 960	100	33 060	30 860	2 200

Cape Times Double Puzzle

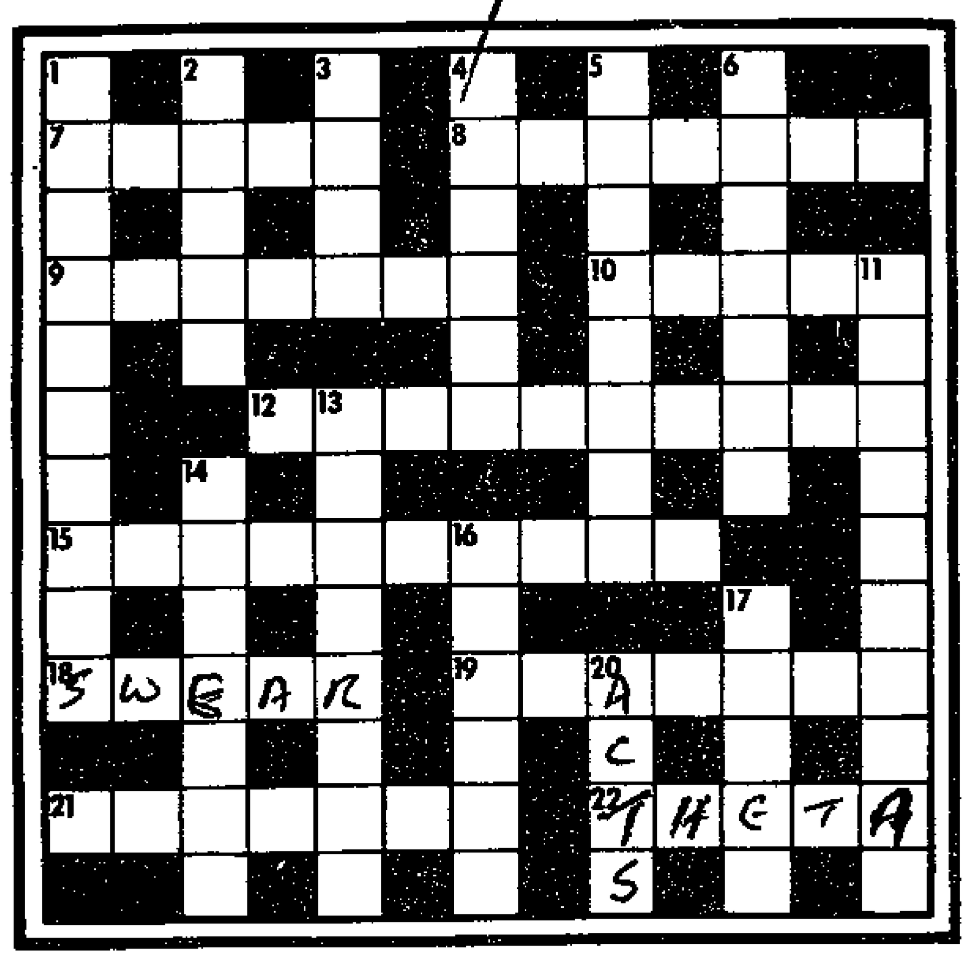
Quick clues

ACROSS

7 Once more (5)
8 Worship (7)
9 Ignore (7)
10 Spiky plants (5)
12 Argued (10)
15 Failed to notice (10)
18 Relation by marriage (2-3)
19 Platform (7)
21 OBEs, knighthoods, etc (7)
22 Punctuation mark (5)

DOWN

1 Pasta dish (10)
2 Canal boat (5)
3 Leg joint (4)
4 Beer (6)
5 Building material (8)
6 Musical instrument (7)
11 Formal accusation (10)
13 Illegal (8)
14 Lie back (7)
16 Female monster (6)
17 Russian mountains (5)
20 Ill (4)



Cryptic clues

ACROSS

7 Vessel returning to these waters (5)
8 So oppressive as to make an individual horribly sour (7)
9 They pillaged or stole disgracefully (7)
10 See 19 Ac.
12 One who has a role in opera? (4-6)
15 Card game played by nudists! (5, 5)
18 Being among the witnesses, we are to take the oath (5)
19 & 10Ac. Transferring men to different positions on the board (7, 5)
21 Speaks at length of being dead in the underworld (7)
22 In the event he tackled a Greek character (5)

DOWN

1 Are such vindicators in a sorry state? (10)
2 He gives a fellow gold (5)
3 Initially in some lovely exotic location (4)
4 The petty-officer's fixed a drink (6)
5 Provide an exposition of French writer (8)
6 Showing no grief when coming from overseas (7)
11 Old retainer doing something for humanity (7-3)
13 Yes, a trip is affected by roughness (8)
14 Alternative transactions will produce testing experiences (7)
16 Object to work and present a problem (6)
17 Fretted timber on top of the desk (5)
20 Plays a part in the New Testament (4)

YESTERDAY'S QUICK SOLUTIONS: ACROSS: 1 Beautiful, 8 Rug, 9 Commiserate, 11 Fanatic, 12 Scour, 13 Infamy, 15 Ensign, 17 Occur, 18 Pastime, 20 Uncertainty, 22 Tar, 23 Emergency. DOWN: 2 Ego, 3 Twist, 4 Fierce, 5 Liaison, 6 Premonition, 7 Ignorance, 10 Manufacture, 11 Frivolity, 14 Miracle, 16 Sparse, 19 Slang, 21 Tic.

YESTERDAY'S CRYPTIC SOLUTIONS: ACROSS: 1 Battle-axe, 8 Ova, 9 Chamberlain, 11 Charles, 12 Stole, 13 Lahore, 15 Edison, 17 Story, 18 Dickens, 20 Ill-tempered, 22 Ass, 23 Yesterday. DOWN: 2 Ash, 3 Label, 4 Arrest, 5 Elapsed, 6 Connoisseur, 7 Sauternes, 10 Anachronism, 11 Celestial, 14 Royalty, 16 Adders, 19 Copse, 21 Era.

20 ~~19~~ ~~18~~

Target

HOW many words of four letters or more can you make from the letters shown here? In making a word, each letter may be used once only. Each word must contain the white letter, and there must be at least one nine-letter word in the list. No plurals ending in S; no foreign words; no words with initial capital; no hyphenated words. Every word is in Chambers Concise Dictionary 1988.

TODAY'S TARGET: 23 words, good; 27 words, very good; 37 words, excellent. Solution tomorrow.

YESTERDAY'S SOLUTION: Cent centre cert cite civet client cretin crit ctene elect enter enteric entice enticer entire erect event evert evict inert inlet inter invert lectern leet lent lenti lentic lint litre nitre recent recite recti relent relet relict relit rent rete reticle retie revet rite rivet teen telic tenrec tercel tern terne tier tierce tiercel tile tiler tine tire tree trice trine vent venter ventil VENTRICLE vert.

I	O	T
D	F	R
M	E	I

FORT
FORM
FORMED
FORK
GIRL
FIRED
FORT
FORD
FIRM
FIRMED
FRET
FRIED
FORMT

DEFORM
DEFT
DRIFT
RIFE
RIFT
MORTIFIED
FROM

Nationalist viewpoint
from yesterday's Burger

F W de Klerk holds initiative

ONCE again President De Klerk, through a strategic move viz the unconditional indemnity for 40 "political" prisoners, succeeded in retaining his grasp on the political initiative in South Africa.

The fact that he did not only indemnify leftist radicals but also a far-rightist like Mr Piet (Skiet) Rudolph, manifests an even-handedness which could only be to the good of the constitutional negotiating processes in the long run. At the same time it could serve to further the endeavours toward conciliation in the country.

Although those who have been indemnified were standing trial on serious indictments or were already serving sentences on account of serious offences, it is worth noting that in none of the cases concerned people had been caused physical harm.

That the ANC — which on account of its inability to make the progress it had hoped for, has changed into a proper political cry-baby lately — now utters great lamentations because Mr Rudolph has received the same treatment as its members, could really not impress anyone. One could rather justifiably ask whether the ANC has now become an advocate for double standards.

President De Klerk has, with his speech of February 2 last year and his conduct since, created a climate which has led to the diminishing to virtually nil of ANC terrorism against government and civilian targets. Indeed, there is still bloody violence in the country but it is being committed mainly by black on black and mostly as a result of differences that extend far into the past.

Although an organisation such as the ANC would not admit it openly, the realisation must have penetrated that its terror campaigns of the past have not brought it any advantage and that a return to this would be a futile exercise which would cause itself the most harm.

What South Africa now requires urgently is a spirit of forgivingness in which solutions to its problems may be sought. With President De Klerk's latest step he has demonstrated anew that in this the government is still in the forefront.

From the Bible

THE Lord is my shepherd; I shall not want. He maketh me to lie down in green pastures: he leadeth me beside still waters. (Ps 23:1-2)

TYPE SARI

LETTERS

Use Aids campaign wisely

From S J GILLMER (Plumstead):

A RECENT newspaper report states that the ANC has launched a mass campaign to educate people about the dangers of Aids. This campaign has begun in Natal and will be "taken into every house", according to an ANC spokesman, Mr Piliso.

At long last the ANC is accepting that Aids is not the white man's propaganda to limit black population growth. By showing the courage to tackle this delicate problem the ANC is to be commended. If everybody was to practise safer sex, perhaps we could all eventually benefit, as this campaign can focus much-needed attention on the population explosion problem.

Aids education could mean less promiscuity, wearing of condoms etc, and this will reduce population growth. At the same time as educating the masses about Aids the ANC would do well if they used this opportunity to promote the idea of smaller family units, thereby addressing the population explosion problem.

At present one baby is born every 26 seconds in South Africa. This means a total of 3 323 newborn every day.

49

BUDGET '91

Exempt: Mealie meal, brown bread

VALUE-ADDED TAX will be imposed on all foodstuffs except "graded" mealie meal for human consumption and brown bread when it is introduced on September 30 this year, Finance Minister Mr Barend du Plessis said yesterday.

At the same time, full input credit for capital and intermediate goods would be given "from day one", but input credits for cars bought by business organisations as proposed by Vatcom would lead to "considerable unintended benefits for those who enjoy the use of a company car".

Mr Du Plessis said there could be no justification for subjecting food and medicine to VAT while allowing an input credit for cars for "relatively affluent employees".

Drop in inflation

He said the benefit would be neutralised to some extent by the fringe benefits tax.

With regard to full input credit for capital and intermediate goods, the minister said the International Monetary Fund believed this could lead to a substantial drop in the inflation rate, if cost reductions from the elimination of "tax on tax" were passed on to the consumer.

The minister said mealie meal and brown bread had been excluded because they were the "major staple foods whose prices were of crucial importance for the great majority of people both rural and urban".

He said that the exemption of rail, bus and taxi transport as well as the exemption for welfare organisations "will further serve to soften the impact of VAT on lower-income households".

Minister slams ANC sanctions calls

Political Staff

MR Barend du Plessis yesterday launched his budget speech with a fierce attack on the ANC and certain trade unions.

Speaking on the need for stability to promote growth, Mr Du Plessis said the government needed the support of certain organisations and movements "that, in the name of political, social and economic equity, advocate sanctions or are involved in violence and labour unrest".

He pointed to recent calls by US Congressman Mr Tom Foley for the continuation of sanctions, despite the fact that — in terms of American legislation — they will soon be due for review.

Mr Du Plessis said Mr Foley, the Speaker of the House of Representatives, had made such calls at the behest of the ANC.

"One can assume that this includes financial sanctions, and that is an open strategy of moving goalposts," said Mr Du Plessis.

He asked: "Is the ANC a part of this move in the United States to move the sanctions goalpost?

"How does it rhyme with the view of the deputy president of the ANC (Mr Nelson Mandela) in Windhoek recently, on the necessity for investment, growth and work creation?

"Is all this hardship really the price the ANC is asking of large numbers of its own followers while the State President has repeatedly said: 'Come and talk, my door is open. Come let us begin negotiations, to work out a great and prosperous future together'?"

His message to the ANC was that equity could not be advanced by "economically destructive action".

"Emotional and rabble-rousing statements of leaders over the political spectrum may perhaps sound satisfactory or even favourable to themselves and their followers, but such pronouncements undermined business and investment confidence, to the detriment not only of their opponents, but also of their own adherents,' said Mr Du Plessis.

He also said strikes and wage demands that do not keep pace with productivity chased away investors, and with them the possibility of better economic and social opportunities.

However, the government was taking "courageous steps" on the revenue side of the budget, in firm confidence that:

- Sanctions supporters will soon "realise the counter-productivity of their work";
- Leaders of clashing groups will work for peace;
- Trade unions will assume their "responsible and constructive role";
- Sanctioneers will come to realise their responsibility towards the unemployed and the suffering, "and will begin to explain to them why there is no money for their relief"; and
- Business leaders and entrepreneurs, "for whom we are creating an investment and growth-friendly environment", would assume their role in the march to equity.

Schools increase won't end the turmoil

'HOLDING' ... Mr Roger Burrows

THE R3-billion increase in education spending would not help solve the long-term turmoil in education, and would barely pay to keep the present system afloat, according to some observers.

While education still commanded the largest slice of the budget at R16 billion, it might not be enough to develop faltering black education.

The ANC said a single education department was "a prerequisite for equitable allocation".

UCT's Professor Johan Muller welcomed the increase, but said the government still had a long way to go before it deserved congratulation.

The good intentions of lump sum payments allocated to help resolve the shortage of schools and infrastructure fell short of the need to create "one consolidated spending norm for all school children in South Africa", he said.

The Democratic Party education spokesman, Mr Roger Burrows, said the increase looked very much like a "holding operation".

He said that most of the increased allocation for black education would be taken up by last year's salary increases, leaving very little to employ further staff or build new schools.

The Teachers' Federal Council (TFC) welcomed the improvement of service benefits for teachers, and noted that an amount of R3,735 billion had been allocated for all employees in the government sector.

Mr Burrows said the Finance Minister's statement that "total education spending be limited in future to allocations decided by the department of National Education" was an indication of a move towards a single education ministry. — Education Reporter and Own Correspondent

16 million on poverty level

Political Staff

GLOOMY but frank ackowledgements about the extreme levels of poverty in South Africa were made yesterday by the Minister of Finance, Mr Barend du Plessis, in his budget speech and his budget review.

In 1989, some 44%, or about 16 million people, of the total population of South Africa, including the independent homelands, were estimated to be on very low incomes.

"One of the most daunting socio-economic issues is the great gap in development and income between people and communities.

"South Africa has one of the most unequal distributions of income in the world; but still more disturbing are the millions of South Africans who have to make do with pitifully low incomes.

"And there are similar disparities in the ownership of assets," Mr Du Plessis told Parliament.

The goal set by the government for every leader and every citizen was a new South Africa with justice for all, political, social and economic.

"It is the considered judgment of this government that the means to securing justice for all lies in the process of purposeful even-handed treatment, alike in the political, the social and the economic fields."

The theme of the 1991/2 budget was therefore "equity through growth and stability", Mr Du Plessis said.

The Budget Review, prepared by the Department of Finance, stated that the extent of poverty in South Africa was "still extremely great".

GDP fallen

"Poverty in South Africa has increased over the past decade and a half.

"This is reflected in the fact that the real gross domestic product (GDP) per capita has fallen since 1981 at an an average annual rate of 1,5%."

Unemployment in South Africa had shown an upward trend since the mid-'70s.

The decline in the capacity of the economy to absorb labour had assumed daunting dimensions.

In 1965-1970, 73,6% of the increase in the labour force was absorbed by the formal sector, but this fell to 62,7% between 1970 and 1975, 35,4% between 1975 and 1980, 21,9% between 1980 and 1985, and "an exceptionally low level of 12,5%" between 1985 and 1990.

"The implication is that only about 125 out of every 1 000 new entrants to the labour market in 1985 to 1989 were accommodated as full-time employees in the formal sector.

"Unemployment, therefore, has largely become entrenched in the South African economy as a structural problem."

The Review said that from the evidence submitted to Vatcom, the committee into an appropriate food strategy and the task force on poverty, certain vulnerable target groups could be identified for urgent direct aid.

- Pre-school children and expecting and lactating mothers;
- Children between six and 12;
- The aged and other social dependants, and
- Certain categories of the unemployed.

"There is evidence that undernourishment has already assumed critical dimensions in some cases," the Review said.

Barend marks R16bn for schools

Political Staff

THE government has earmarked a whopping R16,1 billion for education spending in the next financial year, with R6,833 billion going to blacks — a 27% increase on last year.

The Labour Party's boycott action also bore fruit: They will receive a one-off R90 million and the House of Delegates R75 million to address pressing needs.

White education spending will total R5,950 billion — an increase of 6% — while the budget for coloured education totals R2,303 billion (13,9%), and for Indians 977,3 million (18,6%).

Delivering his budget, Finance Minister Mr Barend du Plessis said that for years education had been the largest single component in the budget and in the 1991-2 tax year would account for 19,2% — before taking into account the contingency reserves and transfers to the TBVC homelands.

R1 billion had been earmarked for capital projects last year in a special fund, of which R750 million had been set aside for black educational capital projects.

Of this R188 million had been spent and the balance would be used this year.

Mr Du Plessis said it was proposed that an additional R269 million be added to the remainder of the R1 billion fund — with R212 million allocated for capital expenditure in black education.

Contibution

el3

The minister said special steps would be taken to ensure that buildings would be erected with the maximum support and co-operation of local communities involved and that if possible they would involve work-creation projects.

Mr Du Plessis said it was generally accepted that the massive backlogs in education necessitated great cost-effectiveness with the emphasis on skills-oriented education.

He warned that it was not unreasonable to expect that in the future a direct contribution by parents and local communities should play a larger role in educational financing.

Stott bitter, distraught over VAT

Staff Reporter

ANTI-VAT campaigner Mrs Eulalie Stott is bitter over the tax's extent.

"I am distraught at what is to be taxed," she told the Cape Times yesterday. "They have not even excluded powdered milk."

The outspoken city councillor, who stood alone on the streets with billboards deploring the new tax, said Dr Org Marais's advisory committee, Vatcom, had recommended to the government that several basic foods — including rice and milk powder — should be zero-rated.

"Vatcom stated that over 16 million people in South Africa can barely make ends meet, but now the government wants to tax people on every mouthful that they eat."

Apart from that, she said, they would also be taxed on water, electricity and medical services.

One concession that saved VAT from being a complete disaster, she said, was that certain businesses with a turnover of less than R150 000 a year would be exempt from paying VAT — which could mean it will be cheaper to buy food from street hawkers.

Spending on homelands up 24,7%

Political Staff

GOVERNMENT spending on the 10 homelands is to increase by 24,7% to a total of R9 811,5 million during the 1991/2 financial year.

But expenditure on buying land for the homelands is to be slashed by 76% from R53,5m to R12,7m.

No provision has been made for the purchase of properties in the four independent homelands, an item which cost R15m last year. This cut fol-

Squeeze on the giant hospitals

R37m to upgrade training hospitals

Mr Du Plessis said the benefit of VAT would also be seen in the possibilities it offered as far as excluding tax from export prices, and the elimination of the "cascade effect" of the tax on capital and intermediate goods in the production process, so that an item is only taxed once as part of the final product.

"It will make final products cheaper for both the domestic consumer and the export market."

Mr Du Plessis said that by excluding capital and intermediate goods from VAT, South Africa would be introducing a "pure consumption-type VAT". In comparison with GST it would lead to a much more efficient use of capital and labour.

HEALTH spending in the Cape is to increase by a net R56,3 million in the current financial year, but the squeeze is on the giant Groote Schuur and Tygerberg teaching hospitals.

The expenditure on hospital and health services in the province is to increase to R1 821,4 million in the 1991/2 financial year.

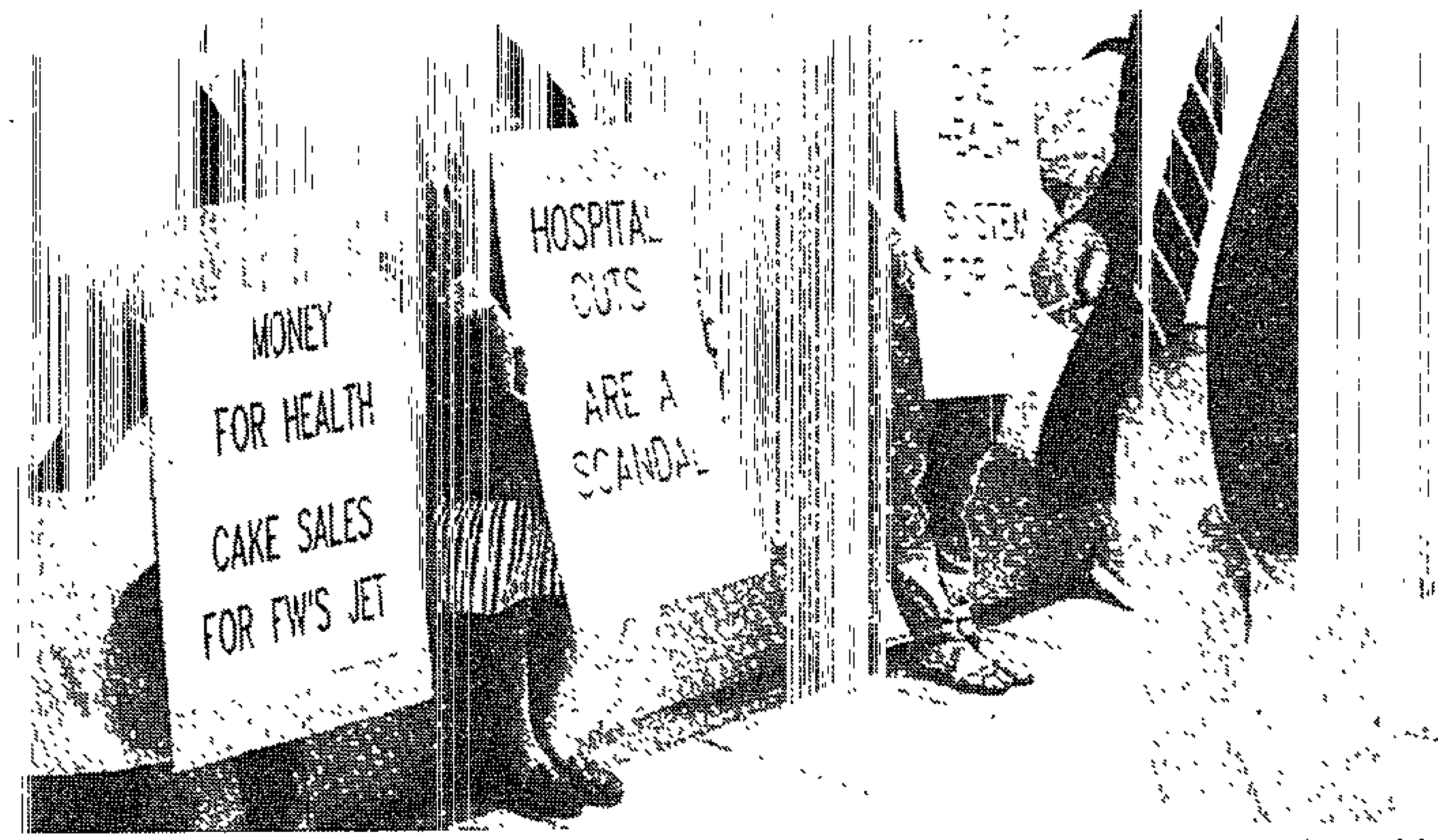
This will involve increases of R225,8 million and decreases of R169,5 million, reflecting a net increase of R56,3 million, according to the Estimates of Expenditure for the Cape, which were tabled in Parliament yesterday.

Last week, the Minister of National Health, Dr Rina Venter, said Groote Schuur cost R358,2 million and Tygerberg Hospital R319,7 million.

The estimates for the current financial year provide R273,3 million for Groote Schuur and R235,9 million for Tygerberg. However, last year the estimates budgeted R249,1 million for Groote Schuur and R221,8 million for Tygerberg.

This suggests that the original budget estimates for both hospitals were considerably lower than their actual costs, but with the government's stated commitment towards primary health care and training, both hospitals, two of the most expensive to the taxpayer in South Africa, are going to have to reduce their expenditure substantially.

Overall, the Cape budget will total R3 625,9 million, compared to R3 182,2 million in 1990/91.



BLACK SLASHES . . . Members of the Black Sash in Cape Town protested outside the Cape Provincial Administration offices yesterday against the stringent health cuts at provincial hospitals in the Cape. Picture: ANNE LAING

Political Staff

THE government is to pump R37 million into providing more effective training facilities at the King Edward VIII, H F Verwoerd and GaRankuwa hospitals and establishing a hospital in Botshabelo, Finance Minister Mr Barend du Plessis announced yesterday.

Private sector

Announcing an 8,9% increase in spending on health, Mr Du Plessis said that in future the state's role in health service delivery would increasingly shift to the provision of primary health services and and "more affordable curative health services for the needy".

However, of the R8 175 billion budgeted for health in 1991/92 only some five percent will go to primary health care, said Mr Du Plessis.

He added: "Experience has shown that the health status of a community is influenced to a significant degree by expenditure outside the strict health field, for example the supply of water for domestic use, sewerage, housing and balanced nutrition.

"Various measures for which funds are being supplied in this budget are therefore indirectly supporting primary health care," he said.

Specialised

Mr Du Plessis said the private sector continued to devote itself to more specialised curative health services "for that portion of the population that can bear economic tariffs".

"The important role that the private sector plays in this regard emerges from the fact that (its) expenditure on health already represents some 45% of total health spending," he said.

The Estimates of Expenditure, which were tabled in Parliament last year, make provision under the Foreign Affairs vote for budgetary aid to the independent homelands of Transkei, Bophuthatswana, Venda and Ciskei to go from R2 644,9m to R3 551,9m.

A further R86m has been set aside for the industrial incentive schemes in the TBVC homelands and R13,6m for "ad hoc grants", for which R6,1m was budgeted last year.

Under the Development Aid vote, R6 160m has been provided for the six non-independent homelands, compared to the R5 129,9m budgeted last year.

New housing schemes give hope to thousands

Political Staff

BEEFED-UP housing schemes should allow an additional 90 000 families to acquire housing or a serviced stand in the coming financial year, according to the budget review tabled in Parliament yesterday.

However, the actual amount provided for housing in the budget drops from the R1,208 billion in the 1990/91 financial year to R1,087bn in the coming financial year.

An ad hoc additional appropriation of R60 million for housing expenditure is also proposed for the House of Representatives.

The review points out, though, that these amounts are not strictly comparable for purposes of evaluating the progress of low-cost housing, inasmuch as certain off-budget loci have come into existence that provide various forms of financing in this field.

The review notes that the rapid pace of urbanisation has resulted in serious housing shortages which could grow, particularly for people in the lower-income groups.

"It is estimated that over 1,6m people in South Africa can be regarded as squatters as presently defined, while another 1,7m live in back yards.

"The pressing backlogs in housing in respect of particular population groups are cause for very serious concern."

The review says state spending on housing must accelerate, and adds that a "leverage mechanism" must be devised in respect of private sector funds if backlogs were in any way to be "significantly dented".

The review adds: "The government is at present giving close to possible measures to promote the optimal utilisation of the appropriation for housing."

It said an "early announcement" would be made in this regard.

Focus pleases Jan Steyn

THE focus on development in housing, education and health was welcomed by the chairman of the IDT, Mr Jan Steyn.

Mr Steyn said in a statement that the IDT was encouraged by the reorientation taking place in state funding.

"The war on poverty has to be fought by everyone in this country, if we are to create a just and peaceful society.

"The minister is continuing to commit the state to this vital task," Mr Steyn said.

"The allocation of about R1 billion to housing will complement our own R750 million initiative," Mr Steyn added. — Sapa

Minister reduces racial pensions gap by 20%

Political Staff

FINANCE Minister Mr Barend du Plessis has moved to close the gap between white pensions and those for other race groups by 20%, allocating an additional sum of R505 million to this.

He said the government was committed "to the fastest possible elimination of disparities in all population groups", but to implement this immediately would "involve unaffordably high additional expenditure, particularly in the special circumstance prevailing this year".

Black pensions will go up 29% — R55 — on April 1 from R175 to R225. This will also apply to blacks in self-governing areas.

Coloured people and Indians will get R263 a month, an increase of R38 or 17%. White pensions will go up R28 from R276 to R304 — a 10% increase.

Mr Du Plessis referred also to the Mouton Committee's finding that the means test had a negative impact on personal savings and should be scrapped. However, "at this stage the abolition of the means test would clash with the preference being given to affordable targeted aid", he said. He added that a start had already been made on reviewing the means test.

"A start will also be made with the equalisation of the qualifying ages for men and women through the gradual raising, over a period of 10 years, of the age 60 now applicable to women to the 65 applying to men," he said.

Mr Du Plessis described the move to close the pension gap in the midst of a restrictive budget as "a leap of faith — faith in an economic future without sanctions and with strong economic growth".

"In the absence of these, not only would the remaining gap definitely not be closed by further jumps of the magnitude of 20%, but the parity road would in all likelihood not be followed to the end."

The total budgeted on social assistance in 1991/92 is R5 983 billion — including R820m for the increase in all pensions and the supplementary sum of R505m to advance equalisation, an increase of 22,7% on last year.

Mr Du Plessis said the narrowing of the disparity in old-age assistance allowances would "also make a considerable contribution to the relief of poverty".

Parity: 'Govt can't be serious'

Staff Reporter

THE government could not be serious about creating an atmosphere of reconciliation and not even white pensioners would be able to make ends meet with the new pensions budget aimed at achieving parity.

This was said by Mr Syd Eckley, director of the SA National Council for the Aged (Sanca), yesterday in reaction to the budget increases of between 10% and 28% for pensioners.

Mr Eckley said black pensions had dropped from a 35% increase last financial year to 22% this year while their infrastructure compared dismally with that of whites.

While 8,5% of white pensioners were housed in old-age homes, only ,009% of blacks were. This came at a time when traditional care of the elderly among blacks was on the decline.

The government was paying the price for apartheid and for ignoring parity in pensions over the years, Mr Eckley said.

Mr Willard Zantsi, chairman of the Cape Peninsula Black Pensioners' Organisation, expressed "terrible disappointment" and asked the government to reconsider.

With the inclusion of VAT the government would have to find some alternative for black people to "look for simple jobs in order to survive".

"We had great hopes — I'm afraid of the reaction of black pensioners when I tell them it's only R50," he said.

Mr Eckley said more old-age homes would have to be built at greater expense because higher increases were not given to people outside institutions.

"Indigent people should at least get an income they can survive on — not even whites will make it on these figures at today's prices, not to mention the crippling effect of the new VAT."

Welcomed by NP

Elderly people were partly to blame for having "taken this beating lying down — they have not even touched the political muscle that grey power has", he said.

Mr Zantsi said blacks would have to "vigorously consider" using "grey power" for a protest march to Parliament.

In Johannesburg Mrs Sheila Camerer, MP, chairman of the National Party caucus group on welfare, housing and works, said the NP welcomed the increases in pensions and the move towards pension parity, reports Sapa.

Housing : ANC, IDT 'incredulous'

Staff Reporter

ANC and Independent Development Trust (IDT) housing spokesmen were incredulous yesterday that the overall amount allocated to housing did not go up in this year's budget, contrary to expectations.

Mr Barend du Plessis said the amount to be provided for housing in 1991/92 would drop from R1,208 billion last year to R1,087bn this year.

He added that these amounts were not "strictly comparable" because of various off-budget considerations.

A spokesman for one of the housing bodies said some of the "off-budget considerations" were in fact on-budget in previous budgets.

For example, Mr Du Plessis welcomed the initiatives of the IDT "which recently announced that R375 million would be made available in each of the following two years for housing".

This, plus this year's housing budget, plus the completion of existing schemes by housing authorities, should enable 90 000 or more families to get a serviced stand or a house this financial year, Mr Du Plessis said.

One spokesman said it was "cheating" to conflate this year's budget with unspent allocations from previous years.

Mr Trevor Manuel, publicity secretary of the ANC, was incredulous that the amount to be spent on housing would not rise.

Mrs Eulalie Stott, chairman of Cape Town's Housing Committee, said the City Council understood that it would be getting no money at all from the government.

And the National Association of Home Builders said the government had recognised the importance of housing in the process of social upliftment and political reform.

Relief is 'too little'

JOHANNESBURG. — Welfare organisations welcomed the government's commitment to allocate 38% of the budget to social spending — but felt the additional R220 million special relief programme for South Africa's poverty-stricken masses was "not enough".

In a joint statement, the Concerned Social Workers, South African Black Social Workers' Association, Johannesburg Child Welfare Society, Action Group on Social Services and the Disabled People of South Africa said they also welcomed the narrowing of the pension gap between races by 20%.

However, voluntary organisations said the extra R220 million special relief programme for South Africa's poverty-stricken masses would help, but was not enough.

The emergency fund would target the basic needs of the "outright impoverished", Finance Minister Mr Barrend du Plessis said in his budget speech yesterday.

Operation Hunger financial director Mr Bernie Cohen said his organisation was spending R33 million this year to help the needy and the R220 million was "chicken feed" in the face of a huge problem.

World Vision of South Africa field operations manager Mr Martin Foot said: "I am surprised at the smallness of the amount."

He said the money was emergency relief to those suffering and was only temporary.

Red Cross Cape regional director Mr Keith Gower said the money would not take any of the burden off the voluntary organisations. — Sapa and Staff Reporter

Socio-economic services given more attention

(49)

Sowetan 21/3/91

THE Government's greater stress on socio-economic services represented a leap of confidence that was being made to create a more stable climate in South Africa, Minister Barend du Plessis, said yesterday.

He also said in his Budget Review that there could hardly be further progress in reducing socio-economic backlogs made unless economic growth could be drastically increased in future.

The policy choices in the Budget were being made in full confidene that both the local and international business community would use the opportunity to show - in circumstances where unrest and violence should largely disappear - greater investment confidence in the country.

Expenditure on social services would already have reached 38,2 per cent of total State spending in 1991/92.

The host of urgent socio-economic issues required that in certain respects the composition of State expenditure be further restructured urgently and drastically to ensure greater fairness in State spending on various communities.

It was particularly important that State funds filtered down to ground level to all those who were meant to benefit from them.

Policy

It was necessary that certain policy decisions be pushed through with all speed and minimal disruption. Without this there could be no real reshuffle of existing spending priorities.

It was necessary that everyone commit themselves jointly to promoting a stable environment, and strengthening confidence in the future, to attract local and overseas investment in job-creation projects.

He said the fundamental re-evaluation of capital spending in the broad Government sector meant that funds could be unlocked for creating socio-economic infrastructure in developing urban and rural communities.

At the same time it created an opportunity for the private sector to enter the field formerly dominated by the public sector.

Thus, for example, the Industrial Development Corporation would make two separate investments of R500 million each in the Development Bank of Southern Africa in the next two financial years, to replace the Government's liability.

This reflected an important restructuring step and Goverment sector rationalisation in that funds normally used industrial import-replacement development were being chanelled, in a less capital intensive way, into important socio-economic backlogs.

The greater stress on socio-economic services represented a leap of confidence made to create a more stable climate in South Africa.

This, together with the tax reforms, should create a more favourable environment for the business sector to create jobs. - *Sapa*

BUDGET/'91

Some bitter pills to swallow...

49

Sowetan 21/3/91

THE Budget had been so designed that the total tax burden was not increased but that progress was made towards spreading that burden over a broader base, Minister Barend du Plessis said yesterday.

Introducing his Budget speech with the theme of "Equity through Growth and Stability", he said the Budget also carried a message that sought the support and cooperation of a wide spectrum of people.

"This Budget asks, for the sake of our country, the cooperation of all alike, from those who this year will have to swallow some bitter pills and from those who, by contrast, will get a spoonful of syrup."

The Budget mirrored the Government's courage of its convictions.

One of the most daunting socio-economic issues was the great gap in development and income between people and communities.

South Africa had one of the most unequal distributions of income in the world. Economic justice, however, did not mean equal income and equal wealth for all.

"It is the considered judgment of this Government that the means to securing justice for all lie in the process of purposeful, even-handed treatment."

Equity was seen differently by people, with the have's seeing it as their wealth being given to the less well-off. The have-not's saw equity as taking welfare from those who have.

"The concept equity can now cause, in both the political and social spheres, confusion, and even tension, between those who have and those who don't."

By equity the Government meant that "we shall not unjustly dispossess anyone of their income or assets, nor will we allow such a thing to take place.

"By equity we mean that on the revenue side we take in the fairest possible manner and on the expenditure side we give those in real need a chance to survive.

"We further seek to give those who have fallen behind a fair starting chance, hence the high priority awarded to housing on the basis of land occupation and home ownership."

No-one could maintain a household if without work or if he was illiterate or untrained.

Boost

The Budget, therefore, gave a boost to education and "particularly Black education where the need is by far the greatest."

Du Plessis said cooperation was needed from organisations and movements, both local and overseas, that advocated sanctions in the name of political, social and economic equity and were involved in violence and labour unrest.

The Budget also carried a message to manufacturers, entrepreneurs and other suppliers of products, services and job opportunities that they would increasingly be enabled to grow to create jobs and welfare in which all could share.

Through the stabilising of the economic rules of the game, the private sector was also being increasingly drawn into the responsibility of accepting the great socio-economic challenges.

Du Plessis said the Budget had allowed scant room for manoeuvre on the both the revenue and expenditure sides and strict priorities had, therefore, to be determined. – *Sapa.*

Rise in consumption spending continues

Star 21/3/91

By Michael Morris

(49)

Production levels in mining, agriculture and manufacturing fell last year, but the service industry showed moderate growth, according to the Budget review.

Private consumption spending continued to rise during the present downphase of the business cycle, but real gross domestic expenditure fell by about three percent in 1990, against the one percent drop in 1989.

Real government consumption expenditure in 1990 was about one percent higher than in 1989, though the rate of increase was both considerably less than the 3,5 percent of 1989 and the lowest growth rate for the past 12 years.

The review, by the director general of the Department of Finance, Gerard Croeser, says: "Although the economy has been in a downward phase of the business cycle since March 1989, real gross domestic product (GDP) rose by two percent in 1989.

"The relatively favourable conditions throughout the greater part of the year were attributable mainly to good harvests and a continued sharp increase in the volume of exports.

Poor harvest

But from the fourth quarter of 1989, there was a noticeable change as a result of a poor wheat harvest and decline in mining production.'

The resultant fall in the GDP continued through 1990.

For 1990 the negative growth in real GDP is now estimated at slightly less than one perent. Real GDP per capita fell by about three percent in 1990 after having been unchanged in 1989.

After a new high for the 1980s in the third quarter of 1989, real agricultural production then fell continuously.

In the mining sector the fall of one percent in the value added in 1989 was followed by a further 1,5 percent in 1990.

Real value added in the secondary sectors, which had risen by 1,5 percent in 1989, fell by 1,5 percent last year.

Budget seen as the toughest yet

(49)

Star 21/3/91

By Derek Tommey

Hard times are in store for the average South African salary and wage earner following yesterday's budget.

He faces higher income taxes, higher excise duties on cigarettes and tobacco and new taxes on a large number of other items including food which were not taxed before.

About the only ray of sunshine in a depressing Budget for the ordinary taxpayer is the prospect of a lower petrol price.

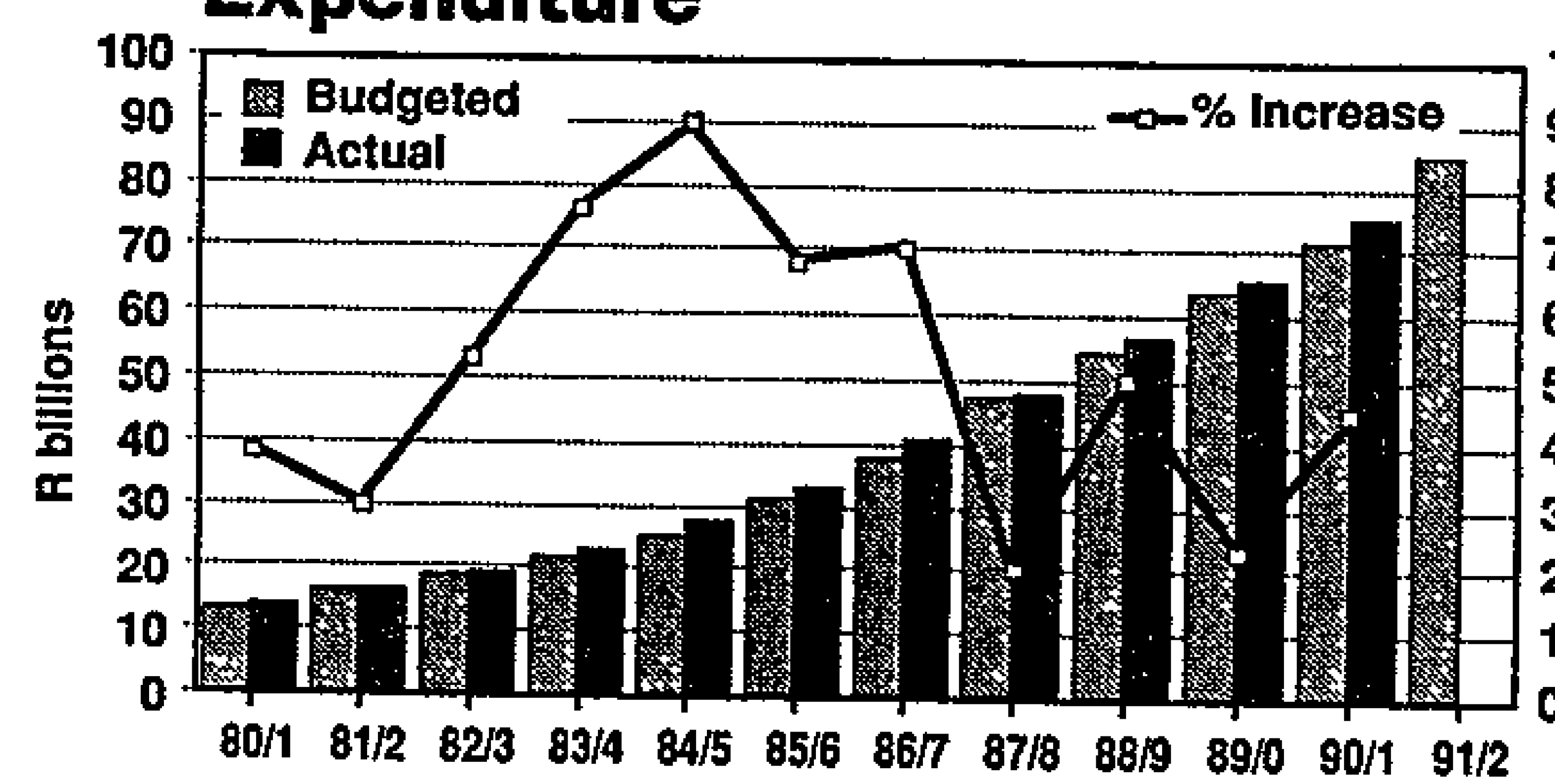
But it is not the time to cut your throat, as one small businessman last night sardonically suggested he should do. If the Budget, with its heavy emphasis on helping the poor at the expense of the better off succeeds in its purpose, more prosperous times could soon be here.

For it is evident the Budget is aimed at muzzling complaints by the ANC about the lack of social spending.

Dr Jan Hupkes of the UNISA School of Business Management described the Budget as an exercise in matching available resources with needs.

But at the same time the Budget is also aimed at showing the rest of the world that the country is doing its utmost to improve the lot of the poor. However, it cannot do more unless the economy starts growing — which means that sanctions have to be lifted.

Expenditure



The Minister of Finance, Barend du Plessis, made this plain in his speech, saying that nothing more could be done about equalising social pensions while the economy was restricted by sanctions. He described the Budget as "an act of faith".

The intention of the Budget to create an improved economy by winning support from abroad drew a favourable comment from the mining giant, the Anglo American Corporation.

"Clearly, the Budget is structured on the important assumption that, in response to further political reforms, sanctions will be lifted and investment will start to flow," it says.

"We echo the Minister's ardent call to internal and external groupings working to the detriment of this eventuality to adopt a more constructive, responsible role."

Time will tell whether the Budget could influence the American authorities to lift sanctions by the end of April.

But in the meantime, Mr du Plessis's failure to significantly adjust the tax tables for inflation means an effective real increase of about six percent in income tax rates.

A year ago a man earnings R50 000 a year was paying just over 25 percent of his earnings in tax. After adjusting his pay for inflation he will now be paying more than 27 percent of his earnings to the Government.

The 12 percent VAT rate on essentials as well as luxuries will also be a considerable burden, even though the Government says that it will produce less tax than GST.

However, the cut in the petrol price is a welcome development, despite the Treasury grabbing some of the price savings.

One minor bright spot in the Budget is the reduction in the company tax rate from 50 to 48 percent. This will benefit retailers and other service industries which have few investment allowances to help reduce their tax rate.

But the bulk of the private sector is already paying a lower rate than this anyway. And proprietors of private companies have been circumventing the higher company tax rate by paying themselves their profits as salaries and wages.

The emphasis in the Budget on providing low cost housing and schools should give a shot in the arm to the construction industry and building suppliers. Shares in PPC, the country's biggest cement producer, have already been hitting new peaks in the past few days in anticipation of the Minister's announcement.

The R16 billion the Government is planning to spend on education should in time produce a better educated society. But for the present, investment analysts will have their work cut out to find a way to participate in the profits from this huge expenditure.

There are few listed companies which are active in the education field. Perskor and Mast are two which publish school books, while CNA Gallo should benefit from the increased sale of stationary.

The Government's decision to leave the provision of health service mainly to the private sector reflects it lack of resources.

How the money is spent

Star 21/3/91 (49)

The 1991/92 Budget, totalling R84,9 billion, will be divided up as follows. The figures in brackets refer to the 1990/91 allocation.

- State President..... R17 419 000 (15 905 000)
- Parliament............ R45 046 000 (36 903 000)
- Bureau for Information .... R41 595 000 (41 354 000).
- Foreign Affairs.................. R4 9032 377,000 (3 831 487 000)
- Constitutional Development. R14 257 000 (14 460 000)
- Defence.... R9 187 096 000 (R10 070 995 000)
- Mineral and Energy Affairs R1 067 456 000 (1 133 610 000)
- Privatisation............. R4 064 000 (2 563 000)
- Justice................ R527 108 000 (430 873 000)
- Correctional Service........... R1 275 032 000 (878 166 000)
- Administration: House of Assembly......... R8 430 772 000 (7 657 253 000)
- Finance........: R1 537 164 000 (1 317 484 000)
- Audit...................................... R500 000 (1 000)
- Regional Development.......... R966 055 000 (848 542 000)
- Manpower........... R300 543 000 (328 061 000)
- Administration: House of Representatives............... R3 560 111 000 (3 245 384 000)
- Administration: House of Delegates......... R1 294 252 000 (1 171 772 000)
- Police............ R4 631 833 000 (3 027 690 000)
- Water Affairs and Forestry.. R374 874 000 (373 152 000)
- Trade and Industry R1 839 883 000 (1 358 068 000)
- Education and Training.... R3 135 681 000 (2 536 823 000)
- Home Affairs..... R281 435 000 (241 157 000)
- Transport...... R1 496 275 000 (1 514 179 000)
- Public Works and Land Affairs R1 842 061 000 (1 569 402 000)
- National Health and Population Development................... R632 713 000 (540 468 000)
- Planning, Provincial Affairs and National Housing........ R656 205 000 (711 273 000)
- Agriculture.......... R253 770 00 (302 014 000)
- Development Aid R6 067 616 000 (5 229 863 000)
- Commission for Administration........ R160 578 000 (407 337 000)
- Improvement of Conditions of Service........ R2 875 134 000 (1 921 474 000)
- Central Economic Advisory Service........ R4 640 000 (2 138 000)
- National Educational R299 601 000 (294 923 000)
- Environment Affairs R168 505 000 (156 421 000)

These figures do not include certain additional and supplementary expenditures and so may not add up to the R84,9 Billion total.

Helping hand for the poor

Star 21/3/91 49

Food aid to the poor, VAT on all basic foods barring mealie meal and brown bread, separate taxation for married women and closing the pension gap between white and black are some of the main features of yesterday's Budget speech. Finance Minister Barend du Plessis also announced increases in spending of 19 percent for education and 8,9 percent for health. In a reduced security budget, defence spending drops and police spending increases by 53 percent.

These reports by Political Correspondent PETER FABRICIUS and The Star's political staff.

DIRECT food aid is to be given to the poor and the pension gap between white and black is to be cut by 20 percent this year, Finance Minister Barend du Plessis announced yesterday in his Budget speech.

The Government has also decided to impose the new value added tax on all basic foods except mealie meal and brown bread.

Special aid programmes — including food aid — are to be introduced to help compensate the poor for the loss of the GST exemption on all basic foods.

But in a windfall for commerce and industry, and possibly the consumer, the Government has decided to grant companies full credit for VAT on capital and intermediate goods, immediately VAT is introduced on September 30.

A Budget Review accompanying the Budget speech expresses the hope that this step will lead to a considerable drop in the inflation rate, provided this is passed on to consumers.

Good news for working wives is that from the 1992 tax year, all their income will be taxed separately from their husband's income.

The Government has rejected the Mouton Committee's recommendations that the disparity between black and white pensions should be wiped out in a single go.

But it has agreed to close the gap by 20 percent this year, after the regular increases in this year's Budget. The committee estimated that to equalise social pensions immediately would cost an extra R1,6 billion, excluding the TBVC states, if the means test were kept.

Including the TBVC states and abolishing the means test, the cost would be R4 billion.

The Budget Review says this might commit the Government to greater expenses than it is able to bear.

It also rejects the idea of scrapping the means test, as this clashes with the principle of targeting aid to the needy.

Hefty boost for education spending

Star 21/3/91.

MORE than 19 percent of the Budget is going on education in a spending thrust to meet the needs of more than 8 million pupils and students.

Proposed expenditure of more than R16 billion is 16,1 percent higher than the revised expenditure for last year.

No less than 18,5 percent of the Budget is going to education, compared with 17,5 percent last year.

Finance Minister Barend du Plessis said that, judged by international experience, the South African education budget was already high and the solution to education bottlenecks would therefore not be found merely in more spending.

Radical adjustments would have to be made in terms of the education renewal strategy now being considered by the Committee of Ministers of Education to provide more efficiently for the burgeoning demand for quality education, but without having to make a higher claim on resources.

"Meanwhile, the pressing shortage of schools and accompanying infrastructure must receive urgent attention.

"Of the R750 million set aside last year from the additional R1 billion for black education, R188 million has been spent, while the remaining R562 million will be spent this year. It is proposed that this amount be increased by R212 million."

These expenditures are to be financed from the release of funds following the shrinking need for strategic stockpiling.

Further sums of R160 million for current expenditure would be provided for black education, as well as one-off transfers of R90 million and R75 million for coloured and Indian education.

Mr du Plessis added: "Special steps will be taken to ensure that the building of these schools and the the supporting infrastructure draws the maximum support and participation of local communities and that building operations take the form of work-creation projects wherever possible."

The Budget Review notes that the number of pupils in the formal education system in South Africa is growing at 4 percent a year.

Last year, the number of learners passed the 8 million mark.

The review says the movement towards equal education is a high priority. □

Shot in the arm for health spending

Star 21/3/91

TOTAL spending on health goes up 8,9 percent to R8,1 billion and will account for 9,8 percent of overall Government expenditure.

However, less than 5 percent will go towards primary health

Development in other fields such as housing, nutrition and proper services also had a "supporting function" in improving primary health.

The private sector continued

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It also rejects the idea of scrapping the means test, as this clashes with the principle of targeting aid to the needy.

The Budget Review predicts that the present recession could bottom out late this year or early in 1992.

The medium to long-term prospects are also "much rosier" than in previous years, although this depends on favourable economic developments in the rest of the world, policy decisions and local social conditions, especially the success of political negotiations.

It would also require a reduction in internal unrest and greater labour stability.

Better prospects for growth have already appeared, such as falling foreign debt ratios, increases in gold and foreign reserves, a more stable exchange rate, and improved political and economic relations with overseas trading partners as well as agencies such as the International Monetary Fund and World Bank.

But the Review warns that any changes in economic policy will have to be gradual and that combating inflation must remain a high priority.

Reviewing the past year, the Review says double-digit inflation and unemployment have become entrenched. Poverty remains a major structural problem and about 44 percent, or 16 million, of the population earn very low incomes. □

In the bag

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BUSINESS

Deficit before borrowing is R10,1-bn

(49)

The Budget deficit before borrowing was R10,118 billion or 3,4 per cent of the Gross Domestic Product, the Minister of Finance, Mr Barend Du Plessis, said in his Budget speech.

R950 million of this would be financed from funds coming from the diminishing need for strategic stockpiling, while a further R206 million would be financed from the 1990/91 surplus after borrowing.

"The remaining R8,962 billion constituted 3 percent of the GDP, which was higher than the revised ratio of 2,7 percent for 1990/91.

"The deficit before borrowing is, by virtue of all the fiscal commitments and tax reform in particularly tight economic circumstances, unfortunately still above the level of capital spending — which is estimated to amount to 1,8 percent of GDP this year". Star 21/3/91

Loan redemptions for 1990/91 were expected to be about R5,416 billion, which would bring the country's net financing need to R14,378 billion.

"It is planned to finance this chiefly from domestic stock sales to the amount of R14 billion, including investment by the Public Investment Commissioners.

"In the light of the relatively modest loan programmes of other public sector institutions, the State's financing requirement this year should reinforce the slightly downward trend that long-term interest rates have begun to display," he said. — Sapa.

No further weakening of economy ahead, bank says

Star 21/3/91

By Sven Lünsche

49

The Reserve Bank says an early recovery in the economy is not likely.

It says in its March Quarterly Bulletin: "A diagnosis of an imminent bottoming-out of the current downswing would not be warranted at this stage."

However, current available economic data do not suggest a serious further weakening of the economy.

Pessimistic

The bulletin, which coincides with the economic review in yesterday's Budget, paints a pessimistic picture of economic prospects for this year "which will most probably turn out to be another year of 'consolidation'".

The bank expects little or no positive, and quite possibly mildly negative economic growth in 1991, "while the groundwork is being laid for a more decisive cyclical recovery from late 1991 or early 1992 onwards".

It warns that the lack of room for manoeuvre on the balance of payments and stubborn inflation rates will preclude any substantial easing of monetary and fiscal policies.

World trade

Factors likely to hold back a more lively performance of the economy this year include:

- A further slowing down of real growth in world economies and world trade, with attendent effects on demand for SA exports.
- An indifferent performance of the gold price.
- Higher world oil prices.
- Relatively poor agricultural harvests with an accompanying need for imports of staple cereals.

The bank says investment spending will be held back by the uncertainty factor arising from the current unrest and the unforeseeable nature of South Africa's future economic and constitutional dispensation.

"Allowance also has to be made for a possible setback to consumer confidence, in the light of less buoyant employment opportunities, less favourable prospects for inflation-adjusted salary and wage increases, and the heightened burden of household debt."

Turn for better

However, certain recent developments imply a "turn for the better in various respects".

These include the rapid end to the Gulf war, which has lifted the outlook for the US economy, better prospects for SA agriculture, a gradual dismantling of sanctions and disinvestment and a moderation in wage increases in the private economy.

Current account surplus soars to near-record

Star 21/3/91 (49)

By Sven Lünsche

The current account of the balance of payments surged to its second largest surplus ever in the fourth quarter of last year, the Reserve Bank reports.

The surplus, the result of record high merchandise exports and a substantial decline in imports, surged to an annualised level of R9,7 billion in the fourth quarter from R4,2 billion in the preceding three months (see graph).

In its Quarterly Review the Bank says the record exports and lower imports outweighed the effect of an increase in net service and transfer payments to foreigners and marginal decline in earnings from gold.

The surplus in the last three months of 1990 was South Africa 24th consecutive quarterly surplus and pushed the annual current account surplus for 1990 to R5,8 billion. In 1989 it was only R3,1 billion.

The positive impact of the current account was, however, partly offset by renewed outflows on the capital account.

The bank says the net inflow of foreign capital totalling R1,5 billion was reversed into a net outflow of R1,8 billion in the fourth quarter.

"The renewed outflow of long-term capital in the fourth quarter mainly took the form of debt repayments outside the standstill net, as well as an increase in SA's foreign asset holdings."

Total outflows

Total capital ouflows last year increased to R1,9 billion from R1,2 billion in 1989.

The large and sudden rise in the surplus on the current account of the balance of payments reflected a significant decline in real gross domestic expenditure (GDE) in the fourth quarter.

GDE fell by three percent last year as companies cut back on their fixed investment expenditure and reduced their inventory levels.

The decline in GDE was largely responsible for a one percent decline in the overall economy last year.

"The marked retreat of GDE, particularly in the fourth quarter last year, was largely accounted for by a further contraction of fixed capital formation and a major drawing down of total real inventories."

Real gross domestic fixed investment and real fixed investment by the private sector fell by surprisingly low rates of one and 0,5 percent respectively, but total inventories fell by a huge R5,5 billion in the fourth quarter alone.

The net change in inventories over the year was R3 billion and this de-stocking contributed more than 2,5 percentage points to the three percent fall in GDE.

Despite the decline in GDE, consumption expenditure by the private sector and the government showed surprisingly strong growth, particularly in the fourth quarter of last year.

Government consumption expenditure soared by an annualised 16 percent in the fourth quarter, while private consumption expenditure rose by two percent during the three months, with strong outlays (five percent growth in the fourth quarter) recorded on consumer durable spending.

This boost in spending has led to an acceleration of the long-term upward drift of consumption spendingrelative to the gross domestic product.

"This ratio quantifies the increasingly consumption-orientated nature of SA society, which, given the rapid expansion of the labour force, is clearly at variance with the long-term interests of the economy."

Slackening of the domestic economy resulted in erratic employment growth in 1989 and higher unemployment in the first three quarters of last year.

Further growth

Total employment fell by 2,1 and 1,2 percent respectively in the second and third quarter of last year and seems likely to show further growth in the fourth quarter.

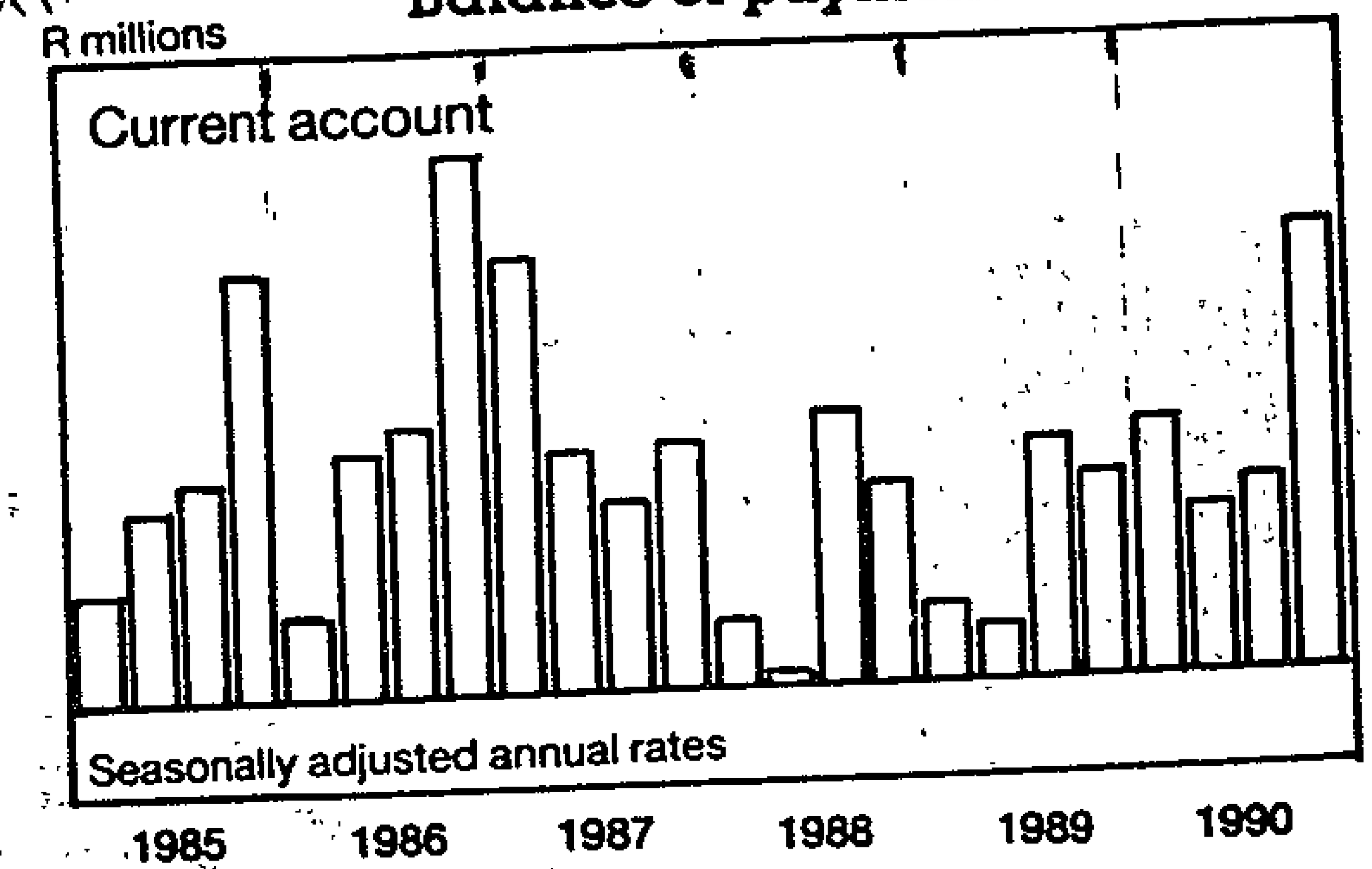
Despite higher unemployment levels, employee remuneration still runs at levels well above the inflation rate.

In the non-agricultural private sectors the speed of year-on-year nominal wage increases retreated from a peak of 18,3 percent in the fourth quarter of 1989 to rates 17,8, 16,3 and a comparatively modest 13,4 percent in the first, second and third quarters of 1990.

Data for the fourth quarter indicated a further retardation of wage increases, "which would appear to reflect employer resistance to extravagant wage demands in the less buoyant business conditions of last year."

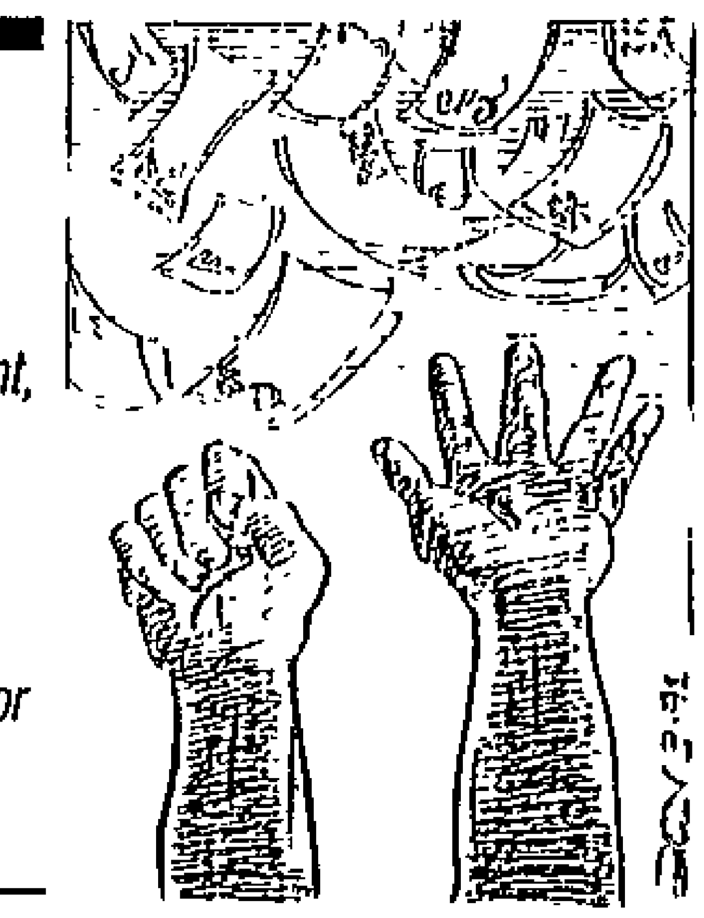
In the public sector the increases were more pronounced, accelerating from only 5,6 percent in the first quarter of 1990 to 18,6 and 22,2 percent in the second and third quarters respectively.

Balance of payments



"You'll be amazed at how creative people are when you encourage them, show them ways of doing things traditionally — like stokvels, credit unions that is a local resource." — Achmat Dangor

"It will be four to five years before South Africa will lose priority for my government, which has no substantial interest in the area." — Australian ambassador Mr Colin McDonald



"Our commitment to South Africa is long term. When the country gets a democratic government this does not mean were are going to walk away from it." — Mr John Sawers, First Secretary at the British embassy

South 21/3 - 27/3/91 (49)

needed, and this deals not with self-fulfilling processes — "I want my liberation" — that in a sense is what activism has come to mean.

"We need an activism that deals with locating with local communities' resources that those communities can use, helping to unlock local resources.

"You'll be amazed at how creative people are when you encourage them, show them ways of doing things traditionally — like stokvels, credit unions — that is a local resource."

How to develop those people in the shortest period of time is the greatest challenge Kagiso Trust has faced.

"If we don't do that in the shortest period of time the most marginalised people will become even more marginalised."

The trust's community based development programme deals with hard skills, exposing people to different models of economic organisation

The programme teaches people that money is not just a passive tool, instead of being deposited in a bank it can be used effectively in an economy like South Africa's.

People are taught to create more money, how to gear it up, turn it into a guarantee for a loan at low interst rates.

"Development workers must not be seen as a magician who is going to areas and is going to wave a wand and solve people's problems," Dangor said.

"That person can only help people develop an understanding of the things they need to do and find the most appropriate way of doing it."

A NATIONAL DEVELOPMENT policy is urgently needed to begin preparing for the reconstruction of South African society and bridging the gap between white and black living standards.

Kagiso Trust has been attempting to persuade liberation movements to start planning now, but has not made an impact.

"One critical thing needs to be understood for this country, is that we must stop recirculating poverty," Dangor said.

"What we are doing now is circulating inflation. We have to create new or additional wealth, otherwise even dispossessing the entire white population of what they own is not going to end poverty. The scale of the problem is enormous, but there are a number of lessons we have learned.

"We must not target development to first world living standards, in other words, the oppressed in this country must not try to attain the standards of the oppressor, because then we need billions so that whites can retain their standards. We will have to destroy this country ecologically to do that, over industrialise."

Dangor said there was a need to be more realistic about the kind of society South Africans wanted — the country would not be able to sustain a consumer and materialist society .

The second element of preparing for the future was examining the use of resources in South Africa.

Dangor believes that when resources are scarce, communities have to look for impact — how resources could have a multiplied effect.

"For example, we have introduced a rule that projects we fund must have replicability," he said.

"In other words, it must not be an expensive model, where you have to invent the wheel, pay high overheads, huge capital investment and then find the project will stay in an urban area without having an impact.

"It must be cheap enough, cost effective enough to be replicable anywhere else. We can use this rule of thumb for all our projects, rural development, education projects, bursary funds.

"In our bursary programme, for instance we have come under a lot of fire. We are saying the culture of expectation has gone to a ludicrous degree now where everybody believes they have a right to a bursary.

"This does not happen anywhere in the world, where even the most democratic socialist countries do not provide free bursaries to every student who wants to attend a tertiary institution."

What Kagiso Trust is in effect doing is dampening the expectations people have of what a future South Africa is going to look like. "If you don't do that, you'll tear this country apart," Dangor warned

Another area of concern is the lack of cooperation between NGO's in South Africa.

Kagiso Trust has had several discussions with the Independent Development trust around education and "sensitive" discussions with other NGO's. Central to the discussions was how to put the limited funding available to South Africa to better use.

"Some NGOs are paranoid and have a desire for independence, but there has to be a lot more coordination of people who have resources to stop the duplication, the waste, the enormous amount of replication all over this country," Dangor said.

On a more global level, South Africa has to begin preparing to compete on world markets.

A future South Africa will have to compete with the European Community, the United States and Japan in economic terms. This puts pressure on liberation movements to begin thinking far broadly that South Africa's own economic needs.

"One critical thing needs to be understood for this country, is that we must stop recirculating poverty," — Achmat Dangor

"Vision in this country is so stifling. Lets look on the regional scale — the southern African countries have between them most of the world's mineral wealth and the capacity for managing it efficiently," Dangor said.

"If we could create regional cooperation, if we could find someone with a vision who could bring these countries together we could compete successfully on the agricultural and tourism markets for starters.

"This area could become the new Asian miracle. The difficulty is you have to overcome political constraints, we have such regionalism in these countries.

"Why I despair about this, is because today we can't even meet our own political organisational needs let alone think more globally in terms of a regional economy or a regional political arrangement — a federation of southern african states." □

(Additional source AIA)

When the funding tap runs dry in the near future, will South African anti-apartheid projects survive? Already strong signals are being sent from Western governments that South Africa will not feature prominently in their aid budgets. Enormous amounts of money are going to be allocated to Eastern Europe and is expected to have effect on aid to the south. In the last in a series of three articles on foreign funding, REHANA ROSSOUW examines the financial future of organisations in South Africa.

When the money tap runs dry

South 21/3- 27/3/91.

49

THE GULF WAR and the fall of the Berlin Wall has had a far bigger effect on South Africa than most people realise. These two recent world events could signal the end of Western governmental aid to South Africa — the closure of the tap which poured hundreds of millions of Rands into the country.

Nearly all assistance to South Africa from Western governments is aimed at supporting opposition to apartheid and preparing disadvantaged South Africans for leadership in a post-apartheid society.

The questions now being asked are: When apartheid disappears, does the funding disappear with it? Will aid be forthcoming for social development in a post-apartheid society?

Answers are far from clear at this stage. It is certain though, that a large proportion of aid from Western governments which has in the past been directed to non-governmental organisations will in future take the form of bilateral aid to a democratic South African government.

The aim of Western government initiatives is shifting subtly to focus on grants for "dialogue" between groups who stand to gain power during the transition process, technical support for institution building, professional consultants in areas like constitution-writing and crash courses for those who may become future military and civilian bureaucrats.

This signals a departure from the form of assistance provided before — until the end of 1989, official Western aid sought to provide assistance to "victims of apartheid" and to community-based non-government organisations providing services to those involved in all aspects of the democratic movement's resistance to apartheid.

The Australian ambassador, Mr Colin McDonald, reckons it will be four to five years before South Africa will lose priority for his government, which has no substantial interest in the area. He points out that Australia is already cutting its programmes in Namibia.

Mr John Sawers, First Secretary at the British Embassy, says: "Our commitment to South Africa is long term. When the country gets a democratic government this does not mean were are going to walk away from it."

However, countries such as Sweden and the Netherlands — which have provided substantial aid in the past — appear less likely to be ongoing "development partners".

A spokesperson for the Dutch embassy in Pretoria points out that his country's development aid is allocated to nations classified as least developed countries in terms of per capita gross national product (GNP). His government believes South Africa's average income would be too high for it to qualify.

Swedish development assistance is similarly determined by GNP, and again South Africa seems an unlikely candidate for aid.

A senior US aid official in Pretoria felt that the form of aid was more likely to change than its volume. He said it was his government's perception that apartheid had created enormous needs in areas such as housing and education and that these needs would not simply disappear.

The European Community has taken into account the political changes in South Africa since February 2 1990.

They believe that although political organisations have been unbanned, leading political prisoners released, the state of emergency lifted in most of the country and petty apartheid almost entirely abolished, the country still has to await the outcome of the negotiation process before it is set on the road to real liberation.

At a meeting in June last year, the European Community leaders reviewed the situation in the region.

They stated in a declaration on southern Africa that "in the light of the recent developments in South Africa and as a strong signal of political support to those disadvantaged by apartheid" the Community would increase the funds for the special programme and would adapt the programme to the needs of the new situation.

From 1991 the special programme will have a bigger budget and, if negotiations go well and the dismantling of apartheid continues, can be expected to cater for the reintegration needs of returning South African exiles and to play an increasingly developmental role.

However, the focus of the European Economic Commission has undeniably shifted to Eastern Europe and the dramatic political events there.

Enormous amounts of money are going to be allocated to Eastern Europe in the imminent future and is expected to have a detrimental effect on aid to the south. The money for reconstruction in Europe could come from aid budgets.

WHILE HARD-AND-FAST POLICIES on aid to a post-apartheid South Africa do not exist, one widely shared notion is that once a clear procedure for achieving democratic rule has been mapped out, most governments presently engaged in assisting South Africans would consider special "transitional" grants.

The debate on whether to and how to continue funding projects in South Africa has already begun among international donor bodies.

> *"Under many standard criteria, especially those such as Gross Domestic Product per capita, South Africa does not qualify as a particularly poor or underdeveloped country."*
> *— Interfund Report*

The debate centres largely on the issues of whether to start development funding for South Africa or continue to support work in the country at all "post-apartheid".

A study compiled for the Interfund International Fundraising Consortium by specialist consultants urges the international development lobby, which has ignored South Africa except to make anti-apartheid interventions to "rethink" their approach to the country.

ONCE APARTHEID is declared finished, and certainly once a political settlement is reached, South Africa will stand in line with other countries under consideration of international development aid.

"Under many standard criteria, specially those such as Gross Domestic Product per capita, South Africa does not qualify as a particularly poor or underdeveloped country," the report states.

"The reality, however, is somewhat different.

"Most poor and developing countries have tiny wealthy elites. South Africa has a statistically larger wealthy elite."

More than one study has concluded that South Africa has the highest degree of social inequality of any country in the world for which data is available.

Half the population lives in abject poverty while a large minority — almost all white — enjoy high standards of living.

"A political settlement will further boost existing high expectations of change among black people — almost inevitably contributing to tension and instability in the long term. And political stability is itself essential for economic and social development."

Kagiso Trust's director Mr Achmat Dangor expressed a fear that foreign donors would "take the easy option" and say that because apartheid was gone, sanctions should be lifted, they should reinvest in the country and send all their foreign aid to the government.

"What that will do is destroy one resource that SA has — a rich resource — the NGO network in this country," Dangor said.

"That will marginalise accessing resources or being able to influence future policy."

Dangor said NGO's in South Africa understood that foreign donors were under great pressure to divert money to the Gulf and Eastern Europe. They would thus need a centrally identifiable, easily justifiable mechanism for funding to South Africa.

Kagiso Trust believed that even if South Africa had an ANC-led government in two or three years, it would be very dangerous for funders to put all their money into government-controlled projects.

FUNDERS ARGUING against the economy of scale could decide that if R1 billion, for instance, was put together from all industrialised countries and given to the South African government to disburse, it would have more of an impact.

"It all depends what kind of society you want. It could make the country visibly rich, but the invisible minority will still be there, very poor," Dangor said.

"That has been the pattern of the grandiose development models of the past, throughout the third world and Africa

"We know that most governments, no matter how democratic they are, have a duty first, specially in a situation like ours, to retain power.

"So what they do is to provide resources to that segment of society that most threatens them staying in power, the urban constituency."

Dangor said he feared that because South Africa was a largely urban-based country, there would be a conscious decision to neglect the smaller and more marginalised sector of society — rural areas, squatter camps and in those constituencies, women and youth.

"They will continue to be most marginalised sectors of society."

Kagiso's model of development is to provide resources to those sectors to help them to organise themselves — a process called community self-organisation.

This means providing funding for processes others don't want to fund — like institution-building.

"We'll continue to provide resources for people in rural areas to organise themselves, specially around economic issues," Dangor said.

"You may find political liberation in South Africa soon, but economic and social liberation is going to take a long time.

"When we say investment must be made in developing human potential on a far larger scale than is being done right now, it means things like literacy no longer becomes a romantic cry.

"Providing infrastructure is only a tool in the ultimate goal, which is providing those communities with the skills to participate more fully in the political and economic life of the country."

Dangor said this was probably the most contentious area of Kagiso's work. They believe they will be providing funding to people to organise themselves so that they could challenge the future government and ensure that they will not be neglected.

"We recognise that no matter how democratic the government of the future is they will not be able to meet all the needs of the people, specially when expectations are as high as they are now."

He said the ability of marginalised communities to articulate what their needs were should not be underestimated.

Kagiso would respond to their needs by identifying projects and programmes where the communities say they need them.

> *"Money can disempower people by taking away the need of people to do things themselves."*
> *— Achmat Dangor*

"There will have to be a massive infusion of support though, and the assistance of outside professionals even if needed.

"But it must rest on the premise that those people know themselves what they want, otherwise we will be using money to subvert their capacity for self-organisation.

"Money can disempower people by taking away the need of people to do things themselves."

Kagiso will no longer be giving 100 percent grants, they will provide partial grants and partial loans.

They will encourage people to raise R1 for every R2 they give internally from the community and slowly improve that ratio until their role diminshes.

One of the biggest obstacles in these process is the shortage of people skilled in creating alternative wealth, specially in rural areas.

"The potential is there, provided you can inculcate a new culture in these people," Dangor said.

"Maybe a new form of activism is

Many in SA 'pitifully poor'

BDay 21/3/91

Political Staff

CAPE TOWN — Gloomy but frank acknowledgement of the extreme levels of poverty in SA were made yesterday by Finance Minister Barend du Plessis.

In 1989, some 44% or about 16-million people of the population, including the independent homelands, were estimated to be on very low incomes.

He said: "One of the most daunting socio-economic issues is the great gap in development and income between people and communities.

"SA has one of the most unequal distributions of income in the world; but still more disturbing are the millions of South Africans who have to make do with pitifully low incomes.

"And there are similar disparities in the ownership of assets," Du Plessis said.

Government's goal was a new SA with justice for all and political, social and economic equality.

"It is the considered judgment of this government that the means to securing justice for all lies in the process of purposeful even-handed treatment, alike in the political, the social and the economic fields."

The theme of the 1991/92 budget was therefore "equity through growth and stability", Du Plessis said.

The Budget Review, prepared by the Finance Department, stated that the extent of poverty in SA was "still extremely great.

"Poverty in SA has increased over the past decade and a half.

"This is reflected in the fact that the real gross domestic product (GDP) per capita has fallen since 1981 at an average annual rate of 1,5%."

Unemployment in SA had shown an upward trend since the mid-1970s.

The decline in the labour absorption capacity of the economy had assumed daunting dimensions.

In 1965-1970, 73,6% of the increase in the labour force was absorbed by the formal sector, but this fell to 62,7% between 1970 and 1975, 35,4% between 1975 and 1980, 21,9% between 1980 and 1985, and "an exceptionally low level of 12,5%" between 1985 and 1990.

"The implication is that only about 125 out of every 1 000 new entrants to the labour market in 1985 to 1989 were accommodated as fulltime employees in the formal sector.

"Unemployment, therefore, has largely become entrenched in the South African economy as a structural problem."

The review said evidence submitted to Vatcom showed some children younger than 12, the aged, social dependents, and certain categories of unemployed needed urgent direct aid.

He said some of the resources released by the SADF had to be rerouted to the maintenance of law and order and a total of R4,63bn was now provided — an increase of 53%.

Rising crime, the need for certain security steps and the mass action campaign required a larger visible police presence with the emphasis changing from "reactive" to "pro-active", he said.

The Minister said in the light of the high priority given to efficient policing and the need for emergency police stations, R20m of the R950m which had been set aside for urgent capital requirements was earmarked for this purpose.

MPs' salaries to rise by 27%

BDay 21/3/91

CAPE TOWN — Parliament's 308 MPs, who last year earned salaries worth R26,2m, will get a pay rise of 27,4% worth R5,6m.

The overall cost of parliamentary salaries, including pensions paid to MPs, administrators and members of the President's Council, will rise by 22,7% to R104,4m.

The latest pay increases for parliamentarians follow a double pay rise last year which increased MPs' salaries by 25% and Cabinet Ministers' by 17%.

While no details of MPs increase were provided Ministers are to get R187 000 a year, including a reimbursive allowance of R40 278, and deputy ministers R135 000 a year, including a reimbursive allowance of R30 930.

Education's slice up 27% to R16bn

BDay 21/3/91

Political Staff

CAPE TOWN — Government has earmarked R16,1bn for education in the next financial year, with R6,833bn going to blacks — a 27% increase on last year.

The Labour Party's boycott action also bore fruit as they will receive a one-off R90m and the House of Delegates R75m to address pressing needs.

White education spending will total R5,950bn — an increase of 6% while the budget for coloureds totals R2,303bn (13,9%), and for Indians R977,3m (18,6%).

Finance Minister Barend du Plessis said that for years education had been the largest single component in the Budget, and in the 1991/92 tax year it would account for 19,2%. This was before accounting for the contingency reserves and transfers to the TBVC states.

He said R1bn had been earmarked for capital projects last year in a special fund, of which R750m had been set aside for black educational capital projects. Of this R188m had been spent and the balance would be used this year.

It was proposed an extra R269m be added to the rest of the R1bn fund — with R212m for capex in black education.

Special steps would be taken to ensure buildings would be erected with the support and co-operation of local communities, and if possible they would involve work-creation projects.

It was generally accepted that the massive backlogs in education demanded great cost effectiveness, with the emphasis on skills-orientated education, he added.

A direct contribution by parents and local communities was likely to play a larger role in future educational financing.

Deficit above IMF recommendation

ANDREW GILL 49

BDay 21/3/91

ANNOUNCING a generally expansionary Budget yesterday, Finance Minister Barend du Plessis forecast a deficit before borrowing above expected levels and the IMF's suggested ceiling. At 3,4% of GDP, the deficit exceeds the suggested IMF ceiling of 3% and 1990's 2,7%.

Du Plessis has drawn on a R950m bonanza "emerging from the diminishing need for strategic stockpiling" for financing the deficit and a R206m input from the 1990/91 surplus after borrowing.

The remainder, R8,962bn, constitutes 3% of GDP, "unfortunately above the level of capital spending", estimated at 1,8% of GDP. Moreover, loan redemptions will be about R5,4bn, bringing the net financing requirement to R14,4bn.

The plan is to finance it chiefly from domestic stock sales to the amount of about R14bn, including investment by the Public Investment Commissioner (PIC).

"In the light of the relatively modest loan programmes of other public sector institutions, the state's financing requirement this year should reinforce the slightly downward trend that long-term interest rates have begun to display."

The R10,12bn requirement, said Du Plessis, was the result of "all the fiscal commitments and tax reform in particularly tight economic circumstances".

The tax concessions will result in a loss for government of R1,77bn in fiscal 1991/92, while supplementary spending proposals account for another R2,15bn of the R85bn budget.

The budgetary leap of faith is more like a faltering step

49

BDay 21/3/91

GRETA STEYN in Cape Town

FINANCE Minister Barend du Plessis described current fiscal policy as "a leap of faith" in yesterday's Budget. He put his faith in a policy mix of elements of the supply-side policies of the industrial countries and the development strategies of the World Bank. By stimulating both the supply and demand sides of the economy and keeping an eye on inflation, he is hoping for sustained economic growth. Will his mix work?

A Budget is always a balancing act. It is an exercise in weighing different and often conflicting options; in measuring the costs and benefits of alternative courses of action. The preface of the Budget Review notes the "trade-off between equity and efficiency — the crucial issue of a proper balance between the pressing need for welfare augmentation and the no less urgent need for faster economic growth".

Just as there is a short-run inflation-unemployment trade-off, there is a choice between high social spending and tax cuts to generate business activity.

Yesterday's Budget placed greater emphasis on generating business activity at the expense of more social spending and poverty relief.

A bold and unexpected move aimed at longer term growth is the abolition of tax on capital goods when VAT replaces GST in October. Growth and job creation is predicted to follow as the move leads to a more efficient use of capital and labour.

Du Plessis hopes the abolition of tax on intermediate and capital goods will push down the prices of final goods and hence strongly promote SA's export competitiveness. Further impetus will come from the cuts in import surcharges on capital and intermediate goods. Government forfeits almost R1bn in revenue by taking this step.

The R1bn given up by choosing to go for longer term growth reduces the amount available for social spending. This move is in the spirit of the supply side approach.

Supply-side theorists say if tax cuts succeed in generating growth, the loss in revenue should be compensated for in the longer term through a growth in the tax base. In the short-term South Africans will have to live with a higher fuel levy and less social expenditure.

Do the benefits of no tax on capital goods outweigh the costs of less social spending and a fuel tax? The Budget says the IMF believes the scrapping of tax on intermediate and capital goods can lead to a "considerable" drop in inflation. But there is a rider — provided the cost reductions are passed on. In neo-classical economic models, prices are flexible, but experience teaches us that prices rarely drop.

Some scepticism is evident in the Budget: "It is important that all concerned should do a 'before and after' analysis of prices in the various sectors, to determine how far the benefit arising from the exemption of capital and intermediate goods does in fact reach the consumer. An alert consumer corps can play a crucial role in this."

Another feature of the Budget that forms part of the strategy against inflation is the cut in import surcharges. The effects of these cuts are more immediate and will be evident from the behaviour of the producer price index (PPI) in the coming months.

The surcharge cut in last year's Budget was an important reason for the dramatic decline in the rate of increase in the imported component of the PPI before the Gulf crisis. This year's surcharge reductions will cost the fiscus more than R756m. It is an investment in a lower inflation rate and shows faith in the power of lower inflation to improve SA's competitiveness in world markets.

The approach to VAT and the import surcharges are two essential ingredients of the policy package focused on the productive, or supply, side of the economy. But the demand side will also be stimulated by higher social spending and a "life net" strategy for the poverty stricken.

Government's efforts to improve welfare reflects the World Bank's approach. In its 1990 World Development Report, the bank noted two essential elements needed to combat poverty — providing basic social services and promoting employment opportunities for the poor. The bank emphasises that these two elements interact; yesterday's Budget illustrates this. The school building programme to be financed by selling strategic stockpiles will take the form of work-creation projects wherever possible.

But an important point to note about the education and other social spending financed from selling strategic stockpiles is that it is largely an overhang from last year. About R680m of that spending forms part of the R1bn fund announced after last year's Budget for "urgent capital expenditure" and which was to have been financed through privatisation proceeds. Only an extra R269m has been added and the spending has been brought back on budget, which helps to lift social spending to 38,2%, from 36,5%, of total spending.

It is, however, doubtful that the full amounts will be spent in this fiscal year. Only R319m of the R1bn announced last year was spent in that fiscal year, reflecting the lag between deciding on capital spending and implementing the decision. By bringing the remainder back on Budget, government manages to report an increase in social spending that might not be fully realised in this fiscal year.

There is no lag, however, between the decision to increase social pensions and the impact on the economy. But Du Plessis chose to allocate only about R500m towards reducing the racial pension gap. Full equalisation (excluding the TBVC countries) would have cost more than three times that amount. Fewer tax cuts would have provided the scope to implement the Mouton Committee recommendation that parity should take place in one go.

The balancing act between "the need for welfare augmentation and the no less urgent need for faster economic growth" is tipped heavily in favour of economic growth.

Du Plessis described the R505m allocation to reducing the pensions gap as a leap of faith in the midst of a restrictive budget — "faith in an economic future without sanctions and strong economic growth". He said rapid growth was needed for full equalisation.

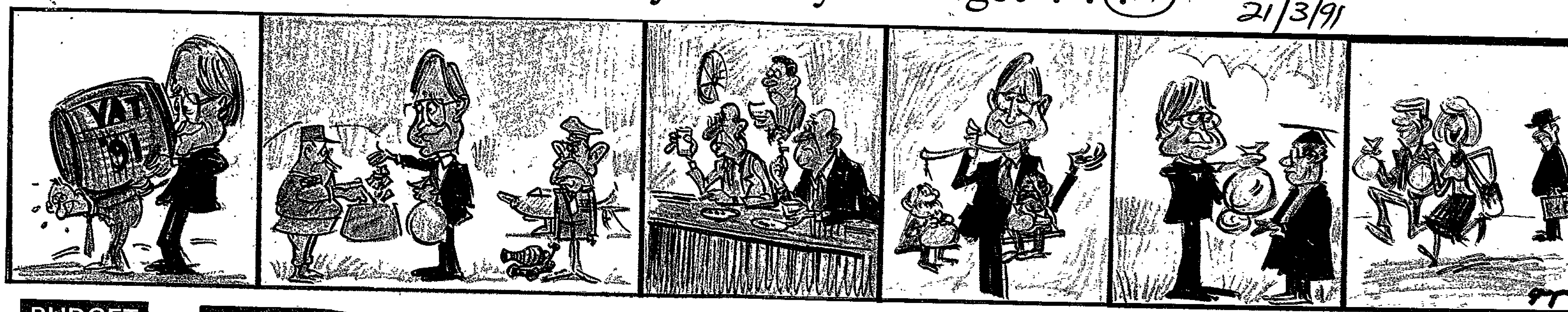
Du Plessis is pinning his faith on the measures to boost business confidence. It is a longer term strategy which will take time to work. How long is the long-term? Keynes's hackneyed view that "in the long-term we are all dead" could become increasingly relevant if the strategy takes a long time to yield results.

With this in mind, Du Plessis should have done more to improve welfare. This could have been financed by not cutting the top marginal income tax rate. Du Plessis would have had an extra R925m to spend on welfare and could have come within a whisker of equalising social pensions.

Describing the R505m allocation to pensions as a leap of faith while reducing rich individuals' tax rate is politically insensitive. It is an insensitivity that characterised this year's Budget, from blaming "labour intimidation, strikes and unrest" for the manufacturing sector's weaknesses, to lashing out at the ANC over sanctions.

The leap of faith is more like a faltering step. Du Plessis's mix could have reflected greater senstivity to SA's social needs.

TONY GROGAN'S view of yesterday's budget . . 49 21/3/91



Breadline budget

Cape Times 21/3/91

49

BUDGET AT A GLANCE

The good news:

- Fuel price to go down by 5c, in spite of a 5c a litre tax levy.
- Pensions go up and racial disparities close by 20%.
- R200 million for informal housing for blacks.
- Government departments told all capital project must involve job creation.
- Education spending up by 16,2% — and black education by 27% as opposed to white increase of 6%.
- Defence cut by R3,6 billion in real terms.

The bad news:

- Beer goes up 3c a dumpy.
- Spirits up 1,5c a tot.
- Cigarettes up 6c a packet.
- Fortified wine up 1,8c a 750ml bottle.
- VAT introduced at 12%.
- Personal tax effectively up 28% in spite of technical marginal drop of 1%.
- According to DP, real social spending goes down.
- Continued own affairs administrations and homeland governments.
- No decision on lotteries.

More on the budget

PAGE 4
- MPs to get 27,4% pay increase
- Petrol cheaper but fuel tax up

PAGE 5
- 12% VAT rate 'victory for conservatives'
- Parties criticise 'uncaring' budget

PAGE 6
- Minister slams ANC sanctions calls
- SA poverty 'extreme'

PAGE 8
- New tax deal for married women
- All the tax tables

PAGE 13
- Budget seen as neutral

- **Budget supplement inside**

BUDGET '91 More budget news on Pages 5, 6, 7, 8 and 13

Petrol cheaper but fuel tax up

49

Political Staff

THE petrol price is to go down 5c a litre as from Monday, Minister of Mineral and Energy Affairs Dr Dawie de Villiers said yesterday.

Diesel will also be 5c cheaper for a litre at the coast and 4c in the PWV area.

Dr de Villiers said the price cuts were possible because "the posted prices of refined petroleum products have improved gradually since the last week of February".

The price of 97-octane petrol at the coast will be reduced from R1,30 a litre to R1,25 and 93 octane from R1,26 to R1,21. Diesel goes down from R1,28 to R1,23 at the coast.

However, the consumer is not going to benefit as much as he could. A 5c increase on petrol tax and 2c on diesel were announced by Mr Du Plessis in his budget speech yesterday — without which petrol would have gone down 10c and diesel 7c.

The total price reduction might be slightly less in some inland areas, where transport costs are included, but Dr De Villiers said "no consumer of petrol should receive a lower reduction than 3c a litre". The minimum reduction for diesel would be 2c.

Dr De Villiers said changes were also to be made to the price zone system in the interior "to ensure that the real transport costs within a specific price zone will be more evenly spread". The number of price zones will be reduced from 60 to 47.

The price of illuminating paraffin is to be cut by 12c a litre.

The equalisation fund levy for industrial users of illuminating paraffin will be cut from 16,9c a litre to 7c a litre, thereby increasing the reduction to 21,9c a litre.

"However, all consumers of illuminating paraffin will also have to pay the increased transport costs. The price benefits will vary from zone to zone. The minimum reduction to domestic consumers will be 9c a litre."

Fuel consumption was still high, Dr De Villiers said. He appealed to all South African to introduce savings.

Announcing the petrol tax hike, Mr Du Plessis said that in highly developed industrial countries the tax on fuel accounted for more than 55% of the pump price. In South Africa the figure was about 27%.

"The further use of fuel as a source of taxation is therefore indicated — which is in line with the policy of gradually shifting the tax burden towards more indirect tax," said Mr Du Plessis.

The tax increases would bring in R533 million for the state.

'Social demands, revenue limits balanced'

JOHANNESBURG. — Growth objectives were maintained in a budget which achieved a balance between social demands and revenue contraints, economists said yesterday.

But many expressed concern that it failed to address the impact of fiscal drag on the individual taxpayer.

The adjustments to personal income tax levels would probably be neutral, even though there was a reduction in the maximum marginal tax rate by 1% to 43%.

The government had probably under-assessed the extent of average salary increases, which in real terms would make the effect of fiscal drag even more potent, said Nedcor chief economist Mr Edward Osborn.

Sacob economist Mr Ben van Rensburg endorsed the decision to provide immediately for full input credits for tax paid on capital and intermediate goods in the VAT system.

This, and the reduction in the import surcharge and the lower corporate tax, would help reduce costs and thereby assist in making the economy more internationally competitive.

Anglo American economists endorsed this sentiment.

Where all the money goes

THE budget makes provision for expenditure of R84,984 billion — some 13,7% more than the revised figure for last year.

Budgetary allocations account for R81,630bn, with a further R1,2bn added as a contingency fund R1,204bn for supplementary proposals and R950m for urgent capital needs.

The budgetary allocations for each department with the 1990-91 budget in brackets are:

- State President — R17,624m (R16,110)
- Parliament — R71,246m (R57,465)
- Bureau for Information — R41,595m (R41,354)
- Foreign Affairs (includes aid to the TBVC homelands) — R4,905bn (R3,833)
- Constitutional Development Service — R14,257m (R14,460)
- Defence — R9,187bn (R10,070)
- Mineral and Energy Affairs — R1,067bn (R1,133)
- Privatisation — R4,064m (R2,563)
- Justice — R564,6m (R459,5)
- Correctional Services — R1,275bn (R878,2)
- Administration, House of Assembly (white own affairs) — R8,43bn (R7,65)
- Finance — R14,642bn (R12,655)
- Regional Development — R966,055m (R848,542)
- Manpower — R300,543m (R328,061)
- Administration House of Representatives (coloured own affairs) — R3,560bn (R3,254)
- Administration House of Delegates — R1,294bn (R1,171)
- Police — R4,631bn (R3,027)
- Water Affairs and Forestry — R374,874m (R373,152)
- Trade and Industry — R1,839bn (R1,358)
- Education and Training (black education) — R3,135bn (R2,536)
- Home Affairs — R281,435m (R241,157)
- Transport — R1,496bn (R1,514)
- Public Works — R1,842bn (R 1,509)
- National Health and Population Development — R632,713m (R540,468)
- Planning, Provincial Affairs and Housing — R10,101bn (R9,129)
- Agriculture — R253,770m (R302,014)
- Development Aid — R6,723bn (R5,831)
- Commission for Administration — R160,578m (R407,337)
- Improvement of Conditions of Service — R3,340bn (R2,232)
- Central Economic Advisory Council — R4,640m (R2,138)
- National Education — R299,601m (R294,923)
- Environment Affairs — R168,505m (R156,421)

ANC and Inkatha united on 'white man's Budget'

B Day 22/3/91

(49)

TIM COHEN

GOVERNMENT had presented an "uncaring" Budget which favoured the rich, the ANC said yesterday, while KwaZulu Chief Minister Mangosuthu Buthelezi described it as a "white man's Budget".

An ANC statement yesterday accused Finance Minister Barend du Plessis of paying lip service to the necessity of addressing inequality and poverty, and said his Budget speech lacked vision.

Du Plessis used sanctions as the "scapegoat for low growth in the economy and attacked the working class for low productivity".

This "superficial analysis" did not explain why there was low growth in the economy long before the onset of a comprehensive sanctions campaign, the ANC said.

Real social expenditure per capita had fallen, despite a 6% increase in nominal expenditure, because inflation stood at 14% while the population was growing at a rate of 2% a year.

Spending on housing, special aid programmes and pensions was hopelessly inadequate, the ANC added.

On the revenue side, the rate at which VAT had been introduced was far higher than all reasonable expectations and would cause extreme hardship for the poor.

Cutting the top marginal income tax rate was inappropriate. By not doing so, government could have had an extra R925m to spend on welfare.

In the ANC's view, the Budget did not indicate any serious intent on government's part to move away from apartheid priorities.

Buthelezi told the KwaZulu Legislative Assembly the Budget represented "the best possible management of white vested interests".

"There has, of course, been no consultation with blacks about whether the Budget amounts to managing the vested interests of whites for the development of SA.

"I believe that whites will have to be prepared to do more than this Budget expects them to do if we as a country are going to avoid mass spreading poverty becoming the mortal enemy of democracy."

Buthelezi welcomed the intention to direct resources to increase blacks' ability to enter the market economy, and increased expenditure on education.

Spending measures welcomed in Britain

49

KIN BENTLEY

LONDON — The reduction in defence expenditure and increase in social spending in the South African Budget was welcomed by Whitehall sources yesterday.

The Budget was widely interpreted by the British Press as boosting the reform process through the allocation of additional funds for black housing, education and welfare.

B Day 22/3/91

A Foreign Office spokesman said there was unlikely to be official British government reaction.

Senior Whitehall sources said there were welcome elements in the Budget, such as the 19% reduction in defence spending and various measures to increase social spending to help blacks.

"It seems to be as good a Budget as was likely under the circumstances, without unleashing extraordinary inflationary forces. Real growth is a question for later. The question of sanctions first has to be properly addressed," a source said.

The Financial Times did not see the social spending increase as significant: "Much of the increase represents funds voted last year and not spent. The share of social spending is 38,2% — little changed from the figure budgeted for last year."

The R200m in relief for the very poor would not fully protect them from the cost of VAT.

Barend comes under fire from Reserve Bank

B/Day 22/3/91 LESLEY LAMBERT (49)

CAPE TOWN — Deputy Reserve Bank Governor Jaap Meijer has criticised Finance Minister Barend du Plessis for not addressing structural economic deficiencies in his Budget.

Meijer, a participant in yesterday's Old Mutual Budget Forum, said the Reserve Bank was concerned at the lack of attention paid in the Budget to certain structural deficiences identified by former Administration and Economic Coordination Minister Wim de Villiers.

"Too many things that Dr de Villiers regarded as structurally undesirable have not been addressed. Some of the things the Minister should have dealt with have been allowed to drop," he said.

Areas which had not been adequately addressed included government's share of the economy, the overall tax burden, the division between direct and indirect tax, steps to be taken to encourage savings, and whether or not the country should meet the IMF's limit on the deficit before borrowings of 3% of GDP, Meijer said.

The Reserve Bank would also have liked to have seen more reconciliation between social spending and supply-side economic growth, he said.

And Reserve Bank Governor Chris Stals said in Cape Town last night the estimated deficit before borrowing of R10,1bn announced in this week's Budget "leaves a central banker slightly uncomfortable".

Our Cape Town correspondent reports he said the surplus after borrowing of R2bn for the 1990/91 fiscal year "can if not carefully managed make inopportune additions to money market liquidity and the money supply."

Stressing that the Reserve Bank would protect the value of the rand, and the foreign reserves, by not relaxing its monetary policy, Stals said this was the best contribution it could make towards the ultimate objectives of overall economic policy.

Stals was speaking at a banquet to an-

□ To Page 2

Barend B/Day 22/3/91 (49)

□ From Page 1

nounce the winner of the Old Mutual-Nedbank Budget speech competition.

He said the deficit before borrowing was not unduly large.

Explaining why the deficit before borrowing left "a central banker slightly uncomfortable", Stals said: "Firstly, it is showing an ominous tendency to grow and has increased from 1,6% of gross domestic product (GDP) in 1989/90 to 2,7% in 1990/91 and 3,4% in 1991/92. "This tendency should not be allowed to continue.

"Secondly, it exceeds the total amount of capital expenditure by government, estimated to be only 1,8% of GDP. This means that there will again be some negative saving by government in the next fiscal year.

"Government will be absorbing some of the scarce savings of the country to finance current expenditures."

Praising Du Plessis for not giving way to pressures to allow the money supply to grow, Stals said this would have led only to short-term benefits.

Cape Times 22/3/91

49

VAT exemption for commuters 'superficial'

Political Staff

THE exemption of commuters from VAT was a superficial concession because deteriorating roads were markedly increasing bus and taxi operating costs, the SA Bitumen Tar Association (Sabita) said yesterday.

These costs were swiftly passed on to commuters, as were the rising prices in the freight transport industry.

"It is well known that Southern Africa's economic lifeline — its R53-billion road network — has been allowed to deteriorate alarmingly in recent years," Sabita executive director Mr Piet Myburgh said in a statement.

"Over the next ten years, for example, R15bn is urgently needed to accelerate a road construction and maintenance programme to eradicate what has become — in the Minister of Finance's words — a serious 'backlog'."

At a time when the whole country was looking to the outside world to invest, the government had "disinvested" its responsibility for maintaining and developing the road network.

By increasing fuel tax without using these resources to improve the road network, the government was jeopardising economic growth, the theme of the budget speech of Mr Barend du Plessis.

Budget uncaring, claims ANC

Own Correspondent

JOHANNESBURG. — The government has presented an "uncaring" budget which favoured the rich, the ANC said yesterday, while KwaZulu Chief Minister Chief Mangosuthu Buthelezi described it as a "white man's budget".

An ANC statement yesterday accused Finance Minister Mr Barend du Plessis of paying lip service to the necessity of addressing inequality and poverty and said his budget speech lacked vision.

Mr Du Plessis used sanctions as the "scapegoat for low growth in the economy and attacked the working class for low productivity".

This "superficial analysis" did not explain why there was low growth in the economy long before the onset of a comprehensive sanctions campaign, the ANC said.

Spending on housing, special aid programmes and pensions was hopelessly inadequate, the organisation added.

On the revenue side, the rate at which VAT had been introduced was far higher than all reasonable expectations and would cause extreme hardship for the poor.

In the ANC's view, the budget did not indicate any serious intent on government's part to move away from apartheid priorities.

Chief Buthelezi told the KwaZulu Legislative Assembly the budget represented "the best possible management of white vested interests".

"There has, of course, been no consultation with blacks.

"I believe that whites will have to be prepared to do more than this budget expects them to do if we as a country are going to avoid mass spreading poverty."

Chief Buthelezi welcomed the increased expenditure on education.

In other budget reactions:

- The SA National Council for the Aged called for the government to introduce a compulsory, fully transferable pension system for all South Africans.
- The Medical Association of SA said the increase in funds allocated to health was encouraging. However, the fixing of VAT at 12% was "unexpectedly high".
- Consumer Council director Mr Jan Cronje welcomed the "socio-economic assistance which would entail relief for needy consumers", but said the council was "dismayed" by the 12% rate fixed for VAT.
- Fedhasa predicted that the imposition of VAT and increased excise on beer and spirits would lead to shrinking margins, lower profits and layoffs in the liquor industry.
- And the British press widely interpreted the budget as boosting the reform process through the allocation of additional funds for black housing, education and welfare.

● **More reports — Page 9**

'Moderate increase for MPs'

INCREASES in MPs' salaries this year will be moderate and below the rate of inflation, the Leader of the House of Assembly, Dr Dawie de Villiers, promised yesterday.

Details will be known only later.

Dr De Villiers issued a statement after a Cape Times report that MPs' salaries and allowances were to increase by 27,4% from R20,6 million to R26,2 million.

He said it appeared from the report that certain figures printed in the budget documentation "proved the basis of regrettably premature and incorrect conclusions concerning possible improvements in salaries of MPs in the new financial year".

If this was so, it was evident that there had been an "unfortunate misunderstanding". Full information concerning the interpretation of "whatever" figures used for the compilation of the report could be obtained from the treasury, he said.

The issue of MPs' salaries has been a sensitive one after they were granted a 26% increase, including a 10% non-pensionable allowance, in April last year.

The Cape Times report was based on the estimate of expenditure for 1991/92, which indicated a 27,4% increase in salaries and allowances of MPs compared with the original 1990/91 budget.

TAXABLE INCOME	RATES		
	MARRIED		
R 0 - 5 000	15%	of each R1	
R 5 000 - 10 000	R 750 + 17%	of the amount over	R 5 000
R 10 000 - 15 000	R 1 600 + 19%	" " " "	R 10 000
R 15 000 - 20 000	R 2 550 + 21%	" " " "	R 15 000
R 20 000 - 25 000	R 3 600 + 23%	" " " "	R 20 000
R 25 000 - 30 000	R 4 750 + 26%	" " " "	R 25 000
R 30 000 - 35 000	R 6 050 + 29%	" " " "	R 30 000
R 35 000 - 40 000	R 7 500 + 32%	" " " "	R 35 000
R 40 000 - 45 000	R 9 100 + 35%	" " " "	R 40 000
R 45 000 - 50 000	R 10 850 + 38%	" " " "	R 45 000
R 50 000 - 55 000	R 12 750 + 39%	" " " "	R 50 000
R 55 000 - 60 000	R 14 700 + 40%	" " " "	R 55 000
R 60 000 - 70 000	R 16 700 + 41%	" " " "	R 60 000
R 70 000 - 80 000	R 20 800 + 42%	" " " "	R 70 000
R 80 000 +	R 25 000 + 43%	" " " "	R 80 000
	UNMARRIED		
R 0 - 5 000	14%	of each R1	
R 5 000 - 10 000	R 700 + 17%	of the amount over	R 5 000
R 10 000 - 15 000	R 1 550 + 21%	" " " "	R 10 000
R 15 000 - 20 000	R 2 600 + 25%	" " " "	R 15 000
R 20 000 - 25 000	R 3 850 + 29%	" " " "	R 20 000
R 25 000 - 30 000	R 5 300 + 33%	" " " "	R 25 000
R 30 000 - 35 000	R 6 950 + 36%	" " " "	R 30 000
R 35 000 - 40 000	R 8 750 + 39%	" " " "	R 35 000
R 40 000 - 45 000	R 10 700 + 40%	" " " "	R 40 000
R 45 000 - 50 000	R 12 700 + 41%	" " " "	R 45 000
R 50 000 - 56 000	R 14 750 + 42%	" " " "	R 50 000
R 56 000 +	R 17 270 + 43%	" " " "	R 56 000
	MARRIED WOMEN		
R 0 - 4 000	15%	of each R1	
R 4 000 - 8 000	R 600 + 18%	of the amount over	R 4 000
R 8 000 - 12 000	R 1 320 + 21%	" " " "	R 8 000
R 12 000 - 16 000	R 2 160 + 24%	" " " "	R 12 000
R 16 000 - 20 000	R 3 120 + 27%	" " " "	R 16 000
R 20 000 - 24 000	R 4 200 + 30%	" " " "	R 20 000
R 24 000 - 28 000	R 5 400 + 32%	" " " "	R 24 000
R 28 000 - 32 000	R 6 680 + 34%	" " " "	R 28 000
R 32 000 - 36 000	R 8 040 + 36%	" " " "	R 32 000
R 36 000 - 40 000	R 9 480 + 37%	" " " "	R 36 000
R 40 000 +	R 10 960 + 38%	" " " "	R 40 000

TAX RATES . . . The Minister of Finance, Mr Barend du Plessis, announced the new revised tax tables for married and unmarried people for the 1991/92 financial year during his budget speech on Wednesday.

Government moves to close tax loopholes

Financial Staff

CERTAIN alleged loopholes in the tax system stemming from the separate taxation of married women will be closed, a spokesman for the Department of Finance said yesterday.

The top marginal tax rate for married women is 38% as opposed to 43% for married men.

Mr Colin Wolfsohn, a partner at Kessel Feinstein Chartered Accountants, said that if a husband earned more than R50 000 it would pay him to put investments in his wife's name.

'"He moves out of the 38% marginal rate from an annual income of R50 000 upwards, while his wife stays in it."

Barend's Budget seen as robbery of the poor

Sowetan 22/3/91

49

AZAPO, the ANC, and Cosatu slammed the Government's Budget this week, with Azapo saying the decision to impose new VAT on basic foods except mealie-meal and bread was "highway robbery".

Azapo deputy president Dr Nchaupe Mokoape said Finance Minister Barend du Plessis's Budget was far from impressive, and he would not even describe it as "a step in the right direction".

In a statement prepared long before the Budget was announced, Pan Africanist Congress (PAC) publicity secretary Barney Desai said the PAC did not recognise the Government and therefore did not expect anything positive from it.

In its initial response last night, the ANC - which said it would "provide a more detailed response later" - said the fundamental flaw of the Budget was that it was formulated and introduced in a context where there were no "democratic institutional mechanisms to ensure an equitable allocation of resources".

This was compounded by the apparent lack of an over-arching national development strategy.

The ANC said social spending on housing, special aid programmes and pensions was "hopelessly inadequate", arguing the Government should have brought immediate parity in pensions to alleviate poverty.

Also criticised by the ANC were the lack of a special provision for electrification and land reform, and the fact that the effectiveness of the sum provided for education would be hampered by the multiplicity of education departments.

The ANC slammed the 12percent rate at which the new VAT tax will be introduced, saying it was "far higher than all reasonable expectations".

With limited items exempted from the VAT, the new tax would cause extreme hardship for the poor and the special aid programmes for the poor proposed in the Budget would be insignificant.

"This inadequate social expenditure was not as a result of insufficient overall revenue but rather reflects ongoing apartheid budget priorities. Defence expenditure, for example, remains excessive. Most countries not in a state of war spend proportionately half of what was allocated in this years budget," said the ANC.

Azapo's Dr Nchaupe Mokoape

Azapo's Dr Mokoape said the poor did not need handouts which would constitute an insult to their dignity.

"The poor do not need food aid," Dr Mokoape said, "but they need land released to them so that they can work upon it to feed themselves. Giving them handouts is of very little significance and it will insult their dignity".

The Azapo leader said "it was absolutely ridiculous" that blacks, whose contribution to the country's wealth was enormous, had been given small pensions all along. His anger was far from being assuaged by the 20 percent readjustment.

Basics

"The imposition of the VAT tax on all basic foods is pure highway robbery. We have always said that no sales tax should be levied on all foods, books and medicines. These things are very basic in life," Dr Mokoape said.

In his response yesterday, the PAC's Barney Desai said: "We have no input to make as to what to expect from the regime's Budget. Our position is crystal clear: we do not recognise them as a legitimate authority and do not expect, nor are grateful for, any largesse from that source through a Budget.

PAC's Barney Desai

"We are for government by Africans for Africansand are in the process of installing a Minister of Finance who is democratically elected by the people of this country. European paternalism is on the way out and we say the sooner the better."

Cosatu also expressed disappointment at yesterday's Budget speech and described it as yet again protecting the white minority interest.

In a statement, Cosatu said the only beneficiaries were the "big business and apartheid bureaucrats."

For the disadvantaged majority Minister du Plessis's speech was a "Rubicon".

Racial

There was nothing which indicated that the gross racial discrimination which had characterised previous Budgets had been removed, nor was there no movement towards removing duplication of expenditure on apartheid structures and the apartheid bureaucracy remained fat and well fed, the statement added.

"The Budget failed to create parity in social spending between black and white. The exact figures have still to be revealed, but there is little doubt that massive racial disparities still exist in social spending.

"The Minister seems quite proud of the fact that discrimination between black and white pensioners is only 20 percent less than it was. Apart from the obvious racism in this approach, how does he justify this continued discrimination when his own Commission recommended racial parity in pensions?

"The promised massive 'social upliftment programme' didn't materialise. Far from social spending dramatically increasing as a proportion of the Budget, it in fact remains at the same percentage as last year.

"The apartheid security forces continue to drain the resources of the country. What has been taken away from SADF has simply been given to the SAP.

"The Budget is yet another apartheid Budget. It directs State resources, which belong to all South Africans, into the hands of the minority, it makes the rich, richer, and discriminates against blacks in general."- *Sowetan Correspondents*

Little room left for easing curbs

By Sven Lünsche Star 22/3/91 (49)

The Budget has not left much room for relaxing monetary policy further this year, Reserve Bank Governor Dr Chris Stals said yesterday.

Dr Stals said in an interview that the Budget was "a little bit too stimulatory and we have to be very cautious with the implementation of monetary policy".

He added that he had reached agreement with Finance Minister Barend du Plessis that if there was room to be expansionary this year, this would be left to fiscal policy.

Dr Stals said that the Minister had to achieve a difficult balancing act in the budget, namely to balance the increase in social demand and the need to stimulate growth with the availability of resources and the maintenance of financial stability.

"Given the realities of the socio-political situation we can live with this Budget.

"However, our main concern lies with financial stability and in this sense the Budget is somewhere on the cliff's edge and not as supportive as it was over the past two years."

Both the deficit before borrowing for 1991/2 — at an estimated 3,4 percent of GDP — and the budgeted increase in state spending of 13,7 percent must be seen as mildly stimulatory, Dr Stals said.

The deficit before borrowing is

Reserve Bank governor Dr Chris Stals.

well above the three percent limit recommended by the International Monetary Fund (IMF) and compares with a deficit of 2,7 percent last year and 1,6 percent in 1989/90.

Commenting on the possible impact of Value Added Tax on the inflation rate Dr Stals said that on balance the prices of consumer goods should increase at a lower rate.

The main impact will come from the exemption of capital and intermediate goods from VAT as soon as it is introduced on October 1, "if the benefit is passed on to the consumer," Dr Stals said.

"There will be a lot of attention on the shift in the tax system and if this gets the message through to the consumer then there will be a significant deflationary effect."

He added that the two percentage point reduction in the inflation rate, which was mentioned in the Budget, was based on a theoretical calculation by the IMF, and takes into account the impact of VAT on previously un-taxed items, such as food and services.

The last white government sets its priorities

Argus 22/3/91

49

By MICHAEL MORRIS
Political Correspondent

ONE of the less conspicuous suggestions in Budget documents this week was that it would not be unreasonable in future that a direct contribution by parents and local communities should play a larger role in educational finance.

BUDGET

This, says the Budget review, will "further contribute to a more effective utilisation of funds ..."

Government funds, the argument goes, should be for meeting high priority needs.

This tiny aspect of the Budget review is significant because it tends to sharpen the focus on the intent in the government's economic policy.

For all the attention given to the fact that 38,2 percent of expenditure is going on social services, the 1991 Budget has less to do with the direct government involvement in creating jobs, building houses and feeding and educating people, and more to do with concentrating on laying a foundation for businesses to grow, to give people jobs and, in turn, to empower them to feed, house, clothe and educate themselves.

In fact, Finance Minister Barend du Plessis openly acknowledges that his Budget is one for business and that his aim is to "stimulate a climate for growth".

He devoted a considerable portion of the introductory section of his speech to an explanation of the high-sounding Budget theme of "equity through growth and stability".

By equity, he said, "we mean that on the revenue side of the budget we take in the fairest possible manner and on the expenditure side we give those in real need a chance to survive".

Further spending on housing, health and education would contribute to stability.

It is the next passage, a "message" to entrepreneurs, manufacturers and businessmen, that is particularly revealing.

His message to this sector was that "this Budget, coupled with other policy measures, will increasingly enable them to grow and to create jobs and welfare in which all can share. It will also promote stability. Secondly, through the stabilising of the economic rules of the game, also via the Budget, the private sector is being increasingly drawn into the responsibility of accepting these great socio-economic challenges.

"In greater measure in the time ahead, they too will have to look consumers, the needy and unemployed straight in the face and give account of their part in economic growth, investment and job creation."

The Budget goodies for the business sector — the company tax rate cut, scaling down of the import surcharge, VAT credits for capital and intermediate goods, VAT exemption for small businesses and zero rating for exports — clearly come with an implicit directive that they are to be used in the service of higher, national goals, rather than mere profits.

While businessmen do their sums on whether the Budget measures will enable them to expand their operations, the government will get on with social spending on priority problems in housing, health and education.

Despite the seemingly impressive percentage to be spent on these areas — more than 38 percent of the Budget — critics were quick to say it was inadequate.

It is not hard to see why. Budget review highlights of the some of the major problems include the fact that about 16 million South Africans, or about 44 percent of the population, were on very low incomes at the end of the 1980s, that unemployment has been growing since the mid-1970s and has now become an "entrenched structural problem" and that South Africa has one of the most unequal distributions of income in the world.

Even with the extra R6 billion-odd being taken from taxpayers this year, the government's ability to buy socio-economic solutions is limited.

So, while social spending will be deployed strategically to achieve as much stability as possible, much rests on the bid for economic growth and on the responsibility Mr Du Plessis has conferred on the private sector.

The capacity of the Budget to stimulate the growth it seeks is, arguably, not measurable now.

As an instrument of State policy, the Budget reflects what might be said to be the last white government's 11th hour pursuit of the goals which have been so elusive — and so effectively denied by apartheid — for so long ... growth, stability, equity.

Whether the cautious, balance-seeking approach that characterises the 1991 Budget will be given enough time to bear the promised fruits is imponderable.

What is as clear as rands and cents is that a growing, stable and equitable economy adequately serving the needs and aspirations of South Africa's 35 million people will be long in the making.

In a time of rapid political transition, one of the most portentous questions is how much longer will the theme "equity through growth and stability" be acceptable? Or how successful will the government be in drawing significant black leaders into serving such a goal?

These, surely, are the keys to whether Mr Du Plessis will succeed.

FM 22/3/91 (49)

DEMOCRATIC PARTY

UPSTAGING BAREND

Finance Minister Barend du Plessis was still sweating over his Budget speech last week when the DP presented to the media in Cape Town its own proposals for State spending. It was an excercise designed to demonstrate what could be done with the money that's likely to be available this year.

DP finance spokesman Ken Andrew says the aim was not to forecast the Budget or win cheap publicity, but rather to stress the need for government to reassess priorities "ruthlessly but constructively" and use SA's limited resources to the maximum benefit of all. It was a counter to criticism that opposition parties tend to be all talk and no action. The DP's budget attempts to show that it has constructive and well-reasoned ideas of its own.

Andrew

The primary aims of the DP's budget are to eliminate poverty and provide adequate and rising living standards which will be achieved through growth based on appropriate policies.

Andrew says lack of detailed information, particularly regarding revenue, means the DP's proposals have to be seen as an esti-

(49) FM 22/3/91 (49)

mate. They are based on a real GDP decline of 0,9% during 1990 and 1991 and an average inflation rate of 14% in the same period. The Budget shows no real growth over Du Plessis' 1990/1991 proposals and therefore increases by 14% (the average inflation rate over the past two years) to R85,2bn. The deficit before borrowing is set as close as possible to 3% of GDP.

The DP believes VAT should be introduced at a level lower than GST and that total revenue from VAT should not exceed that of GST. The import surcharge must be repealed immediately but, if revenue constraints make this impossible, it should be lifted gradually with capital goods for manufacturing, mining, construction and agriculture having first relief. In the current year revenue from the surcharge was budgeted at R1,86bn. There should also be a State lottery, which could raise R500m in 1991/1992 for socio-economic projects.

The DP envisages major savings by cutting back on a range of items. It says the "own affairs" Ministers' Councils and departments should be placed under a single department. This could save 3% of their current budgets — R690m. The Bureau for Information should be scrapped, saving R47m, and Defence spending reduced by 20% in real terms, which would save R2,3bn. Public-sector pay increases should be pegged at 12% — rather than 14% — and this would save R320m.

Scrapping ideologically-based decentralisation schemes could save R189m and R160m could be saved by various cuts in agricultural spending including the virtual elimination of maize and wheat subsidies.

There should be increased spending on:

- ☐ Foreign Affairs (R106m), to cater for additional foreign missions now that SA's acceptability in the world is improving;
- ☐ Constitutional Development Services (R16m) to aid the negotiation process;
- ☐ Police (R127m) to increase the size of the force and pay personnel properly;
- ☐ Water Affairs (R100m) to provide adequate water supply in rural and urban areas;
- ☐ Education (R854m), under a single ministry;
- ☐ Land reform (R100m);
- ☐ Health care (R551m) and housing (R500m), which would include a one-off capital subsidy of R6 000-R8 000 for potential homeowners;
- ☐ Local government (R100m);
- ☐ Feeding schemes (R400m); and
- ☐ Pensions (R1,27bn) including provision to bring about immediately parity in pensions to all people.

Andrew says the various savings and income from the lottery total R4,2bn while the additional spending amounts to R4,1bn. The DP believes the proposals would have a significant and positive effect on eliminating poverty and inequality. They would help stabilise society and provide a sound base for sustained economic growth.

Elsewhere in this week's *FM* are Du Plessis' proposals. A comparison between the two makes interesting reading. ■

THE BUDGET FM 22/3/91 (49) (320)

THE MESSAGE SOUNDS INSPIRING

BUT REMEMBER, FINE WORDS BUTTER NO PARSNIPS

With the theme of his Budget "Equity through growth and stability," Finance Minister Barend du Plessis spells out clearly that the thrust of economic policy will be redistribution through growth and not, as some would have it, the other way about.

Rather than reduce the proverbial cake and promote the equal distribution of poverty, he wants us to bake a bigger cake.

Growth is to be promoted by:

☐ Tackling inflation. He enumerates the measures as minimal real growth in spending, no pressure on interest rates, the sound financing of the deficit before borrowing, VAT credits on capital and intermediate goods, a cut in the import surcharge and preservation of the value of the rand; and

☐ Promoting an investment climate through VAT credits for capital and intermediate goods and the further phasing out of the import surcharge, which substantially reduces the extra cost of production, and reduction of company tax by two percentage points as a first step on the road from 50% to 40%. Though, as Sacob president John Hall points out, the total tax burden remains unchanged at 24,9% of GDP.

Du Plessis also mentions encouragement to small business through VAT exemptions for undertakings with annual turnover of less than R150 000 and assistance from several institutions towards job-creation.

A climate for stability will be created by:

☐ Narrowing the racial gap in old-age and other aid allowances, increases in spending on education, health and welfare and earmarking R200m for special relief programmes, as well as a focus on job-creation;

☐ Excluding mealie meal and brown bread from VAT, as well as the exemption of commuter transport and concessions to welfare bodies;

☐ The extension of police capability; and

☐ Maintenance of fiscal and monetary discipline, "together with increasing predictability and integrity in the deployment of tax and other economic reform.

So much for the good intentions.

But increased social spending in some areas, with revenue forgone of R1,786bn in "concessions", makes for a delicate balancing act. The margin for success is narrow. And whereas for many years actual revenue regularly came in well ahead of budgeted estimates, this trend has fallen away in the present recessionary environment. An in-

crease of 27,7% in revenue received in 1989-1990 over budgeted revenue for the year, fell to 3,9% in 1990-1991.

Given these constraints, the Budget goes some way towards converting the objectives to reality.

Revenue collection provides the opportunity for some statistical sleights of hand.

Concessions in personal tax amount to a loss in revenue to the Exchequer of about R1bn, reducing the original printed estimate of R28,8bn to R27,8bn. This last figure, however, is still about R2,94bn higher than it would have been without fiscal drag, at an inflation rate of 13%.

Another piece of fancy footwork can be seen in the changes in composition of the fuel price, outlined in a press statement from

continue →

FM 22/3/91

THE STATE OF THE ECONOMY (49)

Revised estimates for 1990-1991 show:

☐ Expenditure of R74,7bn (14,1% up on 1989-1990 and 2,5% above budget);

☐ Revenue of R67,4bn (10,3%, 3,9%); and

☐ A deficit before borrowing of R7,4bn (nearly 95% higher than the previous year but lower than the R7,7bn budgeted for and only 2,7% of GDP.)

Real GDP is expected to have declined by 1% in 1990 (1989: 2% growth). GDP per capita fell by 3%. This was due to:

☐ A fall in agricultural production. In the fourth quarter of 1990 it was about 23% lower than the high in the third quarter of 1989, due to a 40% drop in the wheat crop late in 1989 and a 28% fall in maize production followed by a further fall in wheat production in the fourth quarter of 1990;

☐ The -1,5% change in real value added by the mining sector (-1%), largely due to negative factors in gold mining;

☐ -1,5% (+1,5%) in the secondary sectors, due mainly to a decline in manufacturing production related to a planned reduction in inventories; and

☐ Only modest growth in the tertiary sectors, of 0,5% (2%.)

Real GDE fell by about 3% (1%.) A breakdown shows:

☐ Private consumption expenditure rose by 1,5% (2,5%) due mainly to moderate growth in real personal disposable income and growth in consumer credit;

☐ Government consumption expenditure rose by about 1% (3,5%) —the least in 12 years;

☐ Gross domestic fixed investment fell by 1,5% (5,5%.) Fixed capital expenditure in the private sector fell moderately but in the public sector by 10%.

Gross domestic saving as a proportion of GDP fell to 21,5%. The decline was mainly in the private sector. The ratio of personal saving to personal disposable income fell from about 3% in 1988 to 1,5%.

Average annual nominal pay in the nonagricultural sector rose 15,5% (1989: 18% and 1985: 11,5%.)

The surplus on current account of the BoP rose from R3,1bn in 1989 to R5,8bn, thanks mainly to a fall in imports and net payments for services, transfers to the rest of the world and increased exports of manufactured goods:

The net outflow of capital not related to reserves fell from R6,2bn in 1988 and R4,3bn in 1989 to R2,9bn, far less than the R6bn originally envisaged.

Net gold and other foreign reserves rose by R2,9bn. Gross gold and other foreign reserves rose R400m to R7,3bn.

The average nominal effective exchange rate of the rand fell by 2,8%. For most of 1990 the financial rand's discount against the commercial was 30%-35%.

Broadly defined money supply (M3) grew at about 12% over the full 1990 guideline year — fourth-quarter 1989 to fourth-quarter 1990. M3 growth (over 12 months) fell from a high of 27,5% in August 1988, and 22,5% in December 1989 to 12,5% in December 1990. The major "statistical" reason for lower money supply growth was a slowing in the rate of increase of credit granted by the monetary sector to the private sector.

 FM 22/3/91. (49)

What you will pay: (1)

THE ONE BREAD-WINNER FAMILY*

(Married under 61 — no children)
Income tax payable: 1991-1992

Income	1992	1991	Reduction
12 000	0	0	0
14 000	360	400	40
16 000	760	820	60
18 000	1 180	1 260	80
20 000	1 600	1 700	00
25 000	2 750	2 900	50
30 000	4 050	4 250	100
35 000	5 500	5 750	150
40 000	7 100	7 400	200
45 000	8 850	9 200	250
50 000	10 750	11 150	400
55 000	12 700	13 150	450
60 000	14 700	15 200	500
65 000	16 750	17 300	550
70 000	18 800	19 400	600
80 000	23 000	23 700	700
100 000	31 600	32 500	900
150 000	53 100	54 500	1 400

* Child rebate is R100/child for the first five children and thereafter R150/child.
Source: Deloitte Pim Goldby

WHAT YOU WILL PAY: (2)

The two breadwinner family (married, under 61)

Salary Husband	Wife	Site/Paye 1992 Husband†	Wife	Real at Payable 1992	1991	Differ-ence
20 000	10 000	1 600	940	2 540	2 740	−200
	20 000	1 600	3 400	5 000	5 200	−200
	30 000	1 600	6 560	8 160	8 360	−200
40 000	10 000	7 100	940	8 040	8 440	−400
	20 000	7 100	3 400	10 500	10 900	−400
	30 000	7 100	6 560	13 660	14 060	−400
60 000	10 000	14 700	940	15 640	16 240	−600
	20 000	14 700	3 400	18 100	18 700	−600
	30 000	14 700	6 560	21 260	21 860	−600
80 000	10 000	23 000	940	23 940	24 740	−800
	20 000	23 000	3 400	26 400	27 200	−800
	30 000	23 000	6 560	29 560	30 360	−800

† These amounts have been calculated on the basis that the taxpayer is a married person with no children and after rebates. The child rebate is R100/child for the first five children and thereafter R150/child.
Source: Deloitte Pim Goldby

Mineral & Energy Affairs Minister Dawie de Villiers. Most of the benefit of a reduction in the petrol price is going to Revenue in the form of increased taxes. Nevertheless, the consumer is left with the happy feeling of having to part with less.

Other concessions include:

☐ R756m in the further phasing out of import surcharges;

☐ R1,08bn through the introduction of VAT (R910m in loss of revenue for the last six months of the financial year relative to estimated GST receipts plus R140m loss on transfer duty on real estate transaction, which will lapse from September 30, and R30m in stamp duty on short-term insurance premiums);

Uniform formula

☐ R49m in mining tax following the phasing in of a uniform lower formula for gold mines;

☐ Applying the trustee principle to long-term insurers, bringing the rate of tax applying to them into line with the top marginal rate for individuals, thus reduced from 45% to 43%. The cost to revenue is R10m.

☐ Tax on marketable securities and stamp duties to be phased out over three years starting in 1991-1992, as promised last year. Reduction of the MST (marketable securities tax) rate from April 1 from 1,5% to 1% of the price of the security. Stamp duty on transfer of unquoted marketable securities falls from 15c on each R10 or part thereof to 10c. The cost to Revenue is R85m and R50m respectively;

☐ An increase in the threshold for net remuneration, subject to SITE, from R40 000 to R50 000 from March 1 and a reduction in the maximum marginal tax rate for unmarried persons, married men and others regarded as married for the purposes of the Income Tax Act, from 44% to 43%, partly offset by a cut in primary rebates from R2 100 and R1 800 to R2 000 and R1 625;

☐ A rise in the primary rebate of married women from R700 to R800 and an additional rebate for a married woman who has reached the age of 65, pushing the taxable income threshold to R15 085 from R4 556. Also, married women's investment income will be treated separately from the husband's income. The cost of these is R46m.

Concessions are countered by:

☐ R340m from additional excise duty on beer, fortified wine, sparkling wine, wine spirits and cigarettes (attesting to the undimmed power of the Paarl-Stellenbosch lobby, as natural wine is yet again excluded from making any greater fiscal contribution);

☐ R553m in the fuel levy;

What you will pay: (3)

MARRIED WOMEN*

Income	1992
12 000	1 360
14 000	1 840
16 000	2 320
18 000	2 860
20 000	3 400
25 000	4 920
30 000	6 560
35 000	8 320
40 000	10 160
45 000	12 080
50 000	13 960
60 000	17 760
70 000	21 560
80 000	25 360
100 000	32 960
150 000	51 960

* The table reflects an across-the-board reduction of R100 compared with 1991.
Source: Deloitte Pim Goldby

4. What you will pay:

UNMARRIED PERSONS

Under 61

Income	1992	1991	Reduction
12 000	345	360	15
14 000	765	840	75
16 000	1 225	1 320	95
18 000	1 725	1 860	135
20 000	2 225	2 400	175
25 000	3 675	3 930	255
30 000	5 325	5 640	315
35 000	7 125	7 530	405
40 000	9 075	9 520	445
45 000	11 075	11 580	505
50 000	13 125	13 700	575
55 000	15 225	15 850	625
60 000	17 365	18 040	675
65 000	19 515	20 240	725
70 000	21 665	22 440	775
80 000	25 965	26 940	875
100 000	34 565	35 640	1 075
150 000	56 065	57 640	1 575

Source: Deloitte Pim Goldby

continue

Rapid urbanisation has created a situation in which "over 1,6m people can be regarded as squatters, while another 1,7m live in back yards." The sum proposed for this is down to R1,087bn, from R1,208bn last year. But the figures are not comparable as outside bodies (like the Independent Development Trust) are also involved in financing housing.

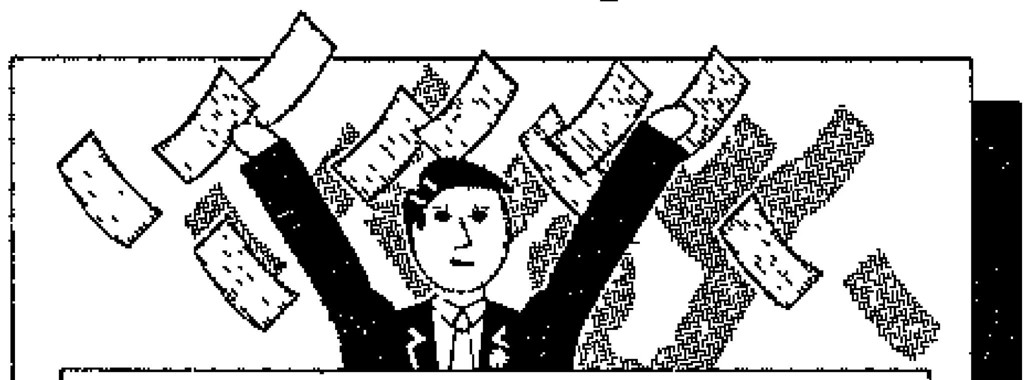
The printed estimate provides R8,175bn for health, of which less than 5% will go to primary health care. Future emphasis will shift to provision of primary health services and delivery of more affordable curative services for the needy. Du Plessis points out the influence on health of other factors such as supply of housing, water, sewerage and balanced nutrition. Funds for these therefore indirectly support primary health care.

Additional spending has been aided by savings in some areas, notably Defence. "Through the rationalisation and shifting of priorities" Defence has released R3,6bn to be used for other purposes.

The various allocations highlight the fact that social spending now represents 38% of the total spending estimate.

A problem area addressed by the Budget is government pension funds, which have been bolstered by another R1bn. This potentially brings down from 20 years to nine the period after which the controversial schemes may be "actuarially funded."

Du Plessis drops a big hint that this will not be enough. Private-sector pension funds



SPENDING RISE

(Rbn)

Fiscal year	Budgeted spending	Actual spending	†Percent increase
91-92	84,98	—	13,7
90-91	72,93	74,73	14,7
89-90	65,02	65,18	16,5
88-89	53,87	55,93	17,9
87-88	46,87	47,45	17,9
86-87	37,57	40,25	22,3
85-86	31,29	32,91	21,3
84-85	24,95	27,13	21,6
83-84	21,18	22,32	16,4
82-83	18,24	19,18	16,7
81-82	15,87	16,43	20,8
80-81	13,08	13,60	18,9
79-80	11,19	11,44	14,9

† Percent increase in actual spending from previous year's actual spending

a[illegible] [illegible]ound when 95% funded. Governme[illegible] [illegible]e, on average, 40% funded. The strain cou[illegible] increase.

Du Plessis mentions "additional financial claims now facing the funds through both earlier termination of service and rationalisation." He also urges civil pensioners not to draw hasty conclusions "based on all sorts of projections and data." Further explanations will follow, he advises.

Du Plessis has enlisted a committee of experts to advise on handling the State pension schemes — particularly their investment policies.

An actuary close to the State pension schemes confirms two probable directions:

- ☐ Cash flow from the schemes will be liberalised and moved gradually into the equity and property markets;
- ☐ While vested pension rights will be protected, benefits for *future* pensioners may well be scaled down.

The two key points to the revenue side of the Budget are the initial structure of VAT and the re-emergence of fiscal drag as a major factor transferring wealth from middle-income SA to government for social upliftment. Deloitte Pim Goldby partner Willem Cronje argues that government will gain R2,9bn from fiscal drag this year.

The tax take from individuals for 1991-1992 is projected at R28,8bn before the Budget concessions, and R27,8bn thereafter. The revised figure for 1990-1991 is some R22bn. If one assumes a rate of inflation of 13% for fiscal 1991-1992, an inflation-neutral take from individuals would be only R24,9bn, Cronje points out.

Ernst & Young tax partner Sally de Boor says the reduction in the marginal rate of tax on individuals, while in line with govern-

Continue →

FM 22|3|91

LOA's CROCODILE TEARS

"Disappointing" is how Life Offices Association (LOA) executive director Dick Geary-Cooke describes the Budget. Fact is, life offices score heavily, relative to other financial institutions.

LOA requests included a cut in tax attracted by policyholders' funds to 30%, which it reckons is an average individual tax rate. Instead, Finance Minister Barend du Plessis cut the rate from 45% to 43%, bringing it in line with top marginal rates. The LOA hadn't really expected anything better, though the benefit is put at only R10m.

Another request was that policyholders' investments should be freed from dividend tax, bringing them into line with all other investors and entrenching the principle that life offices are trustees for individuals. That concession was not granted, though Du Plessis referred to the trustee principle.

Nor was the suggestion that all or most of life office expenditure should be allowed against income. At present, only 55% can be claimed.

So on the face of it, life offices have taken a beating. In reality, they win hands down against banks and building societies. The so-called level playing fields debate is as open as ever.

Life offices score because of what did *not* happen. There was no capital gains tax, which they had feared, because to follow the trustee principle logically, they deal in shares on behalf of policyholders.

Nor had they realistically hoped for an increase in their expense allowances. Following the trustee principle again, policyholders as individuals can't usually offset expenses against tax.

More than offsetting any negatives was the failure of the Jacobs Committee to produce a workable withholding tax, which might have swung savings back to banks/building societies, and the new 0,75% tax (in lieu of VAT) on interest earned by financial institutions.

Publicly, life offices consider the tax detrimental to pension fund members. Privately, they note that it will apply to almost all the income of banks/building societies. In the case of life offices, between only 10%-15% of income is interest-bearing and they have far more room to hedge against the tax.

LOA deputy director Juri Wessels reckons the tax will produce about R50m in a full year from life offices — "not staggering, but significant."

By contrast, First National Bank MD Barry Swart says the tax — based on last year's figures, when FNB had R5,4bn gross interest income — amounts to 15% of pre-tax income. "It is simply not possible for banks to absorb this cost — it will be passed on to the consumer."

Moreover, 0,75% of R4,5bn is, crudely, R40,5m for FNB alone, which suggests that even the Budget estimate of a total yield of a whopping R170m could be an under-estimate.

Standard Bank chief accountant Henry Shaw also points out that financial institutions will pay VAT for goods and services that go into the provision of their products but won't be able to claim input costs, because there is no final VAT-laden product.

He foresees a multiplier effect, with depositors demanding more interest to offset their tax, which will compel banks to hold their lending rates correspondingly higher.

Deloitte Pim Goldby's Craig France reckons the tax could cost Nedcor R38m and FNB R39,7m. "Retail banks that operate on a larger margin on interest may be able to absorb the tax. Commercial banks will be extremely hard hit."

ment's long-term plan, is offset by the reduction in the rebates and on balance amounts to "mere tokenism." The only category of taxpayers really to benefit is married women over 65, where the additional abatement of R2 100 will have a material effect.

Cronje agrees the reduction in rebates is simply to compensate for a benefit to lower income taxpayers that would have been conferred through the general reduction in rates.

Ernest Mazansky, tax partner at Kessel & Feinstein, says this cannot be called a "good news Budget" for the man in the street. Though VAT will be one percentage point lower than the GST rate, it will bear on a wider range of goods and services. Over time, price movements should reflect the lower VAT paid by businesses (compared with GST) but he doubts if this will happen to any great extent this fiscal year.

As a matter of principle, says Mazansky, the completely separate taxation of married women is a welcome and significant development. But no mention was made of anti-avoidance measures to prevent income splitting between spouses through the donation of assets (which do not attract donations tax). He doubts whether the general anti-avoidance measures will be adequate. However, the Budget indicates that there will be a refinement of both general and specific anti-avoidance measures; one of these may be directed at potential income splitting.

The VAT structure is noteworthy for the immediate inclusion of input tax credits (ITCs) for all capital and intermediate goods (with certain exceptions) and for a rate of 12%, at the top end of the range of pre-Budget forecasts, but much in line with what the *FM* has projected.

Cronje does not hold out hope that government has budgeted too cautiously for VAT, regarding the projections for the take as realistic.

De Boor welcomes the decision on capital goods, as it means SA will start off with a pure VAT system, avoiding additional administrative and interpretive problems inherent in hybrid systems. But she regrets that company cars will not qualify for an ITC, as this will have little influence on the total tax take but will create an additional administrative burden.

Eric Louw, tax director, Coopers Theron Du Toit, says the decision to bring in capital and intermediate goods right away will help manufacturers generally and exporters in particular. He notes that government has overruled Vatcom both on business cars and the two basic foodstuffs.

Cronje particularly regrets that political pressures made it impossible to have complete consistency on foodstuffs, arguing that this is a wedge into the entire system which could be widened damagingly in future.

Mazansky also welcomes the statement that the previously proposed minimum tax on companies will not be implemented. This decision flows from the elimination of tax concessions and the proposed tightening of anti-avoidance legislation.

Cronje and De Boor both feel that the reduction in the nominal rate to 48% is of material value to companies, though Cronje points out that SA's nominal rate is still too high relative to most major industrial companies (the UK at 35% and the US at 32%, with Germany the odd man out at 50%).

Of great concern, says Mazansky, is the indication that a comprehensive capital gains tax is still being investigated. Though it is understandable that a capital gains tax might be considered attractive in the current political climate, overseas experience has shown that it is a thoroughly undesirable tax.

Mazansky warns that the non-deductible turnover tax of 0,75% on interest income and finance charges might not be limited to financial institutions. Depending on the wording of the legislation, shopkeepers selling on HP and companies charging interest on inter-company loan accounts could well be subject to the tax.

Cronje sees a contradiction between Du Plessis' exhortation to the private sector to go for growth while introducing a tax whose impact and future ambit are uncertain and therefore damaging to business confidence.

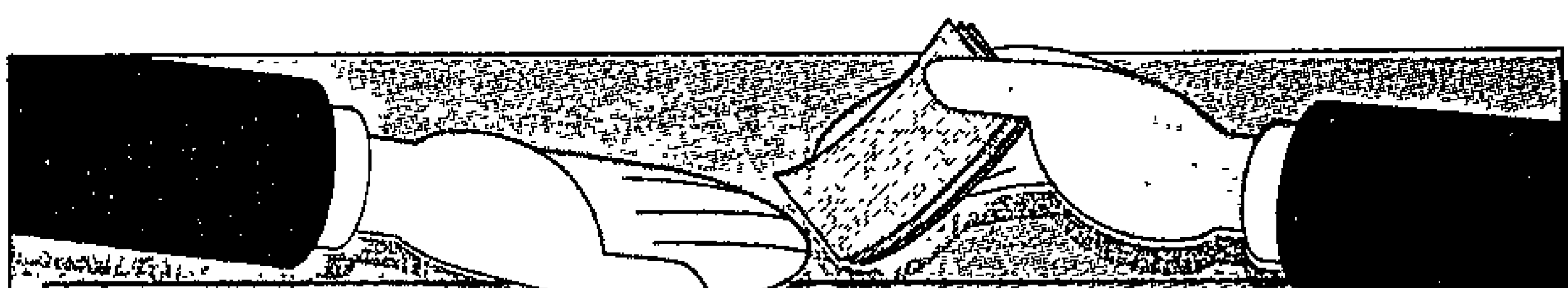
The tax formula for gold mines is being reduced more rapidly than expected, but few mines will benefit and the overall effect for the industry is unlikely to be significant.

It was announced previously that the top marginal tax rate for gold mines would be reduced over seven years. This year was expected to be the third phase in a process that would bring the top rate down from about 75% to about 61%.

The Budget proposes to put the lower tax formula into full force this year, and the third step of the phasing out of the surcharge on non-gold mines will go ahead.

Mining industry sources believe this means the formula for gold mines will be reduced in full immediately. However, few producers now pay anything near the top rate. Most have low tax rates, largely because of low profitability and high capital expenditure. In calendar 1990, only four mines — Drie Cons, Harties, Kinross and Vaal Reefs (all old, rich mines) — paid 80% of the total R897m tax and State's share of profit paid by Chamber of Mines members.

Analysts estimate that earnings per share of about five producers will be affected by the change in formula, though the difference probably will be only a few cents. These are:



ALLOCATIONS FOR STATE DEPARTMENTS

(Including Statutory amounts)

Department	'90-'91 Rm	Budget '91-'92 Rm	Budget increase Rm	%
State President		16,1	17,6	9,0
Parliament		57,5	71,2	24,0
Planning, Provincial Affairs and Housing		9 129,5	10 101,3	11,0
Foreign Affairs		3 833,0	4 906,0	28,0
National Education		295,0	299,6	1,6
Administration: House of Assembly		7 657,0	8 430,7	10,0
Development Aid		5 831,6	6 723,0	15,0
Education and Training		2 536,8	3 135,6	24,0
Defence		10 071,0	9 187,0	-8,7
Manpower		328,0	300,5	-8.0
Public Works and Land Affairs		1 569,4	1 842,0	17,0
Commission for Administration		407,3	160,5	-60,0
Improvement of Conditions of Service		2 233,0	3 340,0	50,0
Justice		459,5	564,6	23,0
Correctional Services		878,2	1 275,0	45,0
Agriculture		302,0	253,7	-16,0
Trade and Industry		1 358,0	1 839,8	35,0
Mineral and Energy Affairs		1 133,6	1 067,4	-5,8
Finance		12 655,0	14 642,7	16,0
Audit (self financing in 1990-1991)		—	0,5	-
Home Affairs		241,2	281,4	17,0
Transport		1 514,0	1 496,0	-1,2
Administration: House of Representatives		3 245,4	3 560,0	10,0
Administration: House of Delegates		1 171,8	1 294,0	10,0
National Health and Population Development		540,4	632,7	17,0
Police		3 027,7	4 631,8	53,0
Environment Affairs		156,4	168,5	8,0
Water Affairs and Forestry		373,0	374,8	0,5
Bureau for Information		41,4	41,6	0,6
Constitutional Development Service		14,5	14,2	-1,4
Privatisation		2,5	4,0	59,0

(In some cases the allocations for 1990-1991 do not match the allocations as originally printed in the Budget estimates. This is due to a shift in functions and a reclassification of expenditure during the year).

continue

□ R170m relating to tax treatment of trading stock, on the one hand to bring back into account the *last in first out* reserve and on the other to include the value of consumable stores and uncompleted work. Both measures are being phased in over 10 years from January 1 1991;

□ R100m from phasing out concessions under section 24 of the Income Tax Act in respect of outstanding debtors;

□ R250m in the final phasing out of fringe benefits on housing.

On the expenditure side, an unusual number of adjustments is made to the printed estimates. This is presumably an attempt to identify clearly subsidies and the way in which they are funded. This is in contrast to previous years when they were built into the

Continue →

FM 22|3|91.

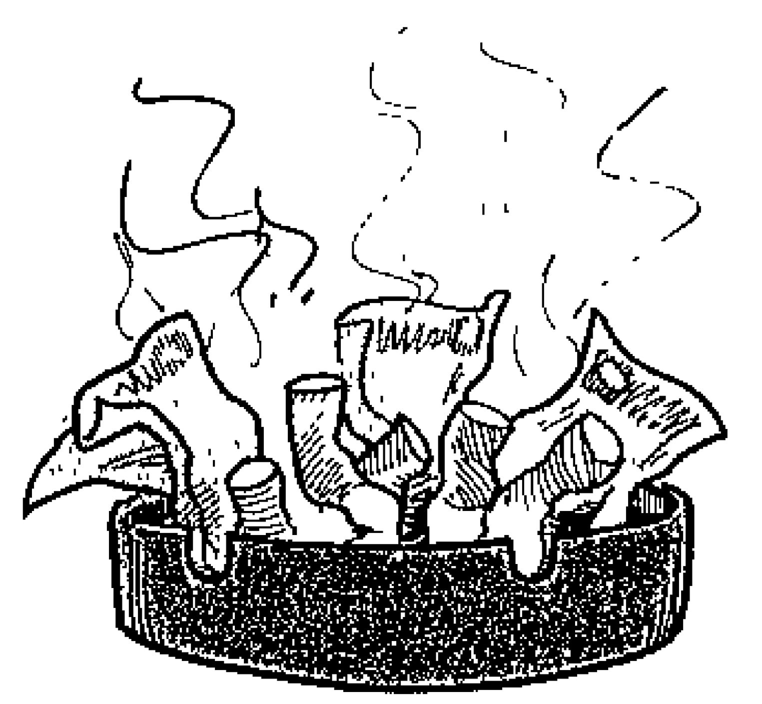
THE BUDGET IN A NUTSHELL

49

Revenue: Expected to increase 11,1% (over revised 1990-1991 estimate) to R74,9bn. Personal income tax will contribute R29,1bn (up 27%), non-mining companies R13,7bn (+11%), gold mines R490m (-22%), and other mines R1,2bn (-24%). GST/VAT will provide R19,4bn (+7%) while Customs & Excise will chip in R8,2bn (-2%).

Expenditure: Estimated at R85bn (including a contingency reserve of R1,2bn and additional expenditures of R2,2bn), up by 14% from 1990-1991's revised figure. Capital expenditure amounts to R5,4bn, or 1,8% of GDP. Social services will take up 38% of the Budget and education an additional 18,5%.

Financing: Projected deficit before borrowing: R10,1bn, or 3,4% of GDP. But R950m will be financed by selling off some strategic stockpiles. A further R206m will be carried forward from the 1990-1991 surplus after borrowing. The remaining R9bn represents 3% of GDP,



compared to a deficit of 2,7% in 1990-1991. Loan redemptions will be about R5,4bn, bringing the net financing requirement to R14,4bn. This will be financed primarily through domestic stock sales of R14bn, including investment by the Public Investment Commissioners.

Defence: Spending reduced over two years from 15,2% of the Budget in 1989-1990 to 11% in 1991-1992, about R9,2bn.

Police: Much of the reduction in defence spending has been channelled to the police. There is also an extra R20m for "urgent capital requirements."

Education: Total spending up 16,1% to R16bn.

Housing: Total budget down 10% to R1,1bn, though Du Plessis says the figures are not comparable because of efforts by bodies like the Independent Development Trust. An extra R90m to the Department of Planning, Provincial Affairs and National Housing and R60m to ad hoc coloured housing. In addition to R119m left over from last year, these funds will be used to purchase land and infrastructure for black urbanisation.

Health: R37m to improve training programmes at H F Verwoerd, GaRankuwa and King Edward hospitals, as well as establishing a hospital at Botshabelo.

Self-governing areas: One-off R100m to Department of Development Aid; about 70% for education.

Aid schemes: R220m to ease effects of "high and rising unemployment, the transitional phase of economic restructuring" and the introduction of VAT.

Elderly: An extra R505m to reduce by 20% the pension disparities of different race groups. From April 1, whites will get R304/month, coloureds and Indians R263 and blacks R225. There is also a 12,5% increase for all civil service pensioners.

Total social aid and welfare: Up 27% to R6bn.

Small business: One-off R75m to Small Business Development Corp.

IDC: The Industrial Development Corp will invest R500m in the Development Bank of SA in 1991-1992 and 1992-1993, in place of the State's liabilities for those two years.

VAT: Introduced at 12%, with minimum exemptions, including: exports, graded mealie meal, brown bread and taxi, rail and bus commuter services. There are also concessions (as yet unspecified) for welfare organisations.

Special levy: As financial services are VAT-exempt, a 0,75% tax (not tax-deductible) will be levied on all interest income and finance charges of banks, life assurers and pension funds. Expected revenue: R170m.

Beer: Extra 3c/340ml bottle.

Spirits: Up 38c/750ml bottle.

Cigarettes and tobacco: Duty up 3c/10 cigarettes and 3c/50 g. Pipe tobacco and cigars up 25c/kg.

Fortified and sparkling wine: Increase of 1,8c/750ml bottle. Additional revenue for alcohol and tobacco: R340m.

Paraffin: The price of illuminating paraffin is cut at wholesale level by 12c/*l*. Allowing for transport cost adjustments, the minimum reduction to domestic consumers will be 9c/*l*. The equalisation fund levy for industrial consumers has been reduced from 16,9c/*l* to 7,0c/*l*.

Import surcharge: Capital goods: cut by half to 5%. Intermediate goods: down from 7,5% to 5%. Revenue lost: R756m.

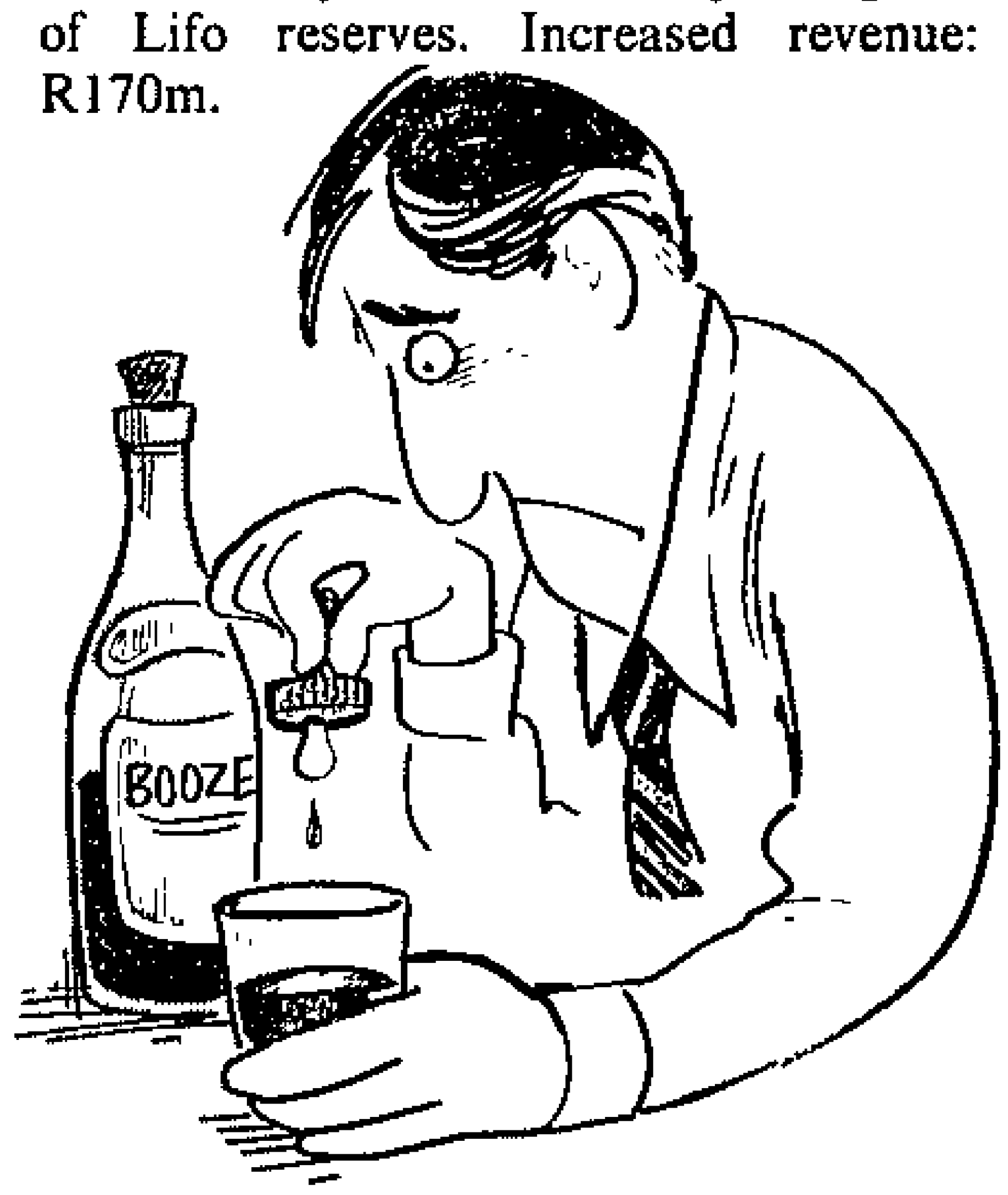
Fuel: Of unspecified price reductions, 5c/*l* petrol and 2c/*l* diesel will go to government. Extra revenue: R533m.

MST: Down from 1,5% to 1%.

Stamp duty: Reduced from 15c to 10c on each R10 or part thereof. With Marketable Securities Tax, revenue lost is R135m.

Mining: Lower tax formula for gold mines and the third step of phasing out of the surcharge on non-gold mines. Lost revenue: R49m.

Companies: Tax rate reduced from 50% to 48%. Tax on long-term insurers reduced to 43%. Revenue forfeited: R378m. Also further phasing in of uncompleted work and consumption stores and phasing out of Lifo reserves. Increased revenue: R170m.



Fringe benefits: Final phasing in of taxable housing benefit. Extra revenue: R250m.

Income tax: Maximum marginal rate reduced from 44% to 43%. Primary rebate for married men down from R2 100 to R2 000 and from R1 800 to R1 625 for unmarried men. Revenue lost: R925m.

Married women will have their primary rebates raised to R800 from R700, and will now have their investment income taxed separately from that of their husbands. All women over 65 eligible for additional rebate of R2 100. That means her tax threshold goes from R4 556 to no less than R15 084. Revenue loss: R46m.

SITE: Net remuneration subject to SITE raised from R40 000 to R50 000.

Dries, Harties, Kinross, Beatrix and Knights. The scrapping of ring-fencing would have been a much greater stimulus to new gold mining developments.

The further reduction in surcharge for non-gold mines will have broader effects, but was generally expected.

Economists describe the Budget as expansionary — but with qualifications.

Says Old Mutual's Dave Mohr: "A Budget can never be neutral. I doubt that this one is contractionary, so by default it must be expansionary. Spending in real terms will show some increase. The amount for improving conditions of service for public-sector employees implies there will be reasonable increases in remuneration. In addition there is the emphasis on social spending.

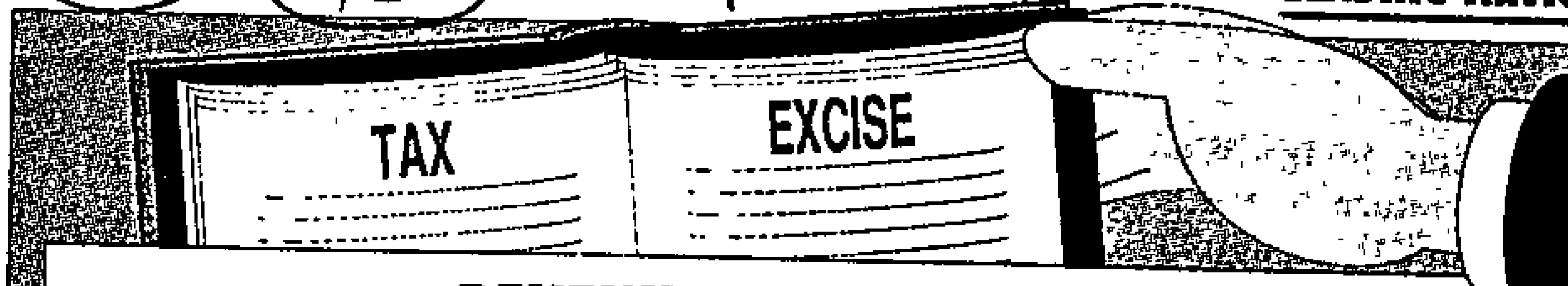
"So this represents a turning point in the continuous tightening of economic policy we have had for three years — expecially if you view it in conjunction with the 1% drop in the Bank rate."

But he adds the expected rise of 27% in direct personal taxes will check these stimulatory increases.

Standard Bank group economist Nico Czypionka also sees the Budget as having long-term expansionary impact. "Apart from the modest shift to social expenditure, the most striking feature is the attempt to improve the supply side of the economy. Gainers from this Budget in the long term will be industry, especially exporters."

But he too points to the increase in tax revenue as holding back consumption demand: "They have tried to conform to their self-imposed guidelines of keeping the deficit to 3% and have achieved this with some ingenuity. Nevertheless it is kept within reason and on technical grounds you can't fault this Budget. If you consider the social expenditure on the platter, this deficit is a deliberate decision not to choose the easy way out.

"But I don't agree it will reinforce the downward move. After all, government spending is likely to overshoot and, in that event unless they have significantly underestimated revenues, the deficit will be higher."



REVENUE COMPARISONS

	1990-91 Budgeted Rm	1990-91 Revised estimate Rm	1991-92 Budgeted at existing rates Rm	1991-92 Budgeted at new rates Rm	% Change on 1990/91 revised
Inland Revenue					
Income tax on:					
Individuals	23 500	22 900	29 840	29 139	27,2
Non-mining companies	12 950	12 401	13 651	13 713	10,6
Gold mines	1 000	631	505	490	−22,3
Diamond and other mines	1 210	1 619	1 259	1 225	−24,3
Sales tax†	18 500	18 207	20 354	19 444	6,8
Gold mine leases	300	181	140	140	−22,7
Stamp duties	—	700	735	655	−6,4
Transfer duties	—	755	815	675	−10,6
Other	3 410	1 574	1 240	1 155	−10,8
Total	60 870	58 968	68 539	66 636	13,0
Customs and Excise					
Customs duty	2 100	2 490	2 635	2 635	5,8
Import surcharge	2 700	2 085	2 165	1 409	−32,4
Excise duty	2 750	3 060	3 215	3 555	16,2
Fuel levy	4 200	3 928	3 987	4 520	15,1
Ordinary levy	100	106	111	111	4,7
Miscellaneous	196	206	233	233	12,7
Total	12 046	11 876	12 346	12 463	4,9
Less: Customs Union payments..	3 448	3 448	4 233	4 233	22,8
Total	8 598	8 428	8 113	8 230	−2,3
Total Revenue	69 468	67 396	76 652	74 866	11,1

† Includes VAT from September 30 1991.

UNDOING THE DAMAGE

FM 22/3/91

(49)

McGREGOR'S ECONOMIC ALTERNATIVES *edited by Anne McGregor (Juta, 393pp, R34,95.)*

This book about SA's economic problems is divided into five parts. I propose to give most of my attention to the massive contribution of Azar Jammine, after commenting briefly on the others.

Unemployment, poverty and the informal sector are linked in Bobby Godsell's contribution, which is both penetrating and compassionate. In his treatment of the informal sector he warns against expecting too much of its potential — and also on the sort of mistakes bureaucrats might all too easily make in attempting either to assist or regulate it.

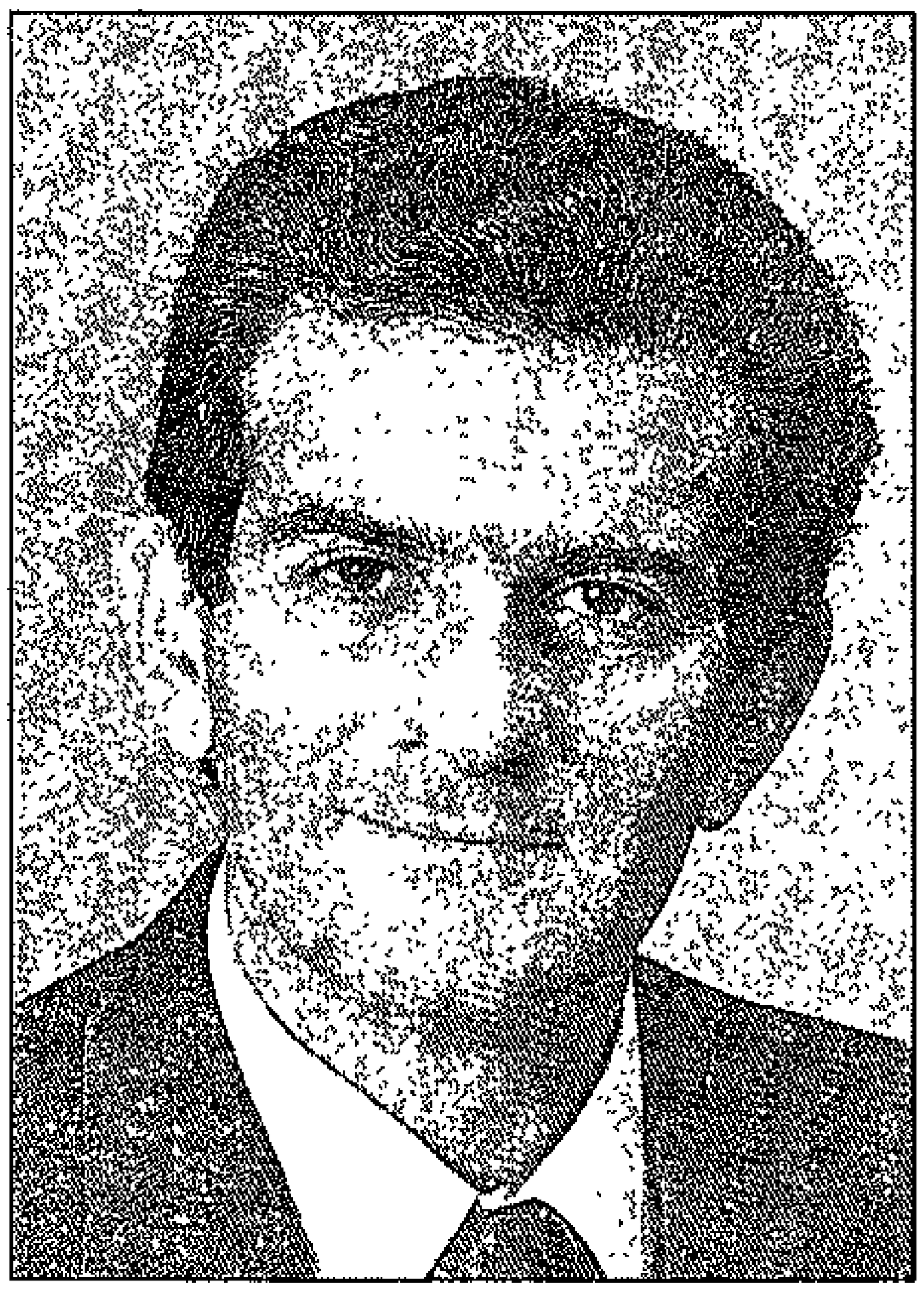
Prof Laurence Harris is primarily concerned to explain and defend the economic strategy of the ANC. He offers a justification for its refusal to renounce the option of nationalisation. In his conclusion, he mentions a number of possible shocks the economy may face: among others, fluctuations in the price of mineral exports, oil price increases and loss of export markets due to worldwide recession. One of the strengths he sees in the ANC's mixed economic strategy is that it is designed to enable government to react effectively to such shocks. But hasn't it been shown that most governmental reactions to a crisis do further damage to the world economy and hence in the end to each of its components?

Robin and Guy McGregor deal with the factors which have led to grotesque concentration in the private sector. They argue that the Competition Board and statutes under which it operates have been ineffective in comparison with the controls that exist in the US which, rather surprisingly, they see as having succeeded. But worst of all has been what Jammine calls the enormous bottling up, through exchange control, of liquidity in the hands of the institutional giants. These have had little alternative but to invest their excess cash in SA equities.

Leon Louw's contribution is a powerful and comprehensive review of the superiority of the market. It includes a chapter entitled "A Dozen Popular South African Myths," relating to the supposed inability of the market to satisfy certain social needs. In every part of the world, what Louw calls "The World's First Global Revolution" is sweeping away the cobwebs of socialism and related fallacies. SA has the choice between prospering in tandem with this revolution or stagnating outside it.

The trouble with Louw's case is that the ANC has a seemingly easy answer: why is free enterprise getting a hearing only now? Until the Seventies, the NP succeeded in directing the economy to produce the maximum advantage for its own clientele. Now the NP is demanding that a future black government should do as it says, not as it has done.

What Jammine shows in his contribution is the appalling, perhaps irreparable damage the NP has inflicted on the economy through its persistent attempts to show that controls could do better than the market.



Jammine ... *an enormous history of distortion*

Allowing unemployment to grow is the surest way to generate social instability. Jammine sets against the backdrop of the declining economy the problem of providing jobs: "About 400 000 new jobs need to be created annually simply to prevent unemployment from rising. This means the country has to generate an economic growth rate of at least 4% a year merely to provide jobs for new workers coming on stream each year.

"Demographers say only by raising people's standard of living will the propensity to procreate decline. Therefore, on both counts — the need to limit unemployment and the need to restrict population growth — a high level of economic growth is required if chaos is to be prevented."

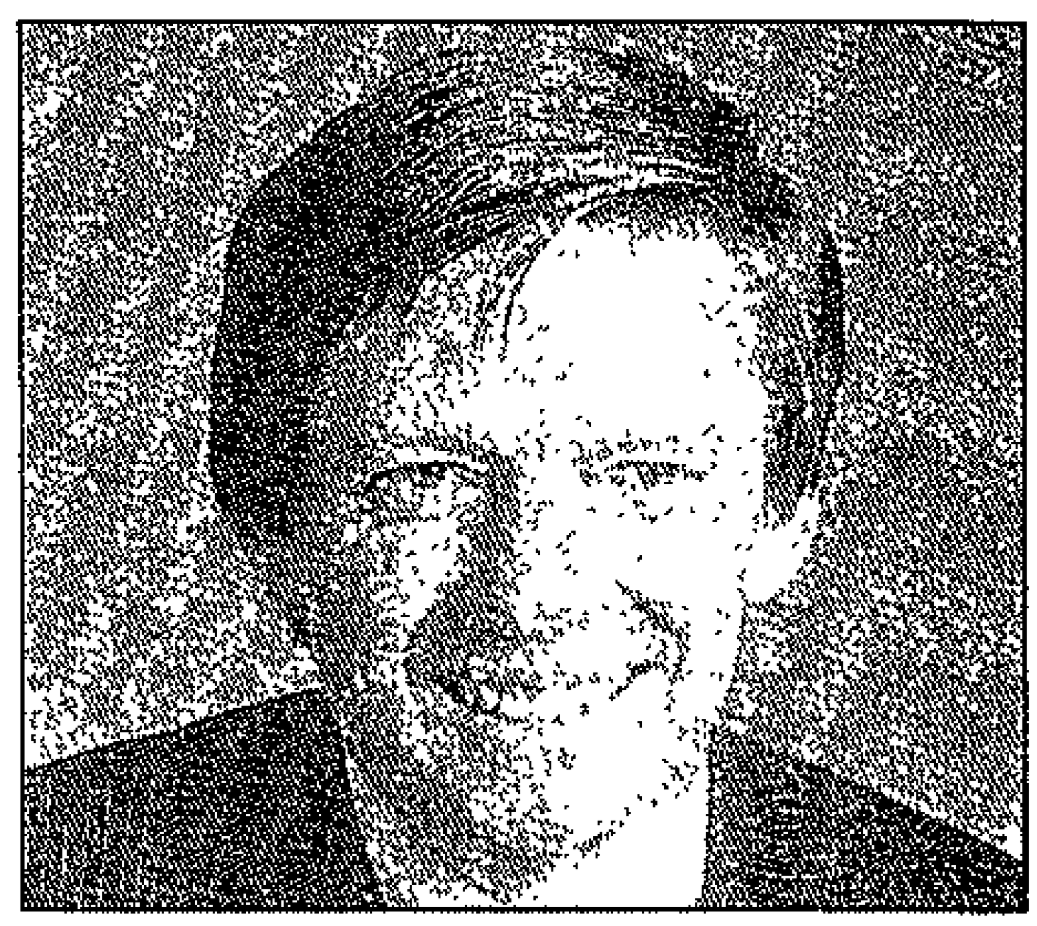
During the Forties and Fifties the economy achieved a growth rate in GDP of around 4,5% on average; in the Sixties this increased to 5,5% despite rigorous apartheid. But in the Seventies a decline set in. In the Eighties the growth rate would have been less than 1% if one were to exclude an 8% hike in 1981. The gold price had soared in the previous year and made things look rosy for a while.

Louw ... *political controls mean stagnation*

During that decade, the ratio of fixed investment to GDP fell steadily, with a consequent loss of competitiveness in international markets. Jammine shows by a table of comparison with other countries that what has been truly dismal has been the performance of manufacturing — a sector of crucial importance, because from it the employment multiplier gets to work. Sanctions, though significant, have been a rather less important factor.

Jammine indicates the general lines on which we may hope to reverse the decline: a leaner public service, lower levels of government spending and taxation, and above all the control of inflation. It is because of the inflationary implications of ANC policies that he challenges them head on; inflation has in the past favoured the rich and impoverished the poor and will be certain, if persisted in, to produce the same result in future.

Radford Jordan



Godsell ... *don't expect too much of 'informals'*

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FM 22|3|91

BAREND'S 1991 BUDGET (49)

EQUITY, GROWTH, STABILITY

That's a ringing set of objectives for any Budget, even if a cynic may suspect that it's aimed at least in part at whoever may be Minister of Finance in the next (non-NP) government. It also begs a few questions: after all, equity does not mean the same thing to all people. That is why the ANC is criticising Barend's latest Budget for not doing enough for the disadvantaged, while middle-class white economists conversely point to the massively increased burden on middle-class white taxpayers.

Both have a point. After all, on a real (inflation-adjusted) per capita basis, a 16,1% increase on nominal money spending on education vanishes almost entirely. It's all very well for Finance Minister Du Plessis to say that government has no intention of ceding responsibility for development spending to bodies like the Independent Development Trust (which concentrates on housing and education), but one can be forgiven for feeling that that's the way it looks.

On the other hand, the tax concessions to individuals are a mere R701m, against R4m-plus last year; and even after them, the tax burden on individuals will (on the estimates) rise by 27% — way ahead of the inflation rate, let alone last year's single-digit increase. Even though the number of taxpayers is presumably rising as blacks are absorbed into the fiscal structure, it would seem that fiscal drag will be more serious than for some years.

True, the switch from GST to VAT will "save" R1,08bn. This is more important than the actual rate, as it represents the actual tax burden on consumption spending, while the total revenue from six months of GST and six months of VAT is expected to rise by only 6,4% — well under the inflation rate. Of course, prices of some goods which were exempt from GST will rise under VAT, but unless there are major imperfections in the market, the introduction of VAT should *dampen* the overall rate of inflation.

One of the most ingenious measures is the legerdemain of cutting the petrol price to the consumer while raising revenue from petrol levies. (Beware, incidentally, of Du Plessis' claim that taxes are a low percentage of pump prices in SA, by international standards; fact is, many countries with higher petrol taxes also have effective public transport systems. Many South Africans have no option but to commute by private car or taxi.)

Both higher petrol taxes and VAT, incidentally, will also be a way of extracting more money from the informal sector, which is notoriously able to escape from most direct taxation. The switch from direct to indirect taxes not only satisfies some people's concept of "equity" — it also broadens the tax net considerably.

The further cut-back in the planned rate of increase in State spending is commendable, but it's still in excess of the target inflation rate and likely to be overshot, anyway. Moreover, the deficit before borrowing is again higher than public-sector capital formation, so the State is in effect still borrowing to finance current spending.

There is, nevertheless, a major shift in the emphasis of spending towards social upliftment and while the ANC may feel it's too little, Du Plessis is right to remark that you can't cure problems immediately just by throwing money at them. There's no point building schools if there aren't teachers to man them (whether it's advisable to close white schools when there's such a crying need for black education is another question, but not a Budgetary one).

The cut in borrowing requirement by running down strategic stockpiles is another creative form of accounting that disguises what would otherwise have been a borrowing requirement well above the target 3% of GDP — and even more above last year's. Expressed another way, the adjusted financing requirement is up by a third.

While Du Plessis hopes that this will not strain the local capital market, it certainly won't do hopes of further cuts in interest rates much good.

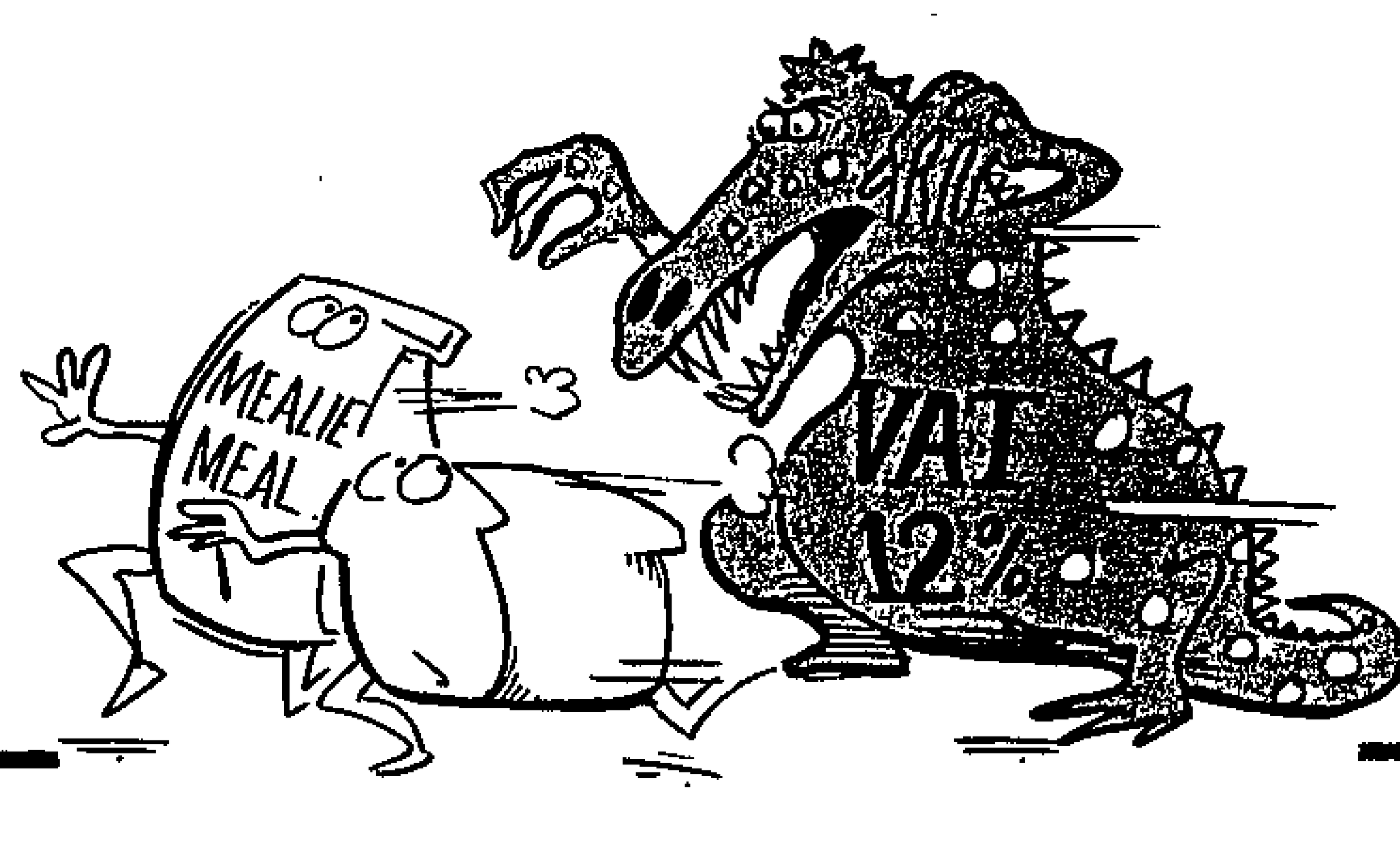
Nor does the Budget do much to get the rate of inflation down. The cut in the import surcharge may eventually lead to new investment, which should be more cost-efficient; the switch to VAT should help in the longer term. But neither will have much impact in this fiscal year. Keeping inflation down remains largely the province of monetary policy, which fortunately is still in the safe hands of Chris Stals. This simply underlines that the Budget as such is by no means the dominant factor on economic policy that it was in more comfortable decades.

On balance, the Budget is both redistributive (at the expense of basically white taxpayers) and stimulatory (through concessions to the corporate, rather than individual, sector). Coupled with the need to maintain fiscal discipline, this has forced Du Plessis into some novel expedients.

The underlying philosophy is growth, which will ultimately take care of both inflation and unemployment. That's sound economics in principle, but is it one that can be reconciled with our political situation and the possibility that, in only a couple of years, we may have a government with a very different set of priorities?

We called last year's Budget Barend du Plessis' best to date. This year's effort is as unequivocally his most ingenious.

The question that will only be answered as the year progresses is: has he been too clever by half? ■



ECONOMIC UNION: NO EUPHORIA

FM 22\3\91 (49)

SA's role in a mooted southern Africa economic union needs definition. The biggest hurdle is no longer political so much as the imbalances in the region's economies.

Seventeen countries, SA included, attended a conference, *Scenario for a Subcontinent*, in Swaziland last week. In informal pre-conference talks, delegates from up north speculated about a common market, the benefits SA could bring to it and the way such an economic bloc would open opportunities for international investment.

By the time they went home, initial euphoria had dissipated. There was still general conviction that a common market will eventually happen. But some realities now prevailed, not least the realisation that SA membership will be a mixed blessing.

Paul Hatty, from Barlow Rand, summed it up: for trade to exist, there must be a product and capital to produce it with economies of scale. And there has to be a market which both needs the product and has the money to buy it. In southern Africa, that happy balance simply does not exist. Were there economic union, as matters stand, all the advantages would be SA's.

The message also registered that a common market will be a DIY operation, not established with infusions of international money and goodwill.

Some delegates (mainly from SA and Zimbabwe) also agreed that the highly publicised non-events of the conference typified the immaturity of southern Africa in any business league. Those included the non-functioning of many communications systems; the non-appearance of the Swazi king and PM and the non-apology by the PM issued by the conference organisers; and the absence, after day two, of the National African Chamber of Commerce (Nafcoc) delegation, which had headed for home.

All served to highlight the difficulties of doing effective business in the region, where sensitivities sometimes override pragmatism.

For all the nonsense, the conference proved a milestone. A year ago, it would have been inconceivable for SA business leaders to sit in open conference with delegates from 16 sub-Saharan nations.

SA Foreign Trade Organisation chairman and JSE president Tony Norton set the early tone. "We are here to talk about assets, the positive side of the balance sheet and about promise; about planning; and about ultimate achievements which will touch and improve the lives of ordinary people in a real and lasting way by making us all greater economic achievers, no longer trapped in a vicious circle of poverty and ignorance. We are here to talk about and plan for the promotion, on a realistically phased basis, of an ultimate common trade zone."

Soon afterwards, some realities were pointed out by Christopher Coker, an Africa specialist from the London School of Economics. Coker argued that a century of European interest in Africa came to an end the day the Berlin Wall came down. European interest will be firmly focused on the mess on its eastern doorstep. East Europeans had cut aid to Africa to emphasise their own poverty. International investors would put their funds in those economies of Europe where they perceived probable success, not into Africa where the perception is of failure.

Also, he emphasised, the rest of the world is now in trading blocs, or forming them. "Does the regionalisation of southern Africa mean its marginalisation — and are these two words cruelly synonymous? "

With trade between Africa and the UK in steady decline, Coker noted, there are UK companies interested in signing licensing agreements for production in the region. The only countries with the capacity to handle such production are SA and Zimbabwe.

Though most delegates were dismayed by Coker's assessment, the theme re-emerged later. By that time, workshop sessions had exposed the fact that, in every field, SA would dominate the market. Nascent industries in other countries would probably not compete with industries geared for large-scale production.

Some delegates welcomed the challenge. Zambian mining specialist Thomson Sinkala admitted: "We may have enjoyed spoonfeeding too long. The reduction of aid may, therefore, be a blessing in disguise."

Harry Thomson, chairman of the Southern African Development Co-ordinating Council, gave a ruthless analysis of trade and investment inhibitions in the region, including unsuitable ideological postures. He concluded: "These constraints have to be surmounted to give way to a larger regional market to attract profitable investment in productive ventures.

"The size of the market, depressed by constraints to trade, is usually quoted as a drawback which faces foreign investors. Unless this is addressed, the objective of increasing investment in production to improve the quality of life of the people of the region will remain mere rhetoric."

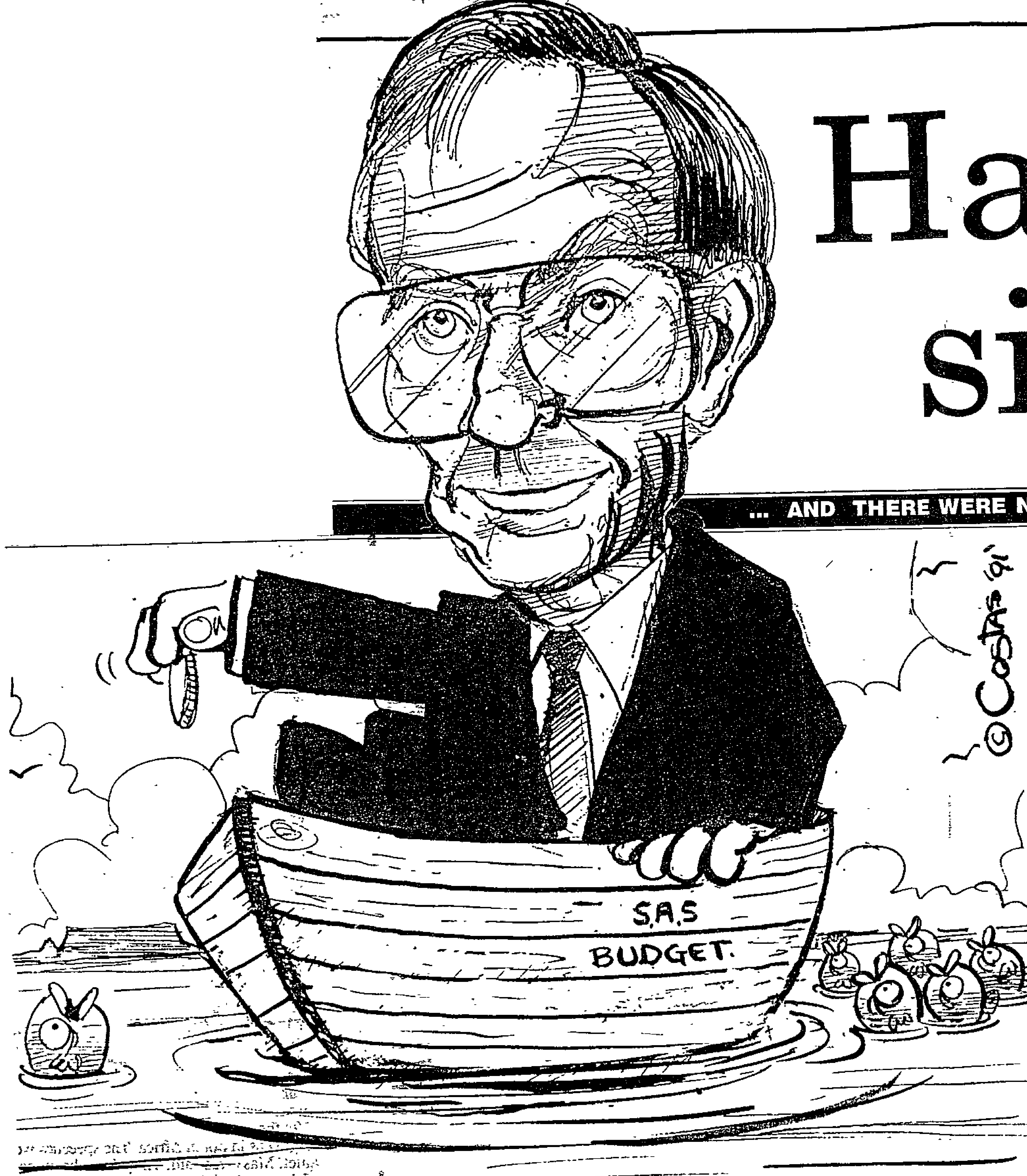
With all the problems facing the economic union, there was common agreement on one aspect. Governments must facilitate the trading bloc, then step aside. Speakers who put this proposition circumspectly in the plenary sessions were outspoken in the corridors and ante-rooms. Failed promises by governments must be repeated — publicly — for political purposes. The reality is, delegates confided, that southern Africa is rushing towards capitalism.

So, much of the conference took place in informal one-on-one discussions. The media, having exhausted the Nafcoc walkout, spent time spotting which unlikely partners were at dinner or drawing for each other at blackjack. These encounters epitomised the speed with which barriers are falling.

BUDGET '91

Half-a-step sideways

... AND THERE WERE NO BOLD BREAKTHROUGHS EITHER, reports REG RUMNEY



Keeping the economy afloat ... Finance Minister Barend du Plessis didn't rock the boat with his 1991/2 Budget

WMail 22/3 - 27/3/91

FINANCE Minister Barend du Plessis' social spending announcements in this week's Budget were underwhelming.

Most of what he announced on both the revenue and spending sides of the Budget this week was expected.

But he was also expected once again to make a gesture towards the new South Africa, by devoting some big money to removing the disparities of the past.

Funds were set aside for just this but much of it was unspent money allocated in last year's Budget.

For instance, funds devoted to building hospitals and schools and buying land to accommodate people streaming into the cities will come from the substantial part of the R1-billion devoted in last year's Budget to buying land for urbanisation and reducing capital backlogs in education. Now some of that money will go on building police stations as well.

Of that sum only R319,4-million has been spent, and this was funded from the highly secret National Supplies Procurement Fund, which was built up to bolster South Africa against sanctions on supplies of strategic goods. With the passing of sanctions, it is envisaged that the remaining R681-million, plus a "top-up" of R269-million to make R950-million, will be financed fully by funds becoming available because of the lessened need for strategic supplies. That R950-million the state actually expects to spend this year. It will be allocated on capital spending thus:

Education	R774-million
Health	R37-million
Police	R20-million
Land purchase	R119-million

(49)

Because the R950-million is to be financed from no-longer-needed strategic funds it isn't counted in to the Budget spending. It isn't expected to be part of the state's borrowing requirement either.

Some significant sums are listed in the "supplementary expenditure proposals". Here an amount of R1,375-billion includes R505-million set aside to narrow the gap between black (African, coloured and Indian) and white state pensions, R325-million to narrow the gap between black and white education, and R220-million for the poor.

THE SUPPLEMENTARY EXPENDITURE PROPOSALS

	R-m
Black education	160
House of Reps	150
House of Delegates	75
Social pensions	505
Special aid programmes	220
Development Aid:	
Self-governing states	100
Housing infrastructure	90
SBDC	75
	1 375
Less: suspension Soekor*	-171
Total	1 204

*Amount to be funded by the Central Energy Fund

The supplementary spending amount and the R269-million top-up together come to R1,644-billion. This doesn't match the R2-billion dished out to the Independent Development Trust.

True, the R2-billion devoted to the IDT has not yet been spent, so there is little cogency in advancing more money to it or a similar fund.

And commitment of Budget funds to social spending will rise by two percentage points in the 1991/92 financial year, to 38,2 percent of total spending compared to the 1990/91 financial year.

Du Plessis in his Budget speech argued that the Budget had allowed scant room for manoeuvre in both revenue and spending, but that underfunded or un-funded services would have their turn in coming Budgets.

An examination of the revenue and expenditure figures bears this out. The "peace dividend" from decreasing military spending, for instance, was swallowed up by the increase in spending on police.

There was little relief for individual taxpayers. And companies, though better off, have no reason to be overjoyed.

22 March 1991 21

BUDGET '91

Half-a-step forward

WMail (49)

THERE WERE NO STARTLING SURPRISES IN BAREND'S BUDGET THIS WEEK ...

WMail 22/3-27/3/91

THERE were no fireworks in the R85-billion Budget presented to parliament by Finance Minister Barend du Plessis this week.

"Just about everything was expected by market commentators," noted Southern Life chief economist Mike Daly.

The borrowing requirement was expected to be around R9-billion: it turned out to be R8,962-billion.

That amounts to 3 percent of the gross domestic product, higher than the revised figure of 2,7 percent for the past fiscal year, but within the range Du Plessis seems to have set himself.

The Budget is macro-economically neutral. It treads a careful path between stimulating the economy and dampening it further.

Keeping the deficit before borrowing at the same level is unusual, notes Daly.

It remains worrying that the deficit before borrowing still above the level of capital spending, was estimated to amount to 1,8 percent of GDP this year. So the trend of using borrowings to finance current spending continues.

On the revenue side, Du Plessis announced a 2 percentage point cut in the marginal rate for companies, while taking away with the other hand through tightening up on tax concessions. As expected, he cut the marginal tax rate for individuals by one percentage point.

(49)

Again, VAT at 12 percent was not unexpected.

Nor was the increase in customs and excise duties on alcoholic drinks and cigarettes, the "sin tax", a bolt out of the blue.

The continued phasing out of the import surcharge on capital and intermediate goods was also expected and fits in the investment theme that dominates the Budget.

A small surprise was the imposition of an extra 5c a litre levy on petrol and 2c a litre on diesel, timed to coincide with a drop in the fuel price of exactly those amounts so that, shrewdly, motorists won't even notice the difference.

On the spending side, moves to equalise state pensions and spend more on black education and housing are not out of place.

Eyebrows may have been raised by the putting away of R1-billion for civil service pension funds, but this is also not unusual.

Observers may not have foreseen the 53 percent increase in spending on the police, but they knew spending on security was a priority and some money would be liberated by the decreased need for military expenditure.

So all that was left were minor intriguing points, like the proposal that the IDC invest two lots of R500-million in the Development Bank of SA, diverting money originally meant for import-replacement into development.

Barend keeps us in the dark

Lots of public money was allocated in this week's Budget — but Finance Minister Barend du Plessis wasn't telling where it all came from nor why it was needed, reports REG RUMNEY

WMail 22/3 - 27/3/91

ONCE again the sanctions-inspired culture of secrecy stands in the way of the South African public knowing the truth about public money matters.

In the 1991/92 Budget it is proposed that R450-million be paid into the Export Credit Reinsurance Fund as a one-off topping up to make up for recent losses.

Asked about this on Wednesday, Finance Minister Barend du Plessis replied laconically: "That's classified information."

(49)

Where and how were the losses on exports made that necessitated such an export payout? Did it have anything to do with reported shipments of arms and ammunition to the Gulf?

Attempts by *The Weekly Mail* to find the answer to these questions drew a blank at the time of going to press.

For a full Budget report see PAGES 20 & 21

The Budget Review states: "As reinsurer of last resort, the government makes regular contributions to the Export Credit Reinsurance Fund when necessary.

"Recent negative cash flows in the fund justify a one-off topping-up by the state to ensure the continuing credibility of the fund among South African exporters.

"It is therefore proposed that R450-million be transferred to the fund from the 1990/91 surplus after borrowing."

The Budget also revealed that the finance minister could magically tap hidden sources of revenue.

R319,4-million was transferred from the National Supplies Procurement Fund (NSPF) for spending on reducing backlogs. And it seems likely that up to around R1-billion in total can be financed this way.

The original R1-billion, set aside last year, from which that R319,4-million was taken was supposed to be financed from privatisation. Since privatisation proceeds are not discussed in the Budget, the implication is that privatisation is on hold.

How big is the NSPF? We are not told.

Also, the Budget had introduced another tax on fuel. It coincides with a drop in the fuel price exactly equivalent to the tax so by sleight of hand it won't be noticed.

But, again, the actual details of how much petrol and diesel is consumed in South Africa are shrouded in secrecy. Du Plessis admitted the move was aimed purely at obtaining revenue, not dampening fuel demand. He could have argued fuel demand was too high, and no one would be able to contradict him.

Public servants want say in allocating increases

GERALD REILLY

PRETORIA — The Public Servants' Association (PSA) will start negotiating next week with the Commission for Administration on how the R3,7bn Budget allocation for government workers' salaries and benefits will be spent.

PSA GM Hans Olivier said the association's main concern was how much of the money would be allocated to career differentiated pay hikes.

Finance Minister Barend du Plessis angered public servants by failing to give a detailed breakdown of the R3,735bn set aside in the Budget for public sector benefits.

There were more than 140 career groups in the service who had fallen far behind private sector pay levels, Olivier said.

The amount to be spent on across-the-board increases for all government workers would also be negotiated.

Olivier said a second major issue was whether last year's 10% non-pensionable allowance would be incorporated in basic pensionable earnings.

The benefits are not expected to come into operation from April 1 and will probably be introduced retrospectively later.

The announcement that MPs are to get increases of 27% has caused "unhappiness". (49)

Last year MPs voted themselves a similar increase.

● Comment: Page 12

B/Day 22/3/91

Pollution threat to river

WILSON ZWANE

A RIVER running through Sandton faces a major pollution threat from domestic garbage dumped by residents of nearby Alexandra township.

The Sandton Chronicle newspaper reported this week that the Jukskei River was threatened with pollution from household garbage being dumped on Alexandra's Far East Bank area. B/Day 22/3/91

The refuse should have been deposited at the Linbro Park dump.

The newspaper asked who would take responsibility for ensuring the refuse reached the dump as, it said, the Alexandra Town Council had to all intents and purposes been taken over by the Alexandra Civic Organisation (ACO).

Sandton councillor Jo Marais, through whose ward the river flows, said the problem was growing.

"Not only is there seepage from the tons of garbage, but effluent from the nightsoil along the spruit is also a problem," Marais said.

She said Far East Bank residents were also suffering "as they have to put up with the stench and the flies".

ACO general secretary Richard Mdakane said yesterday his organisation was aware of the seriousness of the problem but said it lacked the resources to address it.

"ACO is involved in the development of the township but we are not a development agent. A regional body comprising, among others, Sandton and Randburg should be set up to address these environmental issues," Mdakane said.

VAT you missed in Budget

Star 23/3/91 (49)

Undercurrent Affairs

SHAUN JOHNSON

Now that the Budget is over and done with, we finally know the English translation for this obscure Afrikaans word "VAT" that Barend du Plessis keeps using.

It is, of course, "TAKE".

At least it's honest. It suggests that the Government has grown out of its childish habit of inventing unspeakably perverse euphemisms like "Civil Co-Operation Bureau", "Department of Information", "Extension of University Education Act" and the like. The Minister has not been mendacious, he gave it to us straight. The "bitter pills" would be big, he said, and the "spoonfuls of syrup" small.

Having choked on and finally swallowed the frugality capsule, therefore, we are now free to examine its stranger components. There's more to the Budget than boring old fiscal drag, bracket creeping and defrayed expenditures, I can assure you.

Please allow Undercurrent Affairs to be your guide through some of the Crucial Points the Rest of the Press Missed.

Point One is Mr F W de Klerk's salary. As the State President he is paid by the likes of you 'n me, and therefore has to suffer the indignity of revealing his rate of remuneration to the nation. It is R205 000 per annum, of which R38 919 is a domestic allowance. Bet you didn't know that.

Ministers, by contrast, get R187 000, and their deputies R135 000. The salaries and allowances of MPs cost us R26 200 000 a year, and the administration of Parliament R45 046 000. (Incidentally, refreshment rooms in Parliament are expected to make a loss of R100 000 this year. It is not clear whether this a reflection on the quality of the cuisine.)

The breakdown of Foreign Affairs expenditure is also diverting. The cheapest item on Pik Botha's shopping list for '91 is "Special Decorations Awarded to Foreigners". This is budgeted to cost us a measly R1 000, suggesting that not many Paraguayans, Bolivians or Taiwanese can expect "Made in RSA" gongs this time around.

We have to stump up a little more for "Wreaths and Bouquets" for departed dignitaries — R55 000 — but this pales into insignificance when compared to the estimated price of "Relations with Overseas Countries". In the latter case, we are talking R349 892 000. The bill for "Relations with South ern Africa" is R20 938 000 (down about R50 000 on last year, why?), and "Relations with the Rest of Africa" will need R38 128 000.

The Defence Budget has its moments, too. School cadets will cost us R3 288 000, more than a million up from last year. More importantly, the "countering of a landward threat against the RSA" needs R2 018 617 000, while the "safeguarding of the RSA's strategic airspace" requires R1 447 394 000.

Inhabitants of coastal settlements can take comfort from the fact that Minister Magnus Malan thinks the "maritime threat" is worth only R458 401 000.

Kobie Coetsee's Department of Justice is spending its share of the pocket money well. There is R163 000 for the "Investigation of Irregular Use of State Funds" (about which few will cavil), and R4 481 000 for the legal training of Justice's own personnel (fine idea, fine idea). R26 000 is set aside to cover the cost of escapes from prison (how do you calculate this, one wonders?), and this is a reduction of R1 000 on last year's figure. Much more revealingly, R38 190 000 is set aside for "Detentions", as opposed to R6 153 000 for "Releases". Comment thereupon is inadvisable.

The Budget for Police, under Minister Adriaan Vlok's aegis, contains a stark warning to those considering indulging in a lot of mass action this year. R11 968 000 is to be spent on training dogs and their handlers — and that, in anyone's book, is a lot of dogs and a lot of handlers.

Finally, the Department of Finance's own Budgetary estimates contain this interesting disbursement. "Pensions to ex-State Presidents or Their Widows: R600 000".

TAKE it away, Barend.

Barend could set the wedding bells ringing

Star 23/3/91

49

DEREK TOMMEY

THIS year's Budget could set the church bells ringing.

Ardent lovers who have been refusing to get married because they could not afford to pay the higher taxes that would result, have had the ground cut from under their feet.

The argument that where income tax was concerned it was cheaper to remain single than get married is no longer valid.

Changes announced this week in the method of taxing married women will significantly reduce the tax that will be paid by a married couple compared with two single people.

There is no doubt that for many years working couples had good reason to defer marriage as one results of wedded bliss would have been a considerable increase in the tax they would have to pay.

In the past few years there have been several significant changes in the way married women have been taxed. The introduction of SITE was a major move and this was followed by changes in tax rates, and this week by the announcement that married women would be taxed completely separately from their husbands.

The main effect of this change is that a wife's investment income will no longer be added to the husband's income. Therefore it will no longer be taxed and taxed at what in most instances would be a much higher marginal rate.

Making this change even more effective is the fact that a wife's maximum marginal tax rate will be below that of the husband's. Her rate will be 38 percent while the husband's marginal tax rate can rise to 43 percent.

This process will be further helped by the fact that the R2 000 in interest payments which are exempt from tax will now apparently apply to both husband and wife, which effectively doubles the value of this concession.

The following examples shows how the changes in the tax system significantly reduced the tax paid by a married couple where the husband earns R5 000 a month and the wife ernings R2 000 a month.

If the system which was in force before SITE were still applicable today, this couple with have a joint income of R84 000 and would have to pay R25 860 in income tax.

If they had not married and were taxed as single people, their joint tax bill would have been R22 806, so there would have been a saving of some R4000 a year in income tax.

But with the wife's income now taxed competely separately from the husband their joint tax bill will be R20 462. Marriage, therefore, will result in a saving of some R2 400 a ear.

If the wife had an investment income of R3000 a month as well as an income from her job of R2000 a month and the husband continued to earn R5 000 a month, their joint tax under the system in force before the Budget would have been R34 698.

But because the the wife's investment income will now be taxed in her hands, their joint tax bill will now be R33 396 - a saving of some R1 300.

If this couple had not been married and were both taxed as single persons, their joint tax bill would be R35 698.

All told, it seems that marriage could be worth about R2 000 a year in tax savings. This may not appear much of an incentive — but no one can say any longer than income tax is a disincentive to matrimony.

BUDGET 1991

The first steps to growth economy

S Times 24/3/91

(49)

THE BUDGET marks the start of a long haul back to a growth economy better able to meet the demands of job creation.

By IAN SMITH

There is little comfort for the individual taxpayer because his contribution to will increase through bracket creep.

Individual tax collections will increase by R7-billion this year, largely from the middle-income earner.

There is also a belief that VAT's introduction on September 30 will increase the cost of living, both by its wider spread and the likelihood that cost savings will not filter quickly through to the consumer.

This, however, may well be temporary because the disappearance of the tax "cascading", which has been a feature of GST, should have a major impact on prices.

Stability

The removal of capital and intermediate goods from the sphere of VAT should also have a fairly quick effect on end prices.

Business has generally welcomed the fact that increased social spending could lead to more stability, with important implications for renewed foreign investment in SA.

Louis Geldenhuys, a partner in stockbroker Senekal, Mouton & Kitshoff Inc, says that in itself the Budget is unlikely to genuinely support economic growth in the short term.

"In the absence of favourable international developments the economy cannot be expected to enter a meaningful and sustained growth phase before we are well into 1992.

"But, in the longer term, business confidence will be favourably influenced by the fiscal discipline and lower nominal tax rates. This may, however, be neutralised by a high personal tax burden and still no real incentive to save," says Mr Geldenhuys.

The reduction of the company tax rate from 50% to 48% — the first step to a goal of 40%, said Finance Minister Barend du Plessis — has not gone a long way to bringing SA in line with its major trading partners. But the US and UK are down to 34%.

Offset

The reduction of the top personal tax rate from 44% to 43% will be largely immaterial, says Ernst & Young partner Sally de Bloor.

"It is partly offset by the reduction in primary rebates and the little that is left will be totally offset by the effects of fiscal drag, or bracket creep," she says.

Mr Du Plessis says inflation remains a high priority, with a target of 12% by the end of the year.

He places his confidence in five major steps — minimal real growth in spending, no pressure on interest rates, the fact that the deficit before borrowing is being soundly financed, VAT credits to be granted on capital goods and intermediate goods, and the cut in the import surcharge from 10% to 5%.

But not many in the private sector are so sure that inflation can be brought down to 12%.

Mr Geldenhuys says that on balance, customs and excise duties have gone up although the additional fuel levy will not be reflected in higher prices because of lower international oil costs.

VAT at 12% will be lower than GST's 13%, but he says the switch is still likely to have an adverse effect on the consumer price index, largely because of the composition of the index.

"The Budget contains nothing that will really reduce inflation, but by the same token nothing can be identified that will boost inflation."

A review of the Budget by Metropolitan Life economists says that the introduction of VAT at 12% will add at least 0,7% to the inflation rate alone. Food and some services previously exempt from GST come into the VAT fold.

"There is always the danger that VAT, as is the case with any new tax, will be used as an excuse to increase prices."

Miss De Bloor says VAT is payable on a much wider range of goods and services, including rates, water and electricity charges, short-term insurance, medical services and most food.

"The Minister is placing great reliance on the fact that the VAT input credit system will reduce production and distribution costs, leading to a fall in consumer prices.

Convincing

"But the average person will be sceptical of business' willingness to pass benefits on to the consumer," she says.

The Metropolitan Life review says the deterioration of the rand against the currencies of SA's major trading partners is likely to nullify the relief of the removal of the import surcharge.

Although the rand appreciated by 1% at an annualised rate from December 1989 to February this year, it depreciated against the currencies of the three major source countries.

It fell against sterling and the yen at 19,6% a year in the same time and it depreciated by 12,2% against the mark, the major import supplier's currency, from January 1990 to February this year.

"It is therefore clear that the cost of imports is rising and relief on import surcharges is not enough to eliminate imported inflation."

Metropolitan Life says arguments for higher social spending in a recession can be convincing.

"The Budget has gone a long way to address some of the most sensitive social issues, but shortcomings can be found in the inability of the Budget to address inflation and the dismal savings picture.

"Brave steps to tax reform were taken, but it is unfortunate that VAT was introduced at such a high rate, given the rather large deficit before borrowing, the use of strategic reserves for current expenditure and off-Budget expenditure of R1,8-billion."

The review says the Budget is stimulative in spite of tax increases and the Government's hope of getting inflation down to 12% does not look likely.

It criticises the pattern of underestimating revenue receipts that has been followed in the past three years and allowing fiscal drag to bring in more money than was budgeted for, spending the surplus and borrowing off-Budget the next year.

"This state of affairs should not be allowed to continue as it is a most inflationary practice and conceals actual expenditure," says Metropolitan Life.

THE SUNDAY MORNING ASSESSMENT

by Mike Robertson

THE R913m BONANZA FOR BLACK HOUSING

Barend's hidden Budget 'extras'

S/Times 24/3/91

49

BLACK economic advancement was accorded a much higher priority in this year's Budget than was immediately apparent when Finance Minister Barend du Plessis delivered his speech on Wednesday.

The government's apparent disregard in the Budget of the importance of tackling the immense black housing shortage has drawn howls of protest from the private sector, the Independent Development Trust, the Democratic Party, the ANC and Cosatu.

This protest stems from Mr Du Plessis' emphasis in his speech on an additional allocation of R199-million for black housing.

But what he failed to point out, according to figures supplied by his department to the Sunday Times, is that this brought the total allocation for black housing to R913,4-million, an increase of 27,9 percent and one of the highest percentage increases accorded to any expenditure category in the Budget.

Mr Du Plessis could be accused of undermining the impact of his own Budget by failing to point this out. A possible reason for this is that this year's Budget has been revised at least twice.

The first estimates of expenditure appear in what is is known colloquially as the white book.

These estimates were revised once government decided that Value Added Tax would be introduced at 12 percent and that businesses would be allowed rebates for all expenditure on capital and intermediate goods.

On an annual basis this represents a loss of some R7-billion to the Receiver and expenditure totals had to be readjusted.

In addition to this, the government decided political circumstances made it possible to sell off sanctions stockpiles, thereby raising R950-million and necessitating a further revision of expenditure estimates.

An example of the confusion that has arisen as a result of these adjustments is the amount allocated to the South African Police.

The white book states that the SAP will receive R4,631-billion. In his Budget speech Mr Du Plessis said the police would receive an extra R20-million for capital projects from the funds raised by the sale of strategic stockpiles.

An expenditure table published in the Budget review (an extended version of Mr Du Plessis's speech) said the police would receive R5,101-billion. No indication of which is the correct figure has been forthcoming.

As no single department is responsible for black housing, arriving at a final figure for this expenditure item is an even more complicated task.

But, according to figures produced by the Department of Finance after the Budget was presented, the total allocation to black housing amounts to R913,4-million. This represents an increase of 27,9 percent on the revised expenditure of R714,3-million on this item in last year's budget.

In contrast, expenditure on white housing was cut by 15,1 percent to R81,5-million.

Finance deputy director general Estian Calitz said actual expenditure on black housing could be higher than the R913,4-million as a further R206,6-million had been allocated to the SA Development Trust. Some of this money would be used for black housing.

Dr Calitz said it was now almost impossible to ascertain what each race group had received in health allocations as hospitals had been integrated.

Spending on black education had risen by 27,4 percent to R6,833-billion, Indians by 18,6 percent to R977-million, coloureds by 13,9 percent to R2,304-billion and whites by 6,2 percent to R5,950-billion.

When the R500-million allocated towards equalising pensions is taken into account it becomes clear that the percentage of total social spending allocated to blacks, coloureds and Indians has grown markedly.

Interviewed by the Sunday Times two days after delivering his speech, Mr Du Plessis said those who accused him him of presenting a "white man's Budget" were being unrealistic.

"We ourselves would have constructed a totally different Budget if we had had a different set of circumstances. In this Budget, we tried our very best with the limited means at our disposal."

Asked about earlier predictions by government officials that up to R2-billion would be allocated to job-creation projects in the form of building schools and servicing land, Mr Du Plessis said a general directive had gone out to all departments to accord job-creation maximum priority.

"We are seeking maximum community involvement, if at all possible, in the contruction process."

The directive, he said, could be taken to the point of insisting that "cement bricks be made on the premises".

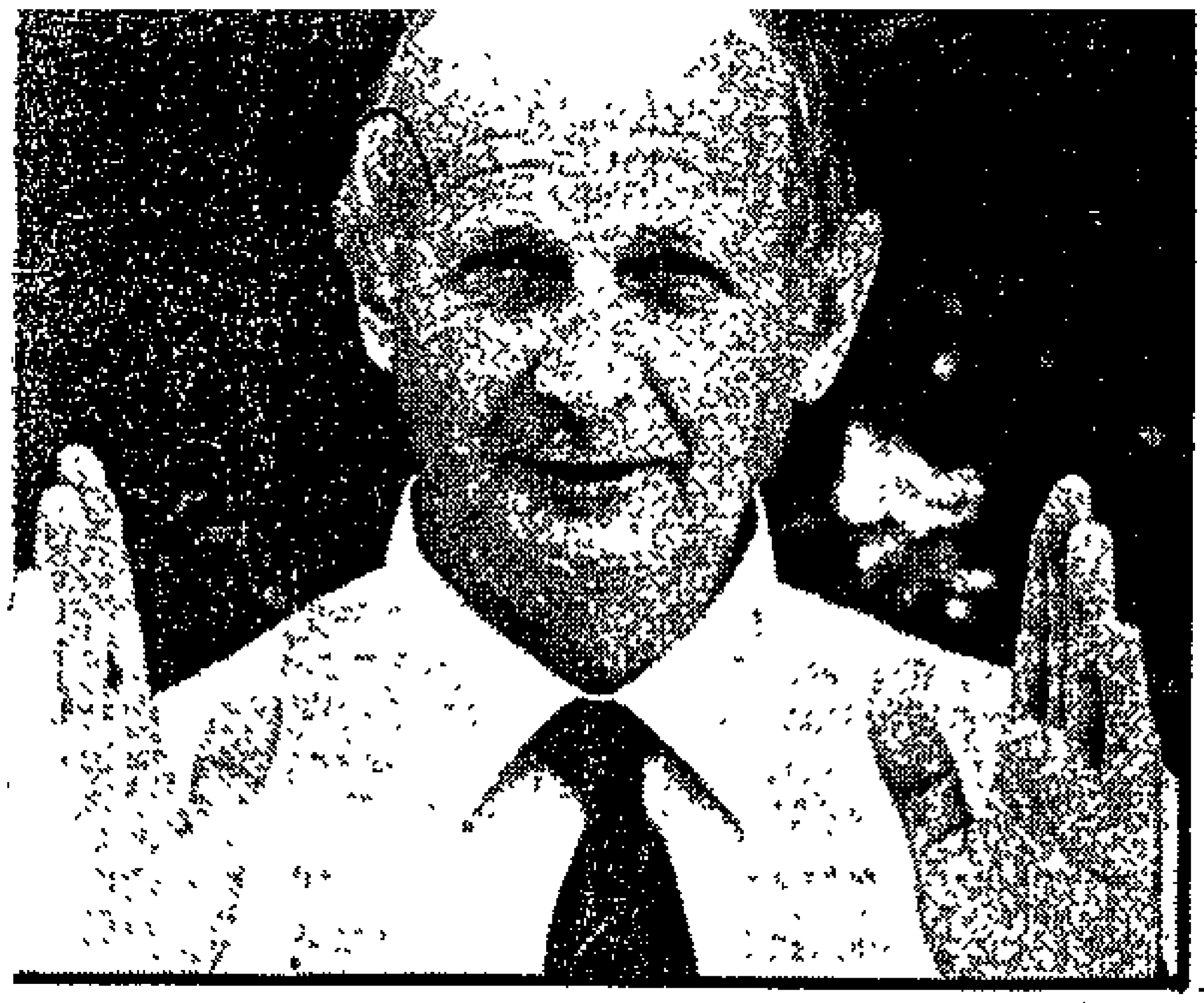
The government, he said, would insist on job creation as a central feature in the application of the R774-million that had been allocated for building black schools and the extra R199-million set aside for black housing.

He pointed out that in addition to this, the Development Bank of Southern Africa would also receive R500-million before the end of this month and another R500-million in the 1991/92 financial year.

"It is a highly professional institution which will know how to apply that funding to the best advantage."

If all this money was used properly, Mr Du Plessis said, thousands of jobs could be created while eliminating apartheid backlogs in housing and education.

Mr Du Plessis said the government's decision to hand R5-billion in tax and tariff cuts to business in this year's Budget was in keeping with its belief that redistribution of wealth could only be achieved through growth.



PETER CLOGG: Workforce cut Picture: COBUS BODENSTEIN

Group 5 glad of R75m cash

GROUP FIVE raised earnings a share by 44% to 101c in the six months to December and the dividend by 17% to 27c. The improvement was achieved on only a 3% increase ...

million ...

Chie... Clogg ... months ... first h... term pr...

There... be glad ... sources ... cause th... most ev... in which ... is at best declining ...

I...

Mr Clo... the indus... more mature attitude to pricing.

"The last three recessions have come in quick succession, and many of the current managements were around then. They have learned through experience that it is not a good idea to take on business at a loss."

Group Five has cut its workforce by 3 500 in the last six months to 15 000. It could easily fall to 11 000.

Mr Clogg is optimistic about construction once political differences have been settled. Prospects in Southern Africa should brighten and the group has already made its mark there.

The group envisages buying businesses that provide products and services in construction and public utilities.

The current share price is 480c, 450c of which is represented by cash. This means the group's assets are valued at only 30c a share, or R5-million.

The group turned over R1,3-billion in the last financial year ...

...watchdog doesn't b...

S Times 17/2/91

By DAVID CARTE

THE SECURITIES Regulation Panel is fending off heated complaints about a secret ruling it made in the battle for Allied Group.

The panel refuses to divulge what it was asked for by the Amalgamated Banks of SA (ABSA) partners in the fight and what its ruling was.

Critics say the introduction to the code says: "It is the panel's policy in the case of important decisions to publish its conclusions and the reasons for them."

First National Bank (FNB) chief financial officer Viv Bartlett says the bank has protested against the panel's secrecy.

"We believe the panel owes it to the investing public to release its ruling and the reasons for its decision.The decision in the Allied case could set a precedent."

Mr Justice Cecil Margo, chairman of the panel, tells Business Times: "The code inherited from the Companies Act a requirement of confidentiality. In this it follows the London Takeover Panel.

"Parties to contested bids cannot be expected to put information in front of the panel knowing it will be divulged."

Judge Margo says three members of the executive committee — he, executive director Doug Gair and JSE president Tony Norton — not the full 16-member panel, took the decision.

The parties both made their bids before February 1, the day the Securities Regulation Panel became law. Judge Margo says both bids fell outside the panel's jurisdiction — but all purchases of Allied shares this month ahead of a proposed sale of the Allied's assets under Section 228 of the Companies Act, were governed and were being strictly policed.

Concert

The new rules lay down that if a party or parties acting in concert acquire a stake of more than 30%, they must make an offer equal to the highest price paid to all shareholders.

It is believed that the ABSA partners asked the panel whether they were exempt from the code and for a ruling on whether they were "concert parties".

The panel is believed to have said no, thus permitting any of the parties to build up a stake of up to 30% without an offer to the minority.

Such a ruling would ...

ABSA of victory ...

FNB is repo... 25% — enough ... tions of Allied ...

An unhappy ... panel was set ... groundwork and its kind in the ...

"Its first ... integrity of ... ensure fair and securities ... spirit and not ... law. While 47 ... are in the dark, secret.

"Two weeks ... concerned ... tion that it ... Allied holders ... dealings. Now ..."

Judge Margo does not affect ... ity or the ... National Bank.

The ABSA ... acted against the ... in several ways. ... haste before the Panel became ... National did ... "That was to ..."

In his speech he said that if business failed to make use of this opportunity it would have to account to the "needy and unemployed".

Asked about Cosatu categorising his speech as "Barend's Rubicon", Mr Du Plessis said it was unrealistic to expect one budget to be a quick fix in South Africa.

The trade union movement, he said, had to examine its own role.

"Part of the problem in this economy is low productivity, lack of business confidence emanating from strikes, labour unrest, absenteeism and wage negotiations that paralyse production."

Cosatu, he said, should not expect the government to "create miracles in an environment that precludes you from running this country as a normal entity.

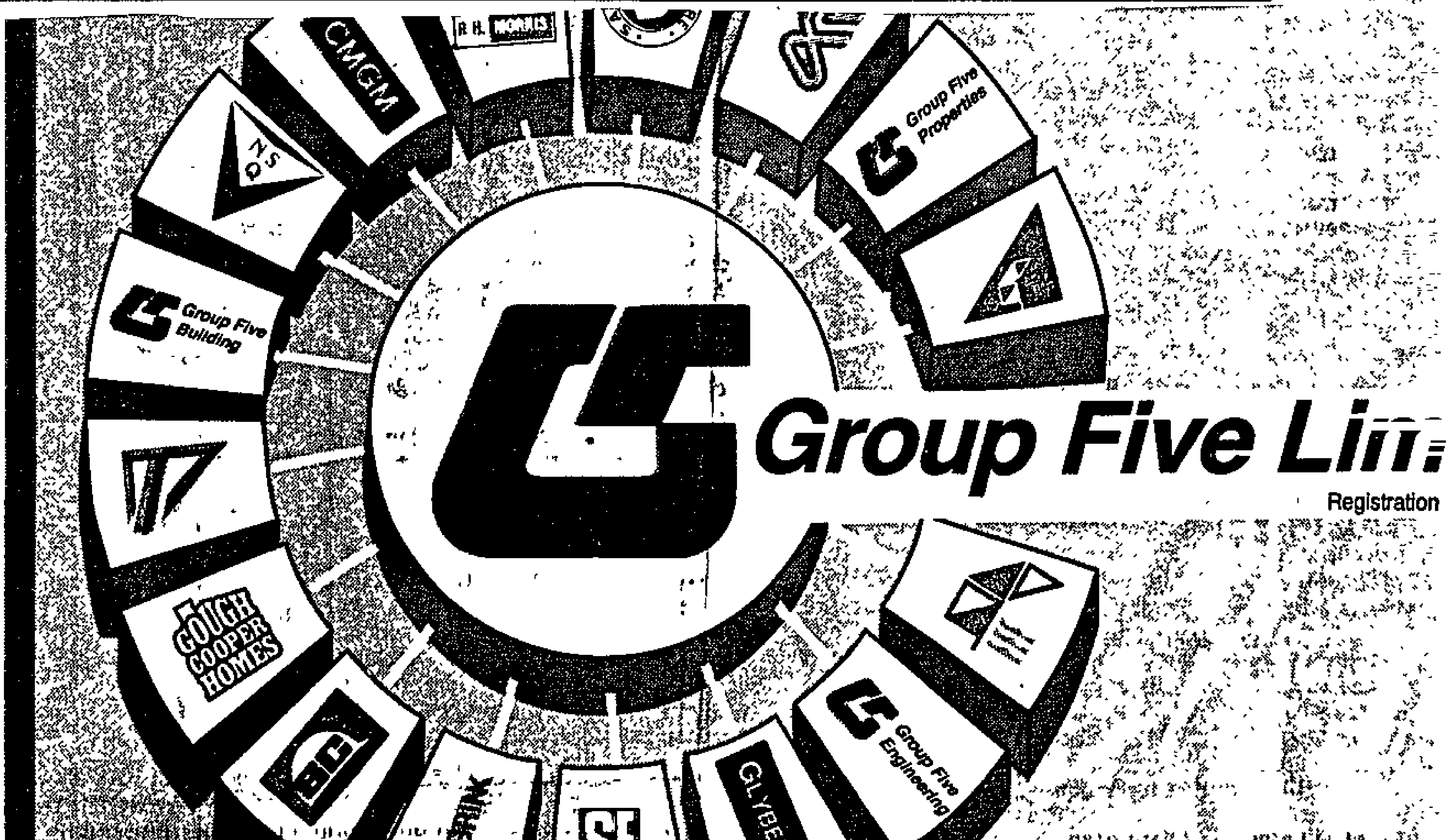
"It is hypocritical to be part of the action paralysing some of our cylinders and then expect that very same car to win first prize in a Grand Prix."

Mr Du Plessis said this year's Budget had the twin goals of starting the process of creating equality as well as making a maximum contribution towards a climate conducive for investment.

The VAT exemptions for business, cuts in import tariffs and in company tax were the maximum he could do to achieve the latter.

Changed political circumstances had made it possible for him to raise R950-million through selling strategic stockpiles to make a contribution towards achieving the first goal.

If Cosatu and other organisations had added their voices to those demanding the lifting of sanctions he would have been able to do much more.



THE JSE WEEK

KEN OWEN ON SUNDAY

(49)

S|Times

24/3/91.

MOST political speeches are a form of theatre, crafted for the amusement and deception of the masses. The budget speech is intended to enchant and mislead, but the Budget itself lets the cat out of the bag: it reveals, to those capable of reading the clues, something of the true intentions of the government.

Like every other ass in town, I have my own views on what Finance Minister Barend du Plessis should have done (the sin tax on cigarettes and alcohol, for example, should be twice as high) but that is not the point. The challenge is to examine the Budget simply for what it discloses about government thinking.

For example, in cutting the defence budget by about R1 000-million and raising the budget of the Department of Foreign Affairs by roughly an equal amount, Mr Du Plessis has signalled to the world that Magnus Malan is out of favour, Pik Botha is in. We shall woo our old enemies and make love, not war.

In a striking departure from the past, Mr Du Plessis introduced an entirely new standard of measurement for the Budget and, indeed, for all government policy: in the place of the old shibboleth of "security", he raised the banner of equity.

Of course, he quickly made it clear he meant equity as in "to each according to his work", not as in "to each according to his need".

This will disappoint all those layabouts who think equity is simply a matter of taking from the hard-working rich to give to the idle poor, but it is a sensible and defensible standard.

As the minister implied, redistribution converts the rich to idleness without making the poor either richer or less idle; he will have no part of it. Instead, he has set out to stimulate wealth-creation by cutting company taxes, by reducing import surcharges, by cutting fuel prices and by a variety of carefully considered measures to improve the environment for business.

This approach is consistent with, if not actually the reason for, the introduction of VAT, a tax which is both more efficient and broad-based than GST and preferable to heavier income taxes.

I am of the school of thought that sees taxation as the best way to reduce the supply of anything, so I think it better to tax consumption than income.

Moreover, I must confess to a professional admiration for the innocent way in which the phrase "broad-based tax" slips off the minister's tongue. What it means, of course, is that people who did not previously pay tax will now do so; those people, in the main, will be black.

Do not misunderstand: VAT is truly a much better tax than GST and it should enable businesses to cut prices when it is introduced. But it does shift some of the burden from business and industry to the finance minister's "broader base", meaning everybody except those who spend all their money on brown bread, mealie pap and taxi fares.

FRANKLY, it is no bad thing for the emergent black middle-class — now often living rent-free thanks to the boycotts while themselves collecting rents from backyard shack-dwellers — to contribute to the immense needs of the very poor.

There are simply not enough whites, nor are they rich enough, to carry the load. The highly paid unionised black workers must help, in proportion to their ability to spend.

Another point: the budget speech made as much of the duty of charity as it did of equity, but the figures show the government's lingering loyalty is to its own favourite constituency, the public servants.

For the impoverished aged, the finance minister announced regretfully he could find no more than R505-million, which was not enough to equalise the pensions of all races and which lifted the pensions of whites to R304, only 10,6 percent.

That seems rough on people who will now form part of the "broader base" who pay VAT on food and medical costs; but times are tough, and nobody wants a finance minister too namby-pamby to take the tough decisions.

However, the paltry increase for social pensioners does cast a certain revealing light on the decision to put almost twice as much money (R1 000-million) into the state pension fund, presumably to meet the costs of that crooked scheme, devised by public servants for public servants, that allows buy-backs of pensionable service. *A luta continua* — the looting continues.

THE paltry extra bit for "broader-base" pensioners also, perhaps, puts into perspective the 27,4 percent set aside to pay the members of parliament, but let me not carp. I might agree with the ANC that the Budget has not done enough for the odd social pensioner, but the main thrust is about right.

Unless this country resumes economic growth, and soon, we shall all be much poorer than we are now, and we shall probably be fighting each other for the scraps. If the first need is to stimulate job-creating economic growth, I am all in favour of selling a few pensioners down the river to achieve it.

Similarly, having howled for years for a smaller army and a bigger, better-trained and better-paid police force, I can hardly complain if the finance minister trims defence spending and increases the SAP budget.

If violent crime is not soon brought under control, all faith in the administration of justice will be lost and the more skilled classes, already skittish, will flee.

The National Party, which started out in the 30s as a socialist party, with the late Dr Nico Diederichs demanding the nationalisation of the gold mines, has finally been converted: it consists now of supply-side capitalists, professing a humanitarian guilt about poverty, but prudently nursing all the while its own vital constituencies.

Personally, I welcome the conversion. There was a dreadful period, between Diederichs-the-socialist and Barend-the-capitalist, when Diederichs-the-goldbug led his party into a venal materialism, when Broeder cared only for Broeder, and when the party viewed the state as its fiefdom.

That period, happily, seems past. A rational assessment of the needs of the country has displaced the tribal loyalties that justified inequitable government and sought to defend that inequity with a powerful security apparatus.

NOW the emotional drive comes from the ANC, which demands higher social spending to be paid for any old how, even if it wrecks the prospect of growth and prosperity in the future. It is the voice of deprivation which once belonged to deprived Afrikaners and now belongs to deprived black people.

This phenomenon bears thinking about. It has taken the Nationalists, and indeed most Afrikaners, half a century to come round to the belief — a well-founded one — that deprivation is best overcome by capitalist methods. We have about half a decade to bring our black countrymen around to the same belief.

If the business leaders do not take the advantages that Barend du Plessis has offered to them in this Budget and turn them to the general good, they will have only themselves to blame for the consequences.

Why capitalism has failed SA

TOWARDS THE FUTURE SA 49

S1 Times 24/3/91

PALLO JORDAN argues that we should look to neither Japan nor South Korea but to South Africa itself for an economic model.

*"When Adam delved and Eve span,
Who was then the gentleman?"*

THUS inquired the English peasants when they rose in revolt in 1381. Their march on London to seek redress for their grievances, like that of many other poor and rightless people since, was dispersed with violence and they were compelled to return to the drudgery of their lives with that question unanswered.

But those who thought the matter closed were proved wrong.

Among the common people there was an understanding that their servitude and social subordination were not preordained conditions, but were rather the result of acts of usurpation perpetrated by one segment of society against the rest.

In every revolution since the 17th century, the economically disadvantaged have sought to raise the question of their subordinate status. South Africa is no exception.

There can be no disputing that the present day subordination of the black majority (Africans, "coloureds" and Asians) is causally linked to an act of conquest. And that the political and social order erected after its completion is based on an ascribed status that allocates privilege on the basis of accidents of birth and deliberately represses talent and initiative.

It is an index of the social and perceptual distance that separates white and black in our country that in all discourse on the country's economic future these well-known facts tend to be excluded from the considerations of our white counterparts.

Peter Berger, in his keynote article in this series on economics in a future South Africa, begins with three propositions.

First, that economic (and political) forces operate on a global scale.

Second, that economic development is dependent on political stability.

Third, that we must draw lessons from the experience of others.

With all of these, I have no quarrel. Where Berger and I part company is on the lessons to be drawn from these principles.

This is because we begin from

Victims of this system have been denied the most basic economic opportunities

different starting points. Berger's is the success of certain East Asian economies which he admits were based on a limited (if that) commitment to political freedom.

For him, some capitalist economies can succeed some of the time. Success will then move towards greater democracy. But socialist economies fail all of the time and have a tendency to political authoritarianism.

My starting point is not the success or failure of capitalism or socialism in the abstract, but the failure of capitalism in South Africa. And that is a failure on a massive scale.

It has failed to meet, or indeed address, the basic needs of the vast majority of our people. It has denied us the most basic human rights. Its economic development and progress has been matched by the systematic diminution of our political rights. This autocratic system is sustained by political repression and buttressed by military intervention at home and abroad.

We mention these not to point an accusatory finger, but to put in perspective the idea that some of the lessons from capitalism are positive, while all those from socialism are negative. While Berger's claims for capitalism — sometimes it wins, sometimes it loses — might be true, we should at least bear in mind that the capitalism which we are specifically referring to, South Africa's, has been a failure and it is that failure that deserves to be interrogated.

An economic policy that will be of assistance to South Africa must have as its point of departure precisely the failure of capitalism in South Africa. We have consequently sought another way, the mixed economy, to which the ANC has committed itself, because we experience South Africa from a diametrically opposite vantage point.

Like many latter-day theorists of *laissez faire* capitalism, Berger feels more comfortable writing in broad generalisations, removed from the specifics of space and time.

While correctly insisting that economies are structured by national historical and global factors, he avoids mention of the specifics of our South African reality. Equally useful is his insistence on the concept "mode of production" — and the reminder that every capitalist economy in our day is, to one degree or another, a mixed economy.

He should presumably be glad that the ANC's policy is a mixed economy, but he is evidently displeased. One wonders why.

South Africa has a sophisticated but extremely distorted economic infrastructure — in transport and communications, energy, education, etc.

These distortions derive directly from the specific features of South African capitalism as it has evolved within a context of colonial wars of dispossession, a coercive labour system and a racially distinct and disenfranchised proletariat.

South African corporations have had little incentive to improve their domestic market precisely because it was restricted owing to the low wage structure imposed by apartheid.

To this day companies spend a paltry amount on training, as compared with our major trading partners and countries with a similar level of economic development. They are all resistant to technical training for all workers, but instead insist on company-specific training or artisan training.

Yet the less myopic among them recognise that without the consistent upgrading of the workforce's skill and substantial investment in modernisation, the South African economy cannot become internationally competitive.

The funds set aside for research and development in the South African manufacturing sector would be considered a scandal anywhere else in the world. Labour productivity consequently remains low. Both the boards of directors and investors have apparently been content to continue along this path because dividends have not been affected.

South African capitalists, with a few notable exceptions, are still too narrowly focused on their short-term profits. It would, in my view, be unwise to leave the economy to their exclusive devices. It has become the norm in most countries that the public sector takes on responsibility for correcting such distortions. A mixed economy is the appropriate framework within which policy can be made.

But such intervention need not,

Intervention need not stifle enterprise nor deny openings to the private sector

as Berger seems to imply, stifle enterprise nor deny openings to the private sector. It is not inconceivable that improvements in transport will open up and expand opportunities for those who wish to participate through the market. The public sector can both stimulate, support and expand the private sector, as well as provide an alternative to the market and private capital.

A second argument in support of the mixed economy is political. Within our extremely divided society there are those who are convinced that capitalism is a disaster. Their experience of it could have had no other effect.

Berger's examples invoking the miracles performed by capitalism in East Asia have no effect on such people. They know little or nothing of East Asia. They do, however, know of the impact the immense power wielded by a conglomerate like Anglo has on their lives.

They know, too, that at the turn of the century the mining finance houses played a big role in devising the pass laws and the migrant labour system.

There are of course the others who are equally convinced of the virtues of free enterprise. The mixed economy, as Berger says, has elements of both. By making this choice, we leave open the question as to which broad direction the future will take.

Berger and those who agree with his viewpoint would like to close the argument now and pre-

empt future choices. The ardent supporters of free enterprise, not surprisingly, tend to be drawn from precisely those sections of the South African community who have benefited from it.

We cannot, however, permit them to dictate to the rest of society simply because they wield economic power and therefore tend to have the loudest voices.

The advocates of free enterprise wish to rule out any measures of substantial redistribution and other forms of state intervention in such a future South African mixed economy even while recognising that such actions have been successfully applied in other economies.

Redistribution can be a source of economic growth. What it hopes to address is the orientation of economic strategy and its priorities. The issue at stake is whether the benefits of growth will primarily be aimed at meeting the basic needs of the people and sustaining a gradually improving quality of life.

I believe that a substantial investment in the electrification of South African homes, in both the urban and rural areas, accompanied by a massive home-building programme could ease unemployment problems. An added advantage is that while South African manufacturing, for the reasons mentioned earlier, is largely import intensive, such programmes will not require large inputs from abroad.

The state's intervention to encourage (or, if necessary, prod) the private sector into investing in education and technical training would contribute greatly to expanding the domestic market.

We are convinced, too, that some measure of economic growth will accrue as a result of the elimination of apartheid, which has burdened our economy with the need to maintain a huge apparatus of repression plus an unwieldy bureaucracy — sometimes in triplicate.

Those who have seen little or no benefits coming their way as a result of capitalism are extremely sceptical of policies that favour private capital over public welfare. Recent history, in Britain and the United States, demonstrates that these tend to widen, rather than narrow, inequalities.

Such policies in the case of South Africa would be a sure recipe for grave instability and divisiveness. They would contribute little to redressing the deeply felt grievances of the ANC's constituency.

The dogma that the state, no matter what its character, can

Supporters of free enterprise tend to be drawn from those who have benefited from it

only play an obstructive role in the economy will not stand close examination. The 20th century is replete with examples which demonstrate the opposite — not least among them Japan's leap from feudalism into the modern world and the Latin American countries Berger cites.

The insistence of so many of the champions of free enterprise on this point, we suspect, betrays a determination to maintain as much of the economic status quo as possible.

Those who have been the victims of this system have for too long been denied the most elementary economic opportunities — dispossessed of their land, excluded from remunerative jobs, confined geographically in circumstances calculated to generate massive poverty, grotesquely discriminated against in every form of social provision.

We are, however, committed to engaging in serious dialogue and debating the future South African economy with those who genuinely seek to redress the balance of economic power and privilege. Such a commitment to substantial change must be the basis of our debate.

Dr Pallo Jordan is the African National Congress's secretary of information.

Budget gives more to social needs

C/Press 24/3/91

49

FINANCE Minister Barend du Plessis tabled an R85-billion budget this week, of which a "relatively high" 38,2 percent will go to social services and 19,5 percent to protection services.

Defence Force spending will be cut back to 11 percent of the total budget, but the police allocation will be increased by 53 percent during the 1990/91 budget year in an effort to combat crime. Defence Force spending fell from 15,2 percent of State spending in 1989/90 to 13,5 percent in 1990/91.

□□□

Only two foodstuffs, brown bread and mealie meal, will not be subject to Value Added Tax (VAT), which will be levied at 12 percent. Rail, bus and commuter transport will also be exempt and welfare organistions will enjoy a VAT concession.

□□□

The price of paraffin will be reduced by 12 cents a litre from tomorrow. Petrol and diesel will be decreased by 10 cents and seven cents a litre respectively.

□□□

The gap between black and white pensions will be narrowed by 20 percent with effect from April 1.

□□□

Spending on education in the coming year will total more than R16-billion, 16,1 percent higher than in 1991. R212-million has been earmarked to relieve the shortage of black schools and accompanying infrastructure. A total of 18,5 percent will be be spent on education compared with 17,5 percent in 1990/91.

□□□

The sum proposed for housing was R1 087-billion compared with R1 208-billion in the previous financial year.

□□□

It was proposed that the maximum marginal rate for married men be reduced from 44 to 43 percent, with the primary rebate simultaneously being reduced from the present R2 100 to R2 000. A married man with two children earning R40 000 a year will pay R300 less tax a year.

Likewise, the maximum marginal rate for unmarried people was reduced to 43 percent, while their rebate will drop from R1 800 to R1 625.

Married women will be fully taxable in their own right from the 1992 tax year.

□□□

Beer, wine, spirits and tobacco increases were proposed. Beer increases by three cents a 340 ml bottle, spirits by about 15 cents a tot or 37,7 cents a 750 ml bottle, cigarettes by three cents for 10, cigarette tobacco by three cents for 50 grams, pipe tobacco and cigars by 25 cents a kilogram and fortified wine and sparkling wine by 1,8 cents for a 750 ml bottle.

□□□

Individual income tax comprised 32,7 percent of total tax revenue in 1990/91, compared with 30,4 percent in 1989/90 and 21,9 percent in 1981/82. Non-mining company tax fell from 21,7 percent of total tax in 1981/82 to 14,7 percent in 1986/87, before rising again to 18,4 percent in 1990/91.

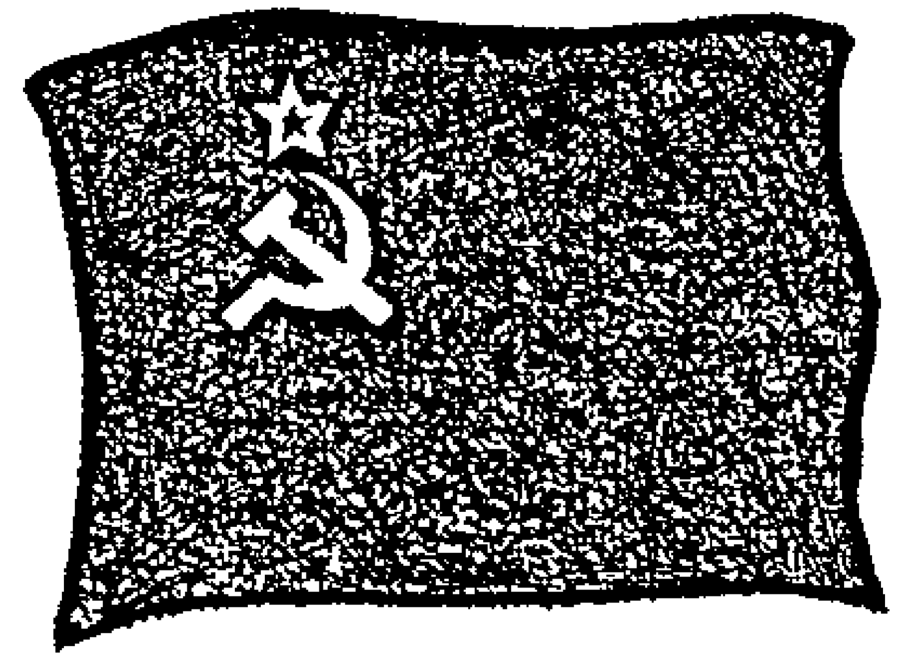
The contribution of gold mines to total total tax revenue has fallen continuously since 1981/82 from 10,7 percent in that year to a mere 0,9 percent in 1990/91. – Sapa

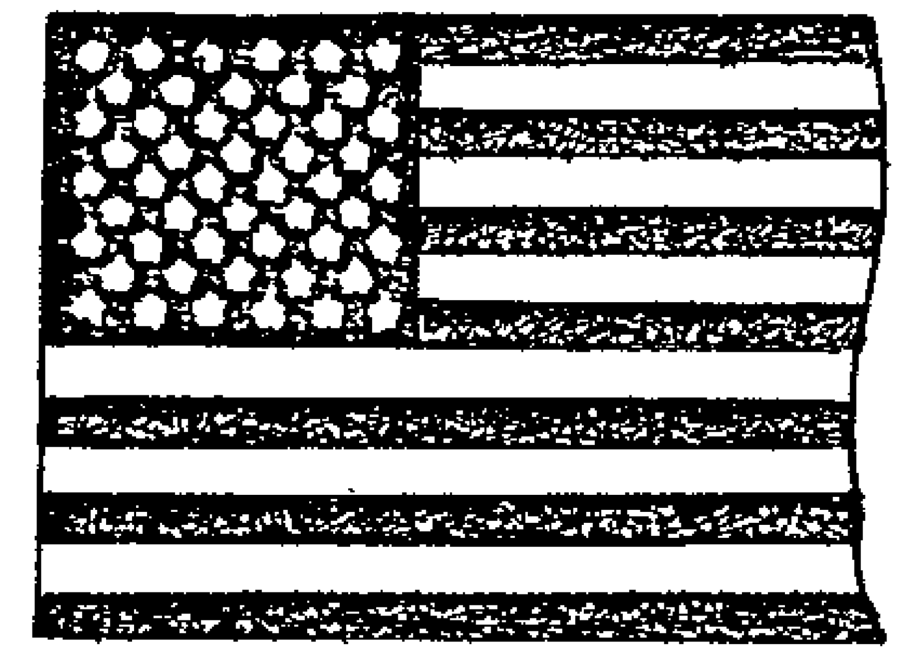
Was socialism really a failure?

C|Press 24|3|91

(49)

Professor of Sociology at the University of Zululand, BAVUMILE VILAKAZI, looks at the so-called failure of socialism and the apparent success of capitalism.-





A LOT has been written and said recently about the failure of socialism and the success of capitalism.

These discussions are meant to clarify our own problems and the policy options before us. But objective and balanced discussion of the issues involved has been the exception rather than the rule.

Political prejudices seem to be guiding most pens and debatable statements are being touted as fact. For example, Prof Peter Berger, writing in a Sunday newspaper, claims: "Capitalist economies do not always succeed; socialist ones never do."

Let us look closely at the alleged failure of socialism and the success of capitalism.

The role of the Soviet State as the only entrepreneur was successful, however imperfectly, in solving the severe economic problems which had to be solved urgently in the Soviet Union in the 1930s and 1940s.

At an enormous cost in human suffering, the State as sole entrepreneur industrialised the Soviet Union enough to play a decisive role in defeating Adolf Hitler in World War II.

It also raised the educational and health level of the country considerably, compared to the rule of the Tzars before the 1917 revolution.

Hundreds of new towns and cities were built and by the end of the 1950s the country had become a world power, second only to the US.

The crisis in the Soviet Union today arises from the fact that the economic needs of the Soviet people can no longer be met by the state acting as sole entrepreneur.

A state can be successful as a country's sole entrepreneur only when the the labour force is largely unskilled.

With a more sophisticated labour force, the morale and motivation will suffer as a result of the confusion that takes place from the issuing of too many and sometimes contrary commands through a centralised command system.

This became a problem in the Soviet Union in the early 1920s and was recognised by leaders Lenin and Trotsky, who then called for a move away from the state as sole entrepreneur to a capitalist economic system controlled by the "workers".

Lenin wrote in 1922: "A free market and capitalism, both subject to state control, are now being permitted and are developing. On the other hand the state enterprises are being put on what is called a profit basis. That is, they are being reorganised largely on commercial and capitalist lines."

In 1922 Trotsky criticised Stalin's economic policies, writing: "Only through the interrelation of ... state planning, the market, and Soviet democracy, can the correct direction of the economy ... be attained."

Stalin went against this advice and used force to abolish markets, private property and all democracy.

While Stalin's alternative economic policy of the State as sole entrepreneur did work to solve the urgent problems of the World War II period, these policies are totally unworkable in the new, developed, Soviet Union.

The crisis in the Soviet Union today is one of economic growth. The entire economy and society has to be restructured and set on the path to capitalism.

It seems to be a "law of development" that at certain stages in a country's history "breakdowns" occur which then requires a restructuring of the economy and indeed the society.

American capitalism itself went through its most severe "breakdown" in 1929, a crisis that lasted for 10 full years.

President Roosevelt's New Deal policy of the 1930s – which helped to rescue the US economy – is the same as President Gorbachev's present policy of Perestroika in the Soviet Union.

It is interesting to note that at the time many American conservatives grew red with anger, mistaking the New Deal for socialism.

The US is the most advanced capitalist country today but may itself be nearing another severe "breakdown".

The standard of living for American workers is declining; the racial crisis is worsening; the plight of the poor is worsening; the inner cities are deteriorating; while education, housing and health for the lower classes are in crisis.

Sooner or later America shall be where the Soviet Union is today – needing restructuring!

No one knows for sure the direction this restructuring will take, either in the Soviet Union or in the US – or whether it will be towards a new capitalism, or towards socialism.

There is no consolation for us in South Africa from the problems of the US or the Soviet Union. We are also at the point of severe "breakdown" and in need of restructuring.

Nor can we be sure we will move towards a "new" capitalism or towards socialism.

At this point, what I can say is that the economic, cultural, scientific, and class forces are not yet sufficiently developed to enable us to construct a socialist society. We can only talk of a move in that direction.

The direction we take, and the pace of restructuring, will be decisively influenced by the amount of economic assistance and co-operation we get from the Western capitalist countries.

Should that assistance be enormous, as it was for West Germany after World War II, then we will have lots of breathing space and consequently will be able to attend to the economic upliftment of the South African masses.

LABOUR

Unions will play major role in new economy

C/Press 24/3/91

49

TRADE unions have to play a decisive role in shaping economic policy and steering growth as the politics of resistance shift to that of reconstruction in an unfolding democracy.

At the same time, organised labour has to examine the entering of alliances with major political and economic players without compromising its independence.

These themes, which are increasingly dominating debate in Cosatu, were raised in the March edition of the *South African Labour Bulletin*.

The journal, which closely reflects thought in militant trade union circles, also published a discussion paper by Cosatu's secretariat on key policy issues to be tackled in its July congress.

According to the *SALB*, trade unions were retreating from the militant stance towards the State and employers which characterised their relationship under apartheid.

Instead, as the country moved towards democracy, trade unions were developing a new relationship with government bodies and employers, as displayed by the Cosatu/Nactu/Saccola accord on the amended Labour Relations Act.

"Undoubtedly these trends will accelerate once a democratic government is in place. Organised labour is destined to become a central and very powerful social institution," the *SALB* said.

"In recognition of this the trade unions are beginning to debate new politics of reconstruction. Their decisions (on economic strategies) now will have enormous impact on the shape of our society, perhaps for decades to come."

Two major union positions within Cosatu have emerged on these issues. While pointing to reconstruction based on some form of social contract, neither positions dismiss the need for organised, independent "politics of resistance".

The National Union of Metalworkers of South Africa (Numsa) position holds that socialism could be achieved through an accord with the State through a governing party – probably the ANC.

Given potential conflicting economic interests, Numsa believes unions have to retain their militant independence in such a partnership.

According to SA Clothing and Textile Workers' Union general secretary John Copelyn, completely independent trade unions would negotiate agreements with employers. These would, in turn, be implemented by the State.

Numsa envisages a negotiated pact between trade unions, civic associations, rural organisations and political organisations, where the unions initiate and lead the formulation of economic policy.

"Such an accord would be implemented partly through the State and partly through mass organisations in civil society," said the *SALB*. Negotiations with business would be based on the accord.

The union advocates a broad-ranging economic development policy, hinging on major investments; coherent policies on technology development, exploitation of markets, education, technical and commercial training, as well as higher levels of productivity in the manufacturing industry.

Copelyn argues that unions should put all their effort into establishing and strengthening centralised collective bargaining structures, providing an independent base from which to influence society and the State.

Bargaining with employers would embrace strategies on broader social and economic issues. Once agreement is reached, these would be put to the State for implementation.

"In a post-apartheid South Africa, business, international economic forces and the State bureaucracy will all form an extremely powerful opposition to the union programme."

Given these powers, the Bulletin says, the Numsa argument is a strong one.

"Cosatu and ANC economists already exchange ideas regularly. On the other hand, Copelyn's ideas are already being implemented as Cosatu seeks to extend the scope of negotiations with Saccola.

"In the end, we are likely to see a combination of both strategies. Much will depend, of course, on the attitudes of the ANC and business." – Sapa

CITY PRESS, M

■ VAT set at 12% ■ Rebates reduced ■ Less company tax

Making the rich richer

Golden chance missed to right wrongs

49

Cllen 24/3/91.

LAST week's Budget by Finance Minister Barend du Plessis was expected to be the last Budget of an all-white parliament and also the first Budget for a 'new South Africa'.

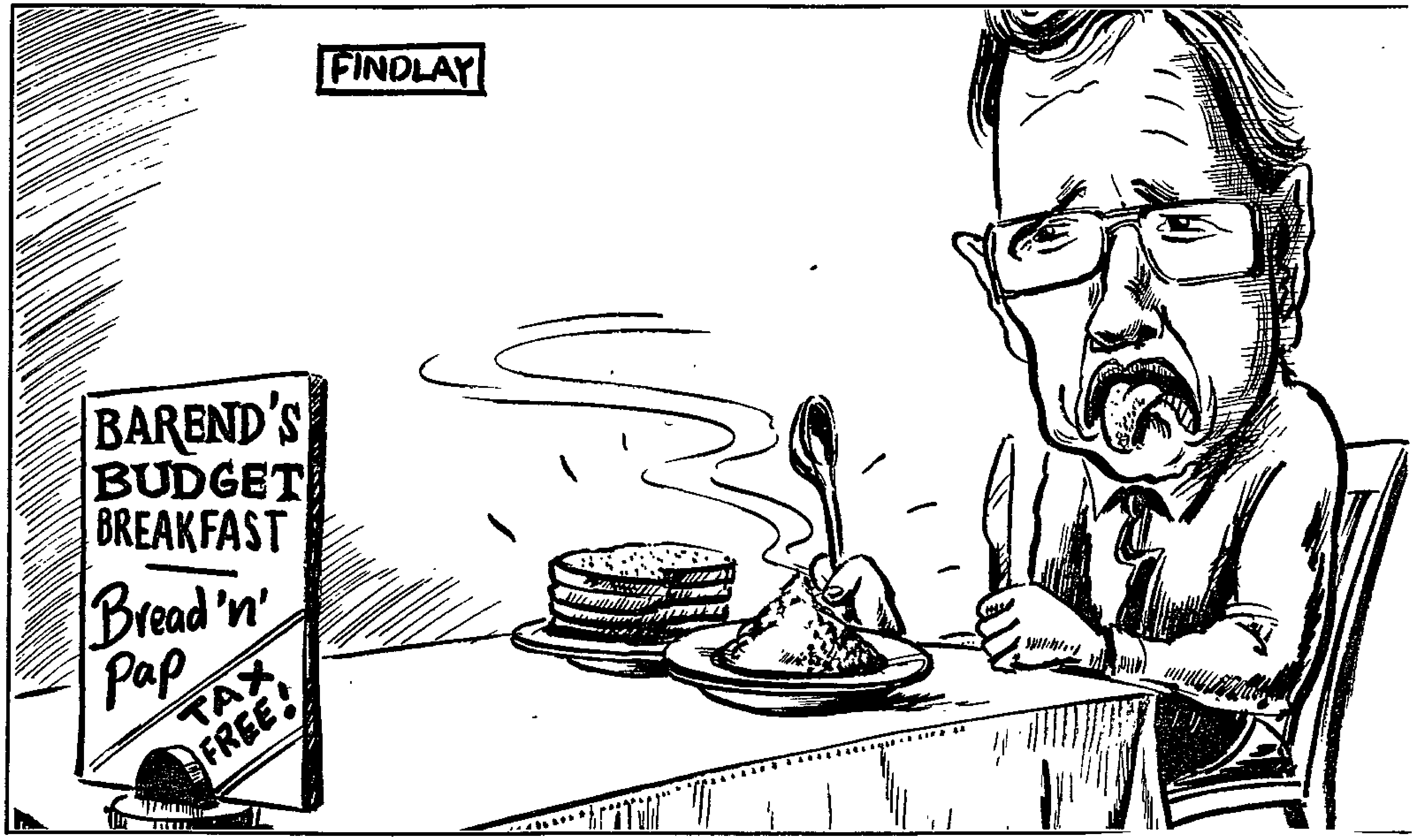
Instead Du Plessis's Budget at best allows the government to give with one hand and take with two hands and at worst discriminates against the poor, the majority of which is black.

He has closed his eyes to South Africa's economic problems – nearly all of which lie at the door of the National Party headquarters – and penalised the nation's poor through the tax system to allow the rich to continue to enjoy the fruits of apartheid.

The poor will get little or nothing from this budget, as at this time of high unemployment and poverty Du Plessis has decided to introduce a VAT rate of 12 percent.

The tax on individuals may have been reduced by one percent, from 44 percent to 43 percent, but this reduction is very little and will not encourage taxpayers to save and invest.

The primary rebate has been reduced from R2 100 a year to R2 000 a year for married people, and for unmarried

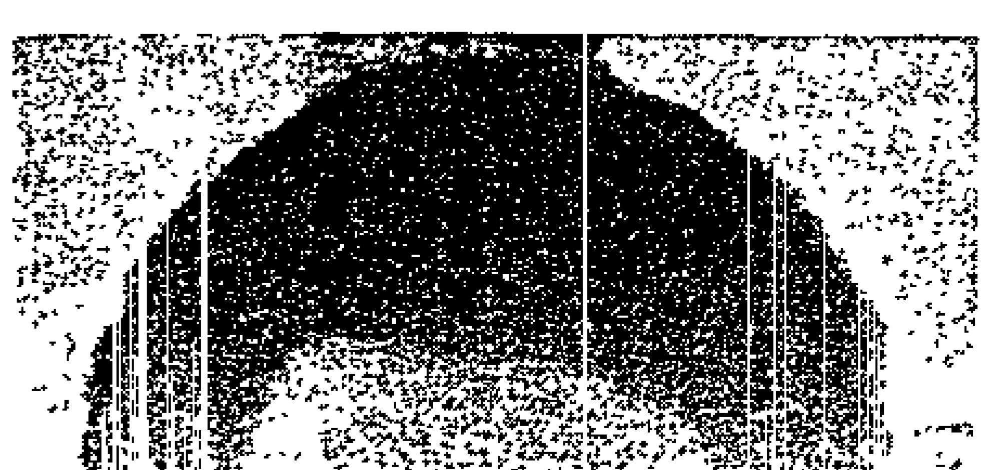


Tax adviser Matsheru Matsheru told ZB MOLEFE the government lost a golden opportunity to right South Africa's economic wrongs by delivering the budget it did.

encourage economic growth, job creation and investment.

Remember it has been proved that high tax rates do not encourage people to work hard and also discourage ambition.

The reduction in



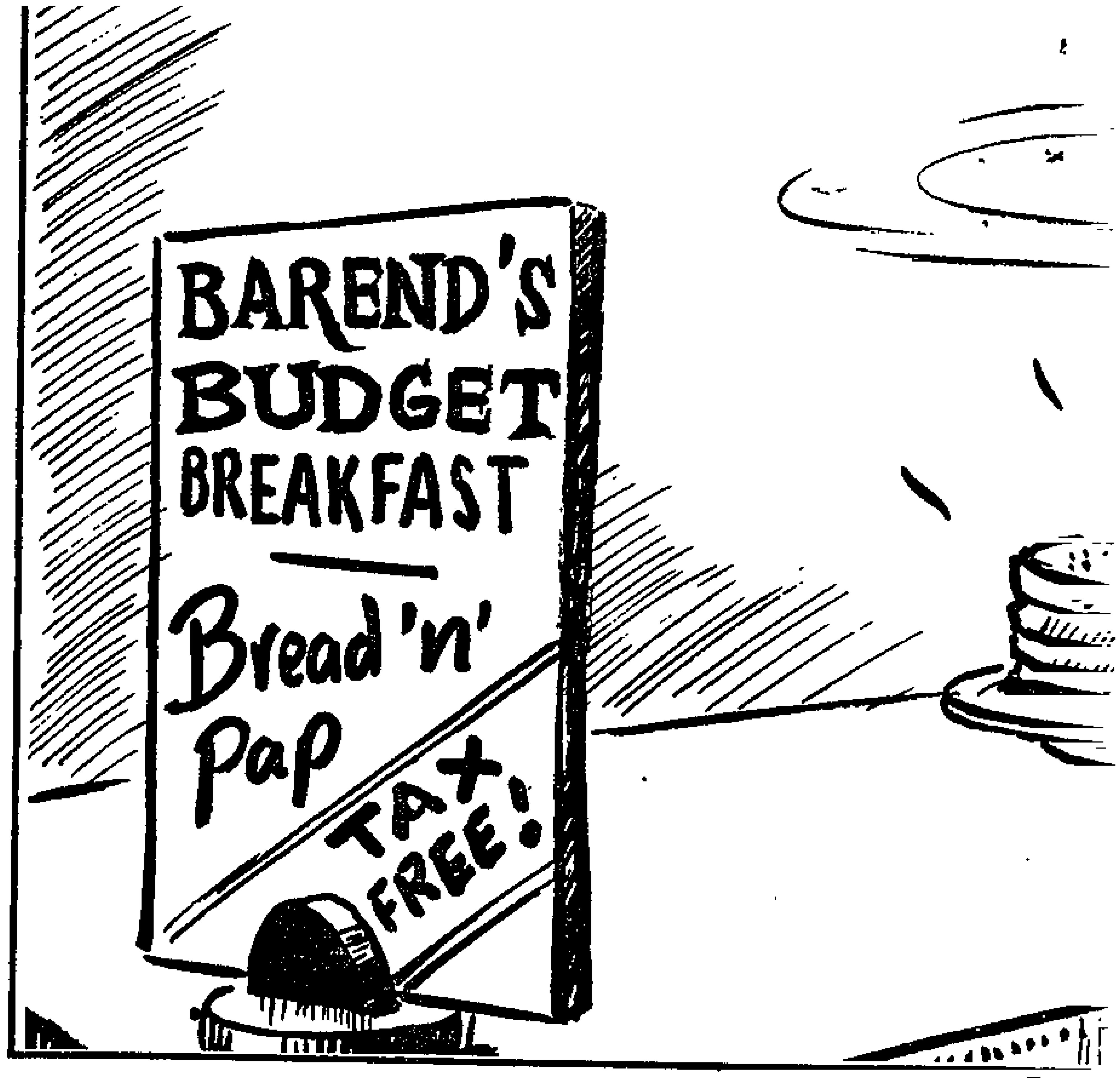
reduction to encourage foreign investment in a climate of violence caused by the cruel government policy of apartheid?

One is also aware that nowadays white South African companies are fraudulently using the tax laws as a scapegoat for their lack of growth.

In this Budget the government announced that marketable security tax would be

to right wrongs

Citizen 24/3/91.



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The primary rebate has been reduced from R2 100 a year to R2 000 a year for married people, and for unmarried peoplefrom R1 800 to R1 650 a year.

The only advantage of this Budget is that the government has finally abolished the unwanted joint taxation system.

From now on all income earned by married women, whether employees or self-employed, will be taxed separately from that of their husbands. The primary rebate for married women has however been increased from R700 to R800 a year.

In this respect the Budget has been beneficial to married women, black and white.

Company tax has been reduced from 50 percent to 48 percent.

In theory this means the budget will encourage economic growth, job creation and investment.

Remember it has been proved that high tax rates do not encourage people to work hard and also discourage ambition,

The reduction in company tax was included in the Budget to enhance initiative, encourage growth and thwart (white) migration and capital flight.

I don't however subscribe to the theory that reduced tax rates will automatically lead to economic production and growth. There is more to economic growth than merely reducing tax rates.

Recently black business complained that it is faced with 'red tape' when applying for loans. How do you use the reduced tax rates (in the Budget) to encourage people to enter into economic activity when they can't get money – quite possibly because of the colour of their skin?

Matsheru Matsheru . . . budget blues.

Secondly, there is the violence in the black townships. This will discourage foreign investors from setting up companies in South Africa – even if tax rates have gone down.

How do you use tax reduction to encourage foreign investment in a climate of violence caused by the cruel government policy of apartheid?

One is also aware that nowadays white South African companies are fraudulently using the tax laws as a scapegoat for their lack of growth.

In this Budget the government announced that marketable security tax would be phased out within three years (this is the tax levied on dividends at the Johannesburg Stock Exchange).

The motive here is to encourage economic growth by increasing freedoms at the Stock Exchange. But this only helps the rich, as it is predominantly the rich who trade at the Stock Exchange.

■ Value Added Tax (VAT): the government will not levy tax on only two things – ground mielie meal and brown bread.

This, as with the Budget in general, is an insult to the poor.

What South Africa needs is a tax bill of rights to protect the taxpayer.

Stals challenges Budget spending

S Times 24/3/91 (49)

RESERVE Bank Governor Chris Stals is "not that happy" with the Budget. He told told Business Times: "I am uncomfortable with it because it tries to meet huge demands for social services at the expense of real growth."

Dr Stals would have preferred a "Budget that does more to stimulate industrial development and employment".

Dr Stals's criticism is a major departure from precedent. Past governors have slavishly endorsed Budgets. Dr Stals says the Reserve Bank was consulted only about the basic principles of the Budget.

By DAVID CARTE

He confirms that his Reserve Bank administration reserves the right to differ from the fiscal authorities.

"Our independence is in line with the new more open style of government."

Dr Stals says the 13,7% proposed rise in State spending will lead to an increased share of government in the economy. Social spending will add little to production capacity while it will increase consumer demand.

He also believes that the deficit before borrowing is growing ominously.

"It's 3,4% of gross domestic product — up from 1,6% of GDP in 1989 and 2,7% in 1990. It also exceeds Government capital spending, estimated at 1,8% of GDP. This means the Government is using scarce savings for consumption."

Dr Stals says it is hard to assess how stimulatory or deflationary the Budget is because Finance Minister Barend du Plessis is giving away so much to some and taking away so much from others.

In addition, it is difficult to know how much value added tax (VAT) will yield.

"I have sympathy for the Department of Finance. They face astronomical demands for social services. At the same time they have limited resources."

Hinder

Dr Stals believes more could be done to slim down the public service. The Reserve Bank, he says, has done its duty by running down numbers and closing its Maritzburg branch.

Dr Stals's deputy, Jaap Meijer, was even more outspoken in his criticism of the Budget at a seminar in Cape Town organised by Old Mutual and Nedbank

Dr Meijer said: "Social spending should help, not hinder, growth. The State must help those who cannot help themselves but it can do more to encourage those who can help themselves.

"It's all very well to spend 6% of GDP on education, but what about the mismatch between the qualifications people are getting and what the economy needs?"

Dr Meijer said Jan Lombard of the Reserve Bank and the late Administration Minister Wim de Villiers recommended supply-side actions aimed at boosting output, "too few of which were mentioned by the minister".

Dr Meijer thinks the Government share in the economy is still too large, as is the deficit before borrowing.

Dr Stals does not believe the Budget will put upward pressure on interest rates, but he is adamant there will be no more cuts until the inflation rate falls further.

Hopeful

"The Minister was very bold in saying he would get inflation down to 12% by December 1991. I suppose he is counting on the removal of the cascading effect of general sales tax for some of the decline.

"People don't realise how much paying tax on tax can do to reduce prices. We estimate that the tax in most completed items at consumer level amounts to 27%, not just the 13% GST that people think they are paying.

"Value added tax will avert this and provided there is enough competition between manufacturers, prices should come down. I think newspapers and consumer bodies should watch to see that the consumer does get the benefit."

Dr Stals is fairly hopeful about the economic outlook in general.

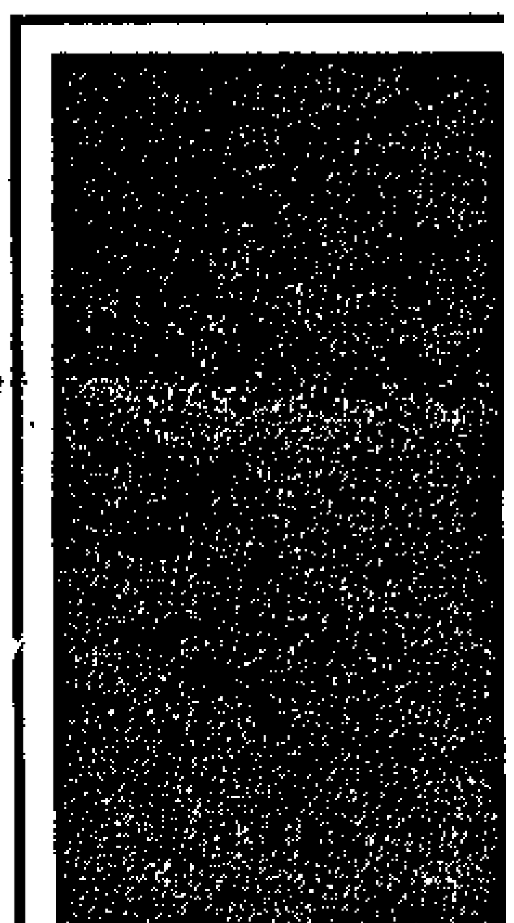
Dr Stals reiterated the Reserve Bank's intention to hold money-supply growth in the range of 8% to 12%, to restrict bank credit extension, to maintain positive real interest rates, to hold the rand exchange rate stable and to increase the reserves further.

He said the Reserve Bank would stick to its guns no matter how unpopular it became.

"The recent relaxation in monetary policy together with the slightly expansionary fiscal policy now announced call for caution in any further decision on additional stimulatory measures.

"The present rate of inflation is just too high, the balance of payments situation too uncertain to take any more 'bold' steps. The space for manoeuvring has for the time being been taken up

"Fiscal policy has now moved the economy to the edge of the cliff It is the responsibility of monetary policy to give its support and prevent the economy from falling into the dangerous abyss of escalating inflation, permanent stagnation and ultimately unavoidably more poverty for all."



MALCOLM PERRIE: The writing's on the wall for many companies. Picture: SUE KRAMER

Phase 6 relines the playing field

By DON ROBERTSON

THE PHASE 6 local content programme for the motor industry has major shortcomings that will cause problems for component-makers.

Malcolm Perrie, managing director of Associated Information Technologists (AIT), says that by moving to a foreign-currency or international monetary-based system, the Government has not only shifted the goalposts and changed all the rules of the game, but redefined the playing field.

ATI is consultant to many vehicle and component producers, such as Toyota, Mercedes-Benz, the National Association of Automobile Component and Allied Manufacturers (Naacam), Nissan and Castrol.

Heavily

Mr Perrie says that although Phase 6 will have long-term benefits, it could result in a large drop in the number of component manufacturers could be in for a tough time in terms of Phase 6 has strained relations between Naacam and the National Association of Automobile Manufacturers of SA (Naamsa) which represents motor manufacturers.

Lobbying by both groups for changes to Phase 6 has left the industry in a state of flux.

Phase 6 is intended to produce a component industry in SA which is economically competitive internationally, says Mr Perrie. In the short term, however, there has been little or no effect on the component industry.

In contrast, attractive opportunities, such as the export of autocatalysts, have been given to vehicle manufacturers,. In terms of Phase 6, "credits" earned on exports can be used to offset surcharges on imports. In many instances, this makes imports more profitable for car-makers.

Mr Perrie says a torsion bar for a popular car can be imported more cheaply than the cost of the steel from Iscor.

Mr Perrie believes the crunch will come next year when new models are introduced.

"Decisions on source of supply of components will then be based purely on economics and a balancing of the foreign exchange account. Many components which were viable under Phase 5 can no longer be justified under Phase 6."

Another factor hindering the component industry is that under many of the licensing agreements with foreign companies, manufacturers are unable to export to other parts of the world. High inflation in SA, fluctuating exchange rates and the high cost of raw materials are other problems.

Barend's figures anger the ANC

THE ANC slammed the Budget, but major employer organisations and business leaders generally welcomed it.

The ANC said social expenditure was "hopelessly inadequate" and "reflects ongoing apartheid priorities". It also said no special provision had been made for electrification and land reform. Citizen 24/3/91

On funds allocated for education, the ANC said: "A single education department is a prerequisite for equitable allocation."

Employers said the budget would boost business confidence. "While it was difficult to assess the possible inflationary impact of this budget, the broad message would be to help strengthen business confidence," said South African Chamber of Business president Johan Hall.

The Steel and Engineering Industries Federation said the budget would lay the groundwork for reduced inflation and increased investment opportunities.

"With regard to taxation adjustments, we support the Minister's efforts to create a climate conducive to investment and job creation," Anglo American Corporation commented in a statement.

Finance Minister Barend du Plessis sparked an outcry from major supermarket chains over the 12 percent Value Added Tax.

OK Bazaars, Checkers and Pick 'n Pay said the tax was a blow to consumers and Pick 'n Pay said it would lobby for exemptions on all foodstuffs.

The Chamber of Mines said emphasis placed on the provision of funds for social upliftment would contribute to the reduction of political tension and violence in South Africa. 49

Chamber president Clive Knobbs said it was essential to promote political harmony if South Africa was to successfully achieve a satisfactory rate of economic growth.

The Congress of South African Trade Unions (Cosatu) said the Budget was a bitter disappointment, especially for workers and their families.

Cosatu said the promised massive "social upliftment programme" had not materialised. "Far from social spending dramatically increasing as a proportion of the budget – to a suggested 42 percent – it in fact remains at the same percentage – 38 percent – as last year.

"Furthermore, once inflation is taken into account, expenditure on social services desperately needed by the majority of South Africans will actually decrease.

"Thirdly, the tax burden was shifted onto the shoulders of workers and the mass of ordinary people, and off the shoulders of the large corporations.

"VAT at 12 percent was not only higher than the expected rate of 10 percent; but tax will apply to goods which previously had been exempted under GST.

"This is in a situation where 70 percent of workers are earning wages below the poverty line," Cosatu added.

Amcham compiles foreign investors' charter

(49) Star 28/3/91

By Derek Tommey

The American Chamber of Commerce in South Africa (Amcham) has produced an economic charter spelling out the social, economic and political factors which foreigners look for when investing in a country.

The charter comes at a most appropriate time as South Africa is in dire need of new foreign investment.

It is increasingly apparent that without economic help from overseas South Africa has little chance in the foreseeable future of being able to meet the economic expectations of the mass of her people.

Amcham says the first thing foreign investors look for in a country is politicaland regional stability. "In South Africa a new political order is vital for creating confidence and the conditions for a sound and dynamic economy".

It says it will support any peaceful negotiations leading to the creation of non-racial democratic multi-party state.

Any constitution should protect property rights, including intellectual property rights such as patents, trademarks and copyrights, Amcham says. The constitution should also guarantee freedom to enter contracts as well as equality before the law.

Economic stability, is a prerequisite for strong and sustained private sector fixed investment, says the charter, which criticises the lack of consistency in monetary and fiscal policies in this country.

Amcham also requires a market-oriented economic system, free of the shackles of apartheid and bureaucratic over-regulation.

Foreign investors require a favourable tax environment. A disproportionately high tax rate militates against investment, and high direct personal tax militates against attracting and retaining skilled staff.

Amcham points out that the South African corporate tax rate is among the highest in the world.

Foreign fixed investment is also encouraged in an atmosphere where there are specific and clear rules, no arbitrary decisions, no special deals for specific companies and no fears of nationalisation or confiscation of assets.

Amcham recognises that governments want to see profits reinvested. This happens where policies create a favourable environment for foreign investors.

"But restrictions on the repatriation of profits and exchange controls in general serve only to discourage new investment".

Finally Amcham points out that South Africa has a developed infrastructure and it is essential that this infrastructure be maintained.

Amcham says its entry into the debate about a post-apartheid economy must not be seen to be one of interference by a foreign entity.

Instead it should be seen as a contribution by foreign investors with a stake in the country who would like to see the expansion of US investment here.

African economic plan on the way

CAPE TIMES 25/3/91

49

By ARI JACOBSON

TOP delegates from around the world ~~are gathered~~ with eminent South African representatives at Somerset West to discuss future development economic strategies in Southern Africa.

An economic agenda with far-reaching prospects for the whole of sub-Saharan Africa is also being drawn up at the Lord Charles Hotel there.

The South African participants include a broad spectrum from business, politics and the academic world, among others SA Reserve Bank Governor Dr Chris Stals, Liberty Life chief Mr Donald Gordon and Idasa director Dr Van Zyl Slabbert.

President F W de Klerk completes proceedings with the keynote address on Wednesday.

Yesterday saw World Bank development economist Mr Uma Lele discuss the failure of African economic development.

Mr Lele said the research showed that a balance should be created between the focus on socially orientated projects and the need to boost the areas of economic protential.

He said this meant, among other things, a sensible approach to public spending, a smaller government stake in the economy and the devolution of power to reach local levels.

At the evening banquet Dr Slabbert said in his address that a political dispensation was supercilious without an economic solution.

On a lighter note, an overseas delegate commented that the beauty of the Cape made it an inopportune place to hold a conference on the poverty problems in Africa.

US aid package is big in theory but a little short on cash

BDay 26/3/91

49

SIMON BARBER in Washington

IN THE current fiscal year, which ends on September 30, SA's "disadvantaged" will theoretically receive more bilateral assistance from the US than all but three African countries, according to the Agency for International Development's (AID) latest budget presentation to Congress.

The 1991 allocation for apartheid's victims officially stands at $50m. Only Mozambique ($60m), Madagascar ($51,5m) and Uganda ($52,2m) are slated to receive more.

The figure, which includes $10m set aside by Congress last year for such democracy-enhancing purposes as equipping the ANC with fax machines, is largely notional, a statement of intent rather than an indicator of actual cash flows. For one thing, the Transition to Democracy project is dead in the water with several congressmen exercising their informal veto power over the release of the $10m.

It is also important to note that the remaining $40m does not represent the amount that will really be spent on SA this year. Rather it is the amount by which the AID's existing kitty for SA may, if all goes well, be increased. The value of the cheques AID actually signs to the various contractors who run most of its SA projects is estimated in the budget document at slightly under $22,4m.

Overall, AID has been "authorised" to spend more than $258m on various worthy causes in SA over the past decade. This means Congress has given the agency either permission or instructions, but not necessarily the money. By last September, AID had disbursed only $67,3m.

AID's intent is summarised in the budget document thus: "The assistance programme is aimed at demonstrating the American people's abhorrence of apartheid." This, at least, has the virtue of candour: we are dealing with largely symbolic gestures here. Subsidiary objectives are "to hasten the demise of apartheid and to help prepare black South Africans for positions of leadership in a post apartheid society".

The programme formally started in the '80s when, at Congress's request, AID began providing scholarships to "disadvantaged" South Africans lucky enough to have the right political connections and not to live in the homelands. Education is still the major thrust. Since 1982 the agency has spent $41,6m on providing 1 275 scholarships. It expects to earmark $21,7m of this year's total allocation for the same purpose.

"More than 600" students have been sponsored to study at undergraduate or graduate level in the US under the Training for Disdvantaged South Africans project. AID notes with pride that "virtually all participants have been successful in completing their degress, and of the 97% who have returned to SA, 95% are employed and a majority are involved in some form of community service".

As of last year, another 650 scholarships had been awarded for students to attend SA universities and technical schools under the SA Bursaries project. Under the Educational Support and Training project the US is helping underwrite "nongovernmental initiatives in teacher training, alternative education, preschools, curriculum development and literacy".

A new $10m-a-year Tertiary Education project was launched in 1989 to provide further scholarships in the US. The budget data indicate that it will gradually supplant the other educational projects when their own accounts run dry.

The Labour Union Training project will get another $3,5m this year, bringing to $9m the amount AID has committed to spending on black unions since 1983. Most of the $4m that has actually been spent thus far has gone to the AFL-CIO's African-American Labour Centre to "help black unions develop skills in organising, collective bargaining, health and occupational safety and grievance procedures".

The AALC "seeks to encourage black unions to remain politically independent and sensitive to the benefits of a market-oriented economy", AID notes. It does not, however, go on to explain that the principal purpose of the project is not to assist the SA labour movement but to keep the AFL-CIO happy by pumping taxpayer funds in its direction.

The Black Private Enterprise Development project gets no new money this year. AID was authorised to spend $20,9m on this one between 1987 and 1993. Prior to this it had signed contracts with grantees worth $8,5m but released only $3,7m in real cash. It estimates it will turn over a further $4,1m before September 30.

Activities AID says it is funding include "a national organisation which provides credit and other resources to micro- and other small-scale entrepreneurs; feasibility studies for the development and strengthening of strategic black business ventures and institutions; training for black women to become leaders in the accounting and financial services field; and bridging mechanisms which bring together black entrepreneurs and white business leaders".

The Building Democratic Institutions project also receives no new money and will apparently be retired when the last of the $1,8m previously allocated it is spent this year. Most of the money will presumably go to the National Endowment for Democracy (NED), the US quasi non-governmental entity for which the project was created.

NED has channelled the funds, through various US intermediaries, to the National Black Consumers Union, Idasa, Lamla (a grassroots mediation group in the Western Cape) and the Afro-Asian Institute of Histadrut, the Israeli labour federation. The latter arranged for "disadvantaged" South Africans to learn the joys of socialism on a kibbutz.

According to an unpublished report by the General Accounting Office, a congressional auditing bureau, NED made little attempt to see that AID's money was properly, let alone usefully spent. Many thousands disappeared into dubious administrative expenses. These included rental fees for a car hired by an employee of one of the the SA grantees who was caught using the vehicle to traffic in drugs.

Funding continues for the Community Outreach and Development project. AID expects to commit $4m on top of $14m that has flowed into the project's account since 1986. $7,1m has been spent to counter the SA government's "attempts to crush community power . . . COLD has supported and strengthened community organisations, and trained women and community leaders in crisis mediation, youth leadership and career development".

Also continuing are the Human Rights and Self-help Support projects. These are basically slush funds from which the US embassy and AID mission dole out small grants to causes — legal assistance for detainees, for example — they deem worthy. Collectively, the coffers of the two projects will receive a $2,5m replenishment this year. Since 1983, the Human Rights fund has made 550 grants, mostly of $10 000 or less.

Finally, the are two new categories starting this year, AIDS prevention, which is down for $300 000, and "programme development and support", budgeted at $1m. The latter apparently involves a review of what the agency should be doing post-apartheid.

The AID programme, the budget document explains, "will increase its planning for development interventions in a post-apartheid society. This will include such development precepts as organisational effectiveness, technical feasibility and economic viability. In addition, assessments will be conducted in shelter, AIDS prevention, primary education, land tenure, youth, and local government. These assessments will provide guidance on possible new sectors of high impact value."

Obviously, AID has not reached the point in its review where it might feel comfortable enough to express itself in simple, declarative sentences.

FW on the economy

CAPE TIMES 26/3/91 (49)

PRESIDENT F W de Klerk addressed the high-powered University of the Witwatersrand conference on economic policy and development in sub-Saharan Africa at Somerset West last night.

The conference, at the Lord Charles Hotel there, is being held behind closed doors for most of the time and attended by delegates from around the world.

A spokesman for the State President's Office said no copy of Mr De Klerk's address would be made available to the press.

The dinner, at which he addressed delegates, was hosted by Rembrandt's Dr Anton Rupert at the Libertas Centre near Stellenbosch.

Delegates include Dr Chris Stals, governor of the Reserve Bank, Dr Gerhard Croeser, director-general of Finance and Dr Japie Jacobs, special economic adviser to the president.

The ANC's Mr Thabo Mbeki is due to address the conference this evening.

ARGUS 24/3/91

Poverty seen as threat to SA accord

THE political settlement South Africa needed could not be realised if poverty and inequality were not seriously addressed, the ANC director of foreign affairs, Mr Thabo Mbeki, said in Somerset West.

He was addressing international and South African economists, financiers and bankers brought together last night by the University of the Witwatersrand's School of Economics.

He said the process of arriving at what South Africa needed to do economically had to be speeded up.

The country needed to play its role on the African continent, which needed to be stable, democratic and reflect an absence of wars and Aids. South Africa could, however, not be part of realising this because it had not solved its own problems.

Africa had to address collectively the issue of democracy and human rights and secondly the issue of security.

Whenever there was a violation of human rights, the tendency internationally was to identify it as an African problem collectively rather than attributing it to an individual country. Likewise, wars and the enormous refugee problem were recognised by the world as an African problem.

Turning to the economic situation, he said everyone knew what the problems of South Africa's economy were.

"In a broad sense all of us are participating in the process of what needs to be done to take it out of the crisis — getting rid of the racial inequalities

"Isn't it time to translate these broad perspectives into something more concrete? Hasn't the time come for all actors to come down more concretely to development needed in terms of rands and cents?

"What will it cost? Who is going to do what?" — Sapa.

Changes ... but blacks still on the sidelines

Sowetan 27/3/91

49

FOCUS

By ISMAIL LAGARDIEN

POLITICAL CORRESPONDENT

PARLIAMENT next week comes to a standstill for about a week.

This mid-term Easter recess is usually "just a break", but there is a slim chance of the Cabinet meeting around a braai at somebody's home to toss about ideas on the coming negotiations.

The last two months in Parliament have however been particularly hectic, starting with the mighty speech by State President FW de Klerk in which he promised to repeal the Group Areas Act and the accompanying Black Communities Development Act as well as the Land Act.

The three Acts were tackled simultaneously in a White Paper - a basic game plan - wherein Government explained to a great degree, but not entirely, how it intended making amends for the institutionalised disenfranchisement of black people in South Africa, especially with regard to the distribution of (and access to) land.

Critics

The White Paper on Land Reform came under heavy fire from the extra-parliamentary left who saw the reforms as grossly inadequate, simple-minded and ineffectual.

The PAC's secretary for information, Barney Desai, dismissed the proposals as worthless.

A single clause in the White Paper, that the legal ownership of existing title deeds would be respected, would keep the indigenous people off the land, Desai said.

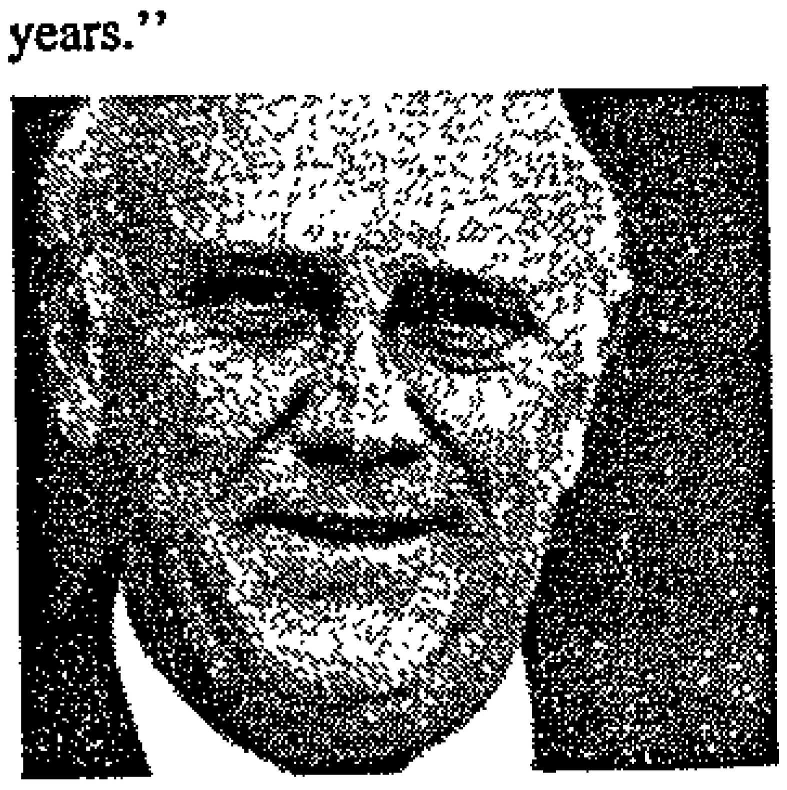
"Effectively, 87 percent of the country is owned by whites and in terms of the White Paper, it will remain in their hands," he said.

De Klerk's bold speech on Friday, February 1 also galvanised the Conservative Party's "freedom struggle".

The CP stormed, like spoilt children, out of Parliament on the day of the speech. And, it was announced this week that the CP was planning a "Volks Army".

The Budget, announced by Finance Minister Barend du Plessis on March 20, was another highlight and a kind of ersatz effort to correct the wrongs of apartheid while it simultaneously continued to perpetuate it.

Du Plessis' excuse for not being able to bring, for instance, black and white pensions to parity, has been likened to a rapist telling his victim: "I cannot actually stop raping you now, but I commit myself to do so in five years."



DE KLERK

Nevertheless, the Budget was hailed as the poor person's Budget and does in fact go a long way - considering the financial constraint upon the State - to the upliftment of the poor.

And then there was the never-say-die General Magnus Malan and part two of the Death Squads saga with its mantra: Nobody told me, but because nobody told me, it does not mean that nobody told anybody, maybe somebody told somebody, but nobody told me.

There have been numerous reports about the Night of the General. Some say he will go, other say he won't. Some want him to go and there are few people who disagree. But the truth appears to be that Malan is going nowhere fast.

On the surface it seems as if Government cannot do with him, nor can they do without him.

Some say if he goes, the army will follow, others say never. Either way South Africa is not known for military takeovers.

South Africa leaves coups to its Frankenstein monsters: The TBVC.

Refusal

A personal best for the National Party in Parliament so far, has been the refusal of De Klerk to apologise for the wrongs of apartheid.

One of his junior ministers, the Deputy Minister of Foreign Affairs, Mr Leon Wessels, promptly did him a bad public relations job and publicly apologised for being "so blind" to the suffering of black people in this country.

De Klerk's refusal came within days of a discussion between myself and a senior Cabinet Minister.

I said that De Klerk was not a humanitarian and was doing everything that he had been over the past year or so only to have sanctions removed and because it makes financial sense.

The Cabinet Minister disagreed, saying that De Klerk truly believed in what he was doing.

The Democratic Party twitched its tail during the past two months. While all and sundry have suggested that NP supporters have become the "new Liberals" and that the DP was dead, a new role emerged for the old progressives - that of a kind of watchdog or bloodhound.

The NP can never claim that it is liberal - never. Not with a track record of some of the worst human rights abuses since World War 2.

DP's role

The DP, excluding perhaps a handful led by the Member of Parliament for Houghton, Mr Tony Leon, would fit very well into the NP. Some would be comfortable with the ANC and others belong right where they are as a kind of protector of liberalism in this country.

And even if hardline African supremacists come to power, the DP could still have an important "watchdog" role to play. Nobody has yet taken the time to explain that African supremacy is as unacceptable as white supremacy.

When Parliament resumes on April 8, there may not be any (more) dramatic changes, but there will be interesting debates following in the wake of last week's Budget.

Each department must stand up in Parliament and explain how it proposes spending the money allocated to it and the other parties in Parliament traditionally disagree.

The reality is that while the future of black people will form a major part of the debates and discussions in Parliament over coming months - it will remain, for the time being at least, an all white affair.

Political comment in this issue by Aggrey Klaaste and Deon du Plessis. Newsbills by Sydney Matlhaku. Sub-editing and headlines by Ivan Fynn.
All of 61 Commando Road, Industria West, Johannesburg.

Prosperity in a new South Africa

(49)

Sowetan 27/3/91.

Title: South Africa - Liberty and Prosperity
Editors: Richard Grant and Frank Vorchies
Price: R39,95
Publisher: Juta and Company, Ltd.
Reviewer: JOSHUA RABOROKO

PROSPERITY is no accident and neither is poverty. Both are the result of men's actions, but without economic liberty, prosperity can only be a dream.

These are some of the notions found in this thought-provoking publication comprising essays advocating the limiting of State controls and the freeing of enterprise in South Africa.

It argues strongly for a market-based economy and a decentralised, non-racial, democratic system of government.

The contributors are qualified academics who are more than familiar with the intricacies and minutiae of the South African social, economic and political structures.

Diverse

They address a diverse range of issues relevant to a society undergoing change, including sanctions, monopolies, privatisation, the distribution of wealth, conscription and education.

The State's role in the arts and the wildfire services is analysed and the role of a free Press is dealt with in depth.

These essays have been collected for South Africans who are concerned about their changing environment. They show how liberal reforms and institutions can be used to the benefit of society.

Says co-editor Grant: "The task of this book is not to tell people what to value, but to show them how to protect that which they already value. The way in which this is done will ensure that those who think that economic reasoning is not practical will be forced to restructure their thinking."

He contends that economic liberty is littered with the rubble of systems created by policy-makers who tried to substitute authority for logic - forgetting that "truth is not determined by majority vote."

Relevant

One of the academics, Duncan Reekie, whose contribution is highly relevant to the uncertain time that lies ahead for all South Africans, says: "Whatever has happened in the past, and whatever we wish for in the future, it is the present that is our starting point."

In a chapter called "Privatisation and the Distribution of Wealth" he adds: "Wealth redistribution can be attained on a far greater scale through an industrial policy of privatisation and deregulation."

Co-editor Vorchies says in a chapter "From Liberty to prosperity in South Africa: "Liberate the profit-seeking spirit of the people and dismantle the rent-seeking institutions of the State."

On sanctions, James Dean says: "If foreigners act wisely, it will not be necessary to destroy South Africa before it can be rebuilt with racial justice."

This book will prove invaluable to anybody connected in any way with the emerging process of negotiated change.

CM-7/10/S 27/3/91

Secrecy clouds economic conference's impact

By ARI JACOBSON, 49

THE secrecy surrounding the economics initiative conference currently under way at the Lord Charles Hotel in Somerset West has somewhat minimised its magnitude and significance for sub-Saharan Africa.

But it is hoped that the gathering of great economic minds from around the world will inject new ideas into the policy path of a future SA and prevent the repetition of common African mismanagement.

The unique situation has brought together top SA decision makers from the spheres of business, politics and academia.

Rembrandt's Johann Rupert put it more succinctly when he said that never in his wildest dreams did he envisage convivial conversation between Carel Boschoff of the Afrikaner Vryheidstygting and Joe Slovo of the Communist Party.

Tito Mboweni, head of the ANC economics department, said this international conference would expose SA to a wide spectrum of development ideas helping it to avoid the mistakes that have led to failures in other parts of Africa.

Liberty's Donald Gordon described the discussions "as an excellent meeting of the minds".

NUM assistant general secretary Marcel Golding talked of the exploration of ideas and the seeking of lessons from sub-Saharan Africa.

But he repeated a warning from Idasa director Frederik Van Zyl Slabbert that a successful political dispensation was not enough without economic solutions.

The Free Market Foundation's Leon Louw said he had been perturbed by the attempt at adapting sub-Saharan Africa scenarios to SA.

He added that sharp tension still existed on the policy platform between supporters of government intervention and the free marketeers.

Jos Gerson from the University of Cape Town (UCT) felt changes to corporate structures should be put on hold for the next two years — with economic planners rather focusing on gut level imbalances such as racialism in the corporate setup.

Another participant from UCT, Anthony Black, said this gathering would boost economic prospects for local researchers brought on by the influence of overseas academics.

But Carel Boschoff said no clarity existed from delegates on support for a unitary state — one man one vote — as against some kind of federal state notion.

From Oxford University in the UK, John Knight said exchanging views from diverse perspectives should help SA from repeating mistakes apparent in sub-Saharan Africa.

But there was no argument among these distinguished delegates that an essential priority — although a long way off — was the link between SA and it's regional neighbours.

Blueprint on SA by FW's advisers backs the market

BDay 28/3/91 (49)

Business Day Reporter

SUSTAINED growth, development and long-term stability to meet the aspirations of all individuals are only achievable in a market-oriented system based on private property, says the State President's Economic Advisory Council (EAC).

The EAC's Revised Long-term Economic Strategy released on Friday says it is critical for the future well-being of SA that the economic policy has the visible support of the widest possible spectrum of political, community and business interests, Sapa reports.

The EAC's strategy document says there must be an increase in SA's long-term economic growth potential, a reduction in the inflation rate to the level of SA's trading partners and an improvement in the standard of living of the poorest section of the population.

Political democratisation, liberalisation and effective accommodation of the growing population will ultimately lead to changes in the pattern of the distribution of wealth, income and opportunities, the report says.

This will lead to a marked increase in demand for social welfare services such as education, health and housing. Financial restraints will determine the nature of these services, their scope and their standard.

The report recommends a reduction in the share of government consumption in GDP expenditure and its claim to scarce capital and manpower resources.

This must be achieved by greater public sector efficiency, by rearranging spending priorities, applying normal financial disciplines on capital expenditure and by stipulating and regularly reviewing long-term expenditure guidelines.

Privatisation, where it contributes to a more productive utilisation of production factors, will limit government's responsibility in the economy, it adds.

Privatisation proceeds must not be used to finance current expenditure but to eliminate backlogs in the provision of basic social services.

Exports will be one of the driving forces in the next phase of SA's economic development. Indirect tariff protection is preferred to the current system of industrial protection.

The advantages of this long-term strategy will only be realised over time, the report says. The outcome will be seen in a strengthening of business and investor confidence. This will enhance the economy's capacity to create wealth, income and opportunities. With higher economic growth it will be possible to address the problem of the poor more effectively, the EAC says.

FW's advisers back economic strategy

BDay 28/3/91

(49)

KEVIN DAVIE

THE President's Economic Advisory Council (EAC), the country's most influential economic policy body, has accepted key aspects of a report which proposes the drastic restructuring of SA industry.

The EAC's revised long-term economic strategy, which was released earlier this week, gives the rubber stamp of approval to a confidential report by the Industrial Development Corporation (IDC) which recommends sweeping changes to make SA industry more competitive internationally.

The acceptance of key IDC proposals by the EAC and the inclusion of its recommendations in its new long-term strategy represent major progress towards the implementation of the report. The EAC consists of leading businessmen and has significant influence on government.

The EAC was briefed by the IDC on its report, the Modification of Protection Policy, in October.

In its long-term strategy document, the EAC says the highest priority has to be given to increasing the economic growth potential and real growth performance of the economy to create more jobs.

In accord with the IDC report, the EAC says current protection policy is subject to serious shortcomings and requires major reform. EAC recommendations which conform with the IDC approach include:

- Establishing a system of protectionism based on factors which determine SA's competitiveness in foreign markets;
- Protection will have to accommodate tariff adjustments within the General Agreement on Tariffs and Trade (GATT);
- Excessively high tariffs which increase domestic costs and restrict exports should be reduced;
- Constant revision of import tariffs;
- Protection should be selective and linked to economic performance;
- An effective system of anti-dumping should be put in place;
- Infant industries should be offered protection only if they exploit competitive advantages and will become self-supporting.

Export policy, says the EAC's document, should ensure that competitive advantages are utilised. Opportunity costs of export promotion have to be evaluated continuously, and local beneficiation and processing should be promoted to be able to export more value-added commodities.

It will be necessary, it adds, to apply stringent cost-benefit accounting to programmes considered of strategic interest.

● Comment: Page 14

Govt role in economy 'should be minimised'

B/Day 28/3/91

(49)

SHARON WOOD

DESPITE the urgent need for social expenditure, government's role must be minimised and private sector involvement in the economy must rise, says Standard Bank's March Economic Review.

Government's role should be confined to providing basic security and social services and the basic operational framework for the economy. It must be a facilitator rather than an actor in the economy, it says.

Rising social spending will be necessary and inevitable, but must be kept to reasonable proportions. Excessive rises in overall public expenditure would push SA down a dangerous policy path directly at odds with lessons learned from international experience.

Government's share of the country's resources has risen for decades — a trend that has had negative consequences for growth, it says.

To promote efficiency and effectiveness in the public sector there must be an increased reliance on non-governmental organisizations to achieve some social objectives, the review says.

International experience has shown that the private sector, the most efficient creator of jobs and wealth, should have access to the maximum resources possible.

The economic cost of funding government must be reduced by improving tax efficiency and lowering the costs of collection. This can be achieved by broadening the tax base, through VAT, and making greater use of user charges, Standard Bank says.

w/mail 28/3 -4/4/91

Racial structures scupper Barend's attempts at 'equity through growth'

49

Social spending in the Budget was in some respects less dramatic than the rhetoric of Finance Minister Barend du Plessis suggests. **REG RUMNEY** reports

MOVES towards the "equity" in this year's "equity through growth" Budget were severely hampered by the existence of racial structures.

These the Budget, which is after all an accounting exercise, can do nothing about. So extra cash could be raised by scrapping the duplication and triplication of the tricameral system and the homeland system.

One guesstimate, by Econometrix director Azar Jammine, is that R6-billion could be gained by going back to a unitary government and cutting the cost of bureaucracy.

This Finance Minister Barend du Plessis could not do in terms of the Budget. The continuing recession also left him little room to manoeuvre.

However, hampered as he was, Du Plessis did lay great stress on spending on social services in his Budget speech. How big a deal is that?

As Aiken & Peat points out, social services expenditure, measured as a percentage of total government expenditure, has not changed materially over the last four years.

This expenditure decreased from 39 percent last year, according to Aiken & Peat, to 38 percent this year. Social services expenditure in 1988/89 was 36 percent; 1989/90 38 percent, and 1990/91 39 percent.

In absolute terms, social spending will increase.

But look further at the particulars of that social spending. Leaving aside the amounts which will land up in the hands of the poor through the increase in pensions, what was devoted to the really needy? It must be remembered that part of the VAT deal is that the taxing of basic foods, with few exemptions, will be balanced by direct aid.

Through the informal sector, the poor — and not so poor — avoided General Sales Tax. They will not be able to avoid VAT as easily. While VAT at a high 12 percent will be levied on basic foodstuffs — except zero-rated bread and mielie meal — the amount to set aside for "targeted aid schemes to the severely indigent" is R220-million.

Compare that to the poverty outlined in the *Budget Review*: "The extent of poverty in South Africa is still extremely great. For example, in 1989 some 44 percent, or about 16-million people, of the total population of South Africa and the TBVC countries were estimated to be on very low incomes."

R220-million divided among 16-million people works out to R13,75 for a year. Even if the definition of severely indigent is narrowed to say five million people the relief afforded by that R220-million is not much at R44 a year, or 12,5c a day.

The Budget mentions 90 000 houses will be built this year. According to the SA Institute of Race Relations, quoting figures from the Council for Scientific and Industrial Research, the number needed to make up the backlog, is more like 320 000 a year, assuming a backlog of two million formal housing units for Africans in South Africa, excluding the homelands.

Given the enormous influx of black schoolchildren into the school system each year, will the 16 percent increase in spending be adequate to cater for that growth, given that inflation could be upwards of 12 percent next year and that between 1986 and 1990 the average growth in pupil numbers for Department of Education and Training schools was 4,7 percent a year?

However, it must be accepted that at 18,5 percent of total spending and 5,4 percent of gross domestic product, spending on education is high.

It must also be accepted the share of social services in this Budget at 38,2 percent means social spending commands 10,3 of the country's spending resources.

The increase in social spending means consumption spending will increase: to take one example, however socially desirable housing is it does not itself directly lead to higher economic growth.

FOCUS ON THE ECON

Secrecy clouds the spending picture

49

WMail 28/3-4/4/91

THE problems in comparing the 1991/92 Budget with those of any but the most recent years are immense. Nor is it easy to unravel the spending on racial groups, or to get a true picture of taxation or government expenditure.

There are a number of reasons for this. One is the tri-cameral system which temporarily hides items of spending such as white, coloured and Indian education until the publication separately of the details of the spending of the Houses of Assembly, Delegates and Representatives.

Another is the tendency to move items of tax and spending off budget, under the user-charge principle. Toll roads represent one of these. The amounts spent by motorists on toll roads is a form of tax. Yet that part of the fuel tax which used to be dedicated to road maintenance and building has been absorbed into the general fiscus.

The move towards self-funding in other areas, such as education, is part of this. One implication of the tendency, revealed in the increases given to the pensions of the various race groups, to equalise spending on social services for the different races at lower levels than whites are used to is that those who have money will have to pay to maintain those higher levels. It has already been suggested that parents will have to pay more towards education; it is evident that the state is concentrating its health care efforts on preventative health and curative health care for indigent, while leaving it to the private sector to provide curative health care for those who can afford it. It could be argued that this is a form of shifting the tax burden onto the shoulders of, principally, whites.

Finally, there is the veil of secrecy, explained away by sanctions, surrounding certain items such as the export credit guarantee fund.

Reg Rumney

49

Budget fails the leap of faith

W/Mail 28/3-4/4/91

By spurning the opportunity to bridge the pensions gap Finance Minister Barend du Plessis missed his chance of a gesture of goodwill. REG RUMNEY looks at why the government baulked at the first hurdle

FINANCE Minister Barend du Plessis laid great stress in his Budget speech on the move towards equalising pensions being "a leap of faith" in a restrictive Budget.

And he linked final removal of racial discrimination in pension payouts to sanctions and growth.

It would have been a greater leap of faith and a symbolic gesture of goodwill in the "new South Africa" had pensions been equalised in one fell swoop.

Leaving aside for the moment the problem of how to pay for it, the arguments for immediate equalisation seem overwhelming. The paying of unequal pensions to people who pay the same rate of tax cannot be justified. Indeed the government has, despite Du Plessis attempting to attach strings, accepted equality in principle.

Why did it baulk at doing the right thing? Was it overcautiousness?

As Tito Mboweni, of the African National Congress' Department of Economic Planning, stressed the next day at the Old Mutual Budget Forum, blacks simply see the disparity as racist.

There remains a 35 percent gap between African and white pensions, and a 15,5 percent gap between white pensions and those of coloureds and Indians.

Particularly disturbing is the transfer of another R1-billion to the public service pension funds from the 1990/91 surplus after borrowing. Leaving aside the fact that government mismanagement of these funds has caused the need for such capital injections, it must stick in the throat that civil pensions were increased by 12,5 percent at the same time white state pensions went up by only 10 percent.

Pieter le Roux, director of the Institute of Social Development at the University of the Western Cape, has put forward another strong reason for equalising pensions.

"Whereas the inequalities in education and health cannot easily be eliminated overnight — there simply are not enough teachers and doctors, schools and hospitals — social pensions could be equalised simply by changing the Budget allocations."

The nub of Le Roux's argument is that in the absence of a general welfare system, and the financial impossibility of introducing one in the short run, getting better pensions is a route by which many poorer black families can be given support.

"Many a pension keeps children in the rural areas from starvation and supports their schooling."

What of the cost?

The overall increase in the amount voted for state pensions amounts to R1,325-billion. This brought the total amount devoted to social assistance to R5,982-billion, or 22,7 percent more than last year.

At the Old Mutual Budget Forum finance department director general Gerhard Croeser said the total amount involved in giving 1,6-million pensioners an extra R100 was R2-billion, given that the means test, which determines who get pensions and who doesn't, would have to be relaxed to the same extent. This would mean more pensioners and thus a higher bill.

The means test itself has been the subject of some controversy, and the Budget dismisses doing away with it, though it promises a more efficient application.

Total immediate parity and the complete removal of the means test could cost more than R4-billion, said Croeser.

Deputy Director General Finance Estiaan Calitz said that if one included equalising pensions in the TBVC states this would probably entail another R2-billion.

His point was that once population growth rates were equalised, with population growth of 2,5 percent a year, the growth in spending from that point onwards would crowd out other spending if the economy did not grow fast enough to accommodate it.

Le Roux concedes this but dubs it a "conservative technicist economic perspective".

In the pound seats ... Although white pensions are still pitifully small they remain higher than the state handout to elderly blacks

"From a purely economic perspective one could develop a strong case for going for parity at the present Indian and coloured level. This level could cover basic living costs and would put less of a burden on the fiscus. Particularly if one considers the possibility that the proportion of the population entitled to pensions may more than triple during the next 30 years, caution in this sphere may be fully justified.

"If the economy should remain stagnant, pensions may soar within a decade or two, to more than 15 percent of government current income."

Cogent as the government's argument is it ignores the fact that the equalisation of pensions has only been put off.

"Ultimately the question of which level of pensions South Africa will opt for is a political one," states Le Roux. "I believe that the political arguments for opting for parity at present white levels are very strong."

Before the Budget increase, he said, white state pensions were, in real terms, already 25 percent lower than they were 15 years ago.

"The present white government is unlikely to be able to cut white pensions any further. Thus it is only by raising all pensions to bring them on a par with white pensions that it will be able to concretely demonstrate its commitment to doing away with discrimination.

"If the present government fails to eliminate the gap between white and black pensions, it is inevitable that a democratically elected government would establish parity and clearly this is likely to be at white levels. Politically the case for parity is thus very strong indeed."

It would have been an act of extreme political courage to equalise pensions without increasing white pensions, that is to spend all the extra money on equalising pensions without any increase in white pensions at all.

The Budget increases pensions generally by R28 for all race groups. This is an increase of 10 percent in nominal terms, which is below expected inflation. This works out to a real decrease of two percent or more.

A further amount was voted to bring black pensions up towards the white level.

So effectively money has been taken away from white pensioners to give to black pensioners anyway.

Calitz has noted that in the change from the old to the new South Africa there is a problem in that the old South Africa had serious distortions. "One of the realities we will have to face in future is that we won't be able to equalise at the highest level."

This philosophy of levelling down rather than levelling up seems to underly the whole approach to providing social services in the new South Africa, and implies greater spending by the haves to allow the state to provide for the have-nots.

BUDGET ANALYSIS

'Robbing the poor to give to the rich'

(49) South 28/3-3/4/91.

IN his recent budget speech, Minister of Finance Barend du Plessis talked a new language — equity has taken its place alongside growth and stability as a budget objective.

Does this herald a new era? Is this budget going to kick-start South Africa's economy to provide growth with justice which the country so desperately needs?

With great sadness one has to conclude that, with regard to equity, Du Plessis has tragically failed to put his money where his mouth is. Some commentators have taken Du Plessis at his word and have called this a poor man's budget.

Except for a real increase in black pensions, this budget has in fact dealt the poor and the lower income groups a severe blow.

No adjustments have been made in the income tax brackets to allow for inflation. As a consequence the low and middle income groups have generally had a decline in their real income.

The VAT now imposed on all food that were exempted from GST (with the exception of maize and brown bread) will fall proportionately more heavily on those who spend most of their income on food — the poor.

Tax burden

The net effect of all these changes in the tax laws is a surge of more than one quarter in nominal and more than one tenth in real terms in the tax paid by personal income earners.

This is an unprecedented increase in the tax burden placed on individuals.

The quid pro quo for this change is that the total revenue derived from companies has declined dramatically.

Because of the switch from VAT to GST, companies no longer need to pay tax on capital goods and other intermediate inputs and will be experiencing a massive tax windfall of between R6 and R8 billion per annum.

This dramatic increase in concessions to business is borne, as I have argued above, disproportionately by the poor and the lower income earners.

The much-vaunted additional R500 million in old age pensions and R250 million in special assistance to the poor hardly compensates them for VAT on food and is a pittance in comparison to the reduction of thousands of rand in tax paid by companies.

Pieter le Roux

Is this what Du Plessis calls equity?

Will the massive injection into the private sector not kick-start the economy?

The crucial question is what will be the impact of the millions of rand in tax concessions to the private sector. There are at least four possible outcomes.

Firstly, there may be a significant drop in the rate of inflation, as the advisors of the International Monetary Fund (IMF) have reportedly predicted.

The dramatic reduction in input costs could be reflected in a decline in the rate of increase of output prices.

Secondly, the reduction in tax to be paid by companies could lead to a massive surge in business confidence and hence new investments and resumed growth.

Thirdly, instead of higher profits leading to higher rates of investments, these may lead to further increases in dividend payments.

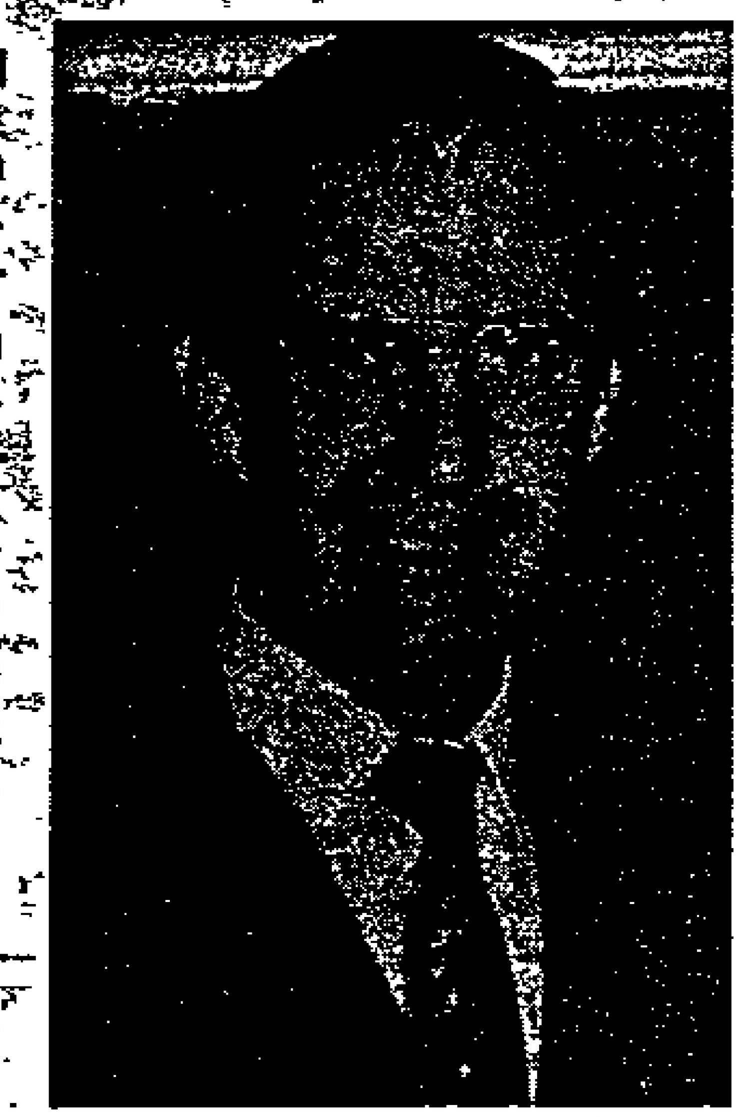
This year's budget fails to meet any significant aspirations of the black poor and is likely to pour oil on the fires of political instability.

The windfall in tax concessions to the private sector is unlikely to be translated into investments or lower prices. This is the analysis of University of the Western Cape economist, Pieter le Roux:

Industrial action

Fourthly, organised labour could, through industrial action, regain the losses in real income suffered because of the much higher tax burden workers will have to bear. But this will probably call for massive industrial action which our economy can ill-afford at this stage.

In theory, some combination of all four of these outcomes could be experienced.



Barend du Plessis

I want to predict, though, that because of the oligopolistic nature of our industrial sector (few sellers and a small number of competitive firms controlling the market), little will come from a dramatic reduction in inflation.

Companies will keep the benefits to themselves.

I had hoped that this budget would lead to higher investments and an increased rate of growth.

I am now, however, inclined to suspect that because of the destabilising political consequences of the budget, increased profit and dividend taking rather than higher investments will be the standard reaction in the business sector.

Much as I hope that the contrary will be true, my prediction is that the massive tax benefits the private sector is receiving in this budget will not be translated into growth or significantly lower prices.

Instead, it will enhance the class conflict.

If neither equity nor growth will be delivered, what about stability? During a period of transition, and if one takes into account the social consequences, this budget is highly destabilising.

The budget fails to meet any significant aspirations of the black poor.

To ensure equity with growth Du Plessis ought to have taken his own rhetoric more seriously.

Capital goods

The tax on intermediate and capital goods ought to have been phased out over a two or three-year period — thus facilitating a much lower initial rate of VAT than the very high 12 percent.

If the commitment to equity was genuine, parity in pensions at white levels would not have been delayed any longer.

Only another R1,6 billion had to be found to pay for this — an amount which is not that large if one considers that the tax exemptions annually given to the better-off to save for pensions amount to R6 to R8 billion.

Instead of reducing the petrol price, for instance, an additional levy could have provided the funding so sorely needed to develop a proper urban public transport system. Clearly this would have called for higher taxes on those who can afford to pay.

(Professor Le Roux is director of the Institute for Social Development at UWC.)

De Klerk plans to woo British businessmen

W Mail 28/3 – 4/4/91 (49)

By ARTHUR GAVSHON: London

PRESIDENT FW de Klerk will meet Britain's top industrialists, bankers, businessmen and politicians in late April as part of a South African drive to line up investment funds, trade and credits after sanctions end.

Although the South African embassy is portraying his journey here as a "private visit", De Klerk, accompanied by Foreign Minister Pik Botha, can expect greater visibility than any South African leader has been accorded for decades. A rundown of his main engagements underlines the point:

● Arriving on or about April 21 he is due next day to address a meeting of the Confederation of British Industry and the United Kindom, South African Trade Association. A session with Prime Minister John Major and possibly other key cabinet members also has been slated.

● He has arranged to deliver a keynote address on South Africa's political and economic needs and prospects at a meeting of the Institute of Directors at the Royal Albert Hall on April 23. Later that day he will appear at the Royal Institute of International Affairs. An address to the Royal Africa Society also has been scheduled.

British and South African authorities speaking privately agree that the president's talks in London could be of paramount importance because the outcome may well influence the attitudes of other key Western countries towards South Africa if and when the apartheid system finally gives way to a multi-racial democracy.

This flows from Britain's traditional involvement in the development of the entire subcontinental region of Africa. The book value alone of direct UK investments in the area was nearly £2,5-billion in 1987.

In South Africa, British private sector investment exceeded 50 percent of total foreign investment. The Republic is Britain's fifth biggest market outside West Europe and North America.

Timing of De Klerk's visit — about a week before the deadline for the release of political prisoners — seems to assume a special significance.

Informed British authorities do not disguise thier belief that the prisoner problem, taken together with lingering uncertainties about the role of the police in recent outbreaks of violence, is unlikely to result in a stampede by British companies to invest in South Africa soon. Change in the country still strikes British businessmen and bankers as a slow, painful process.

Even in a more stable environement investment decisions are certain to be finely balanced. De Klerk will need to convince his listeners that conditions for investors will become more appropriate with credible assurances that earnings and profits can be repatriated under satisfactory terms.

Another factor likely to be drawn to De Klerk's attention is that the British economy is in the grip of a serious recession. Major industries have seen their profits dip. Bankruptcies among smaller businesses have soared to record levels. Unemployment is rising beyond the two million level. There has for months been a holddown on imports.

Cosatu slams 'big business and bureaucrats' Budget

49

By DREW FORREST

Weekly Mail 28/3-4/4/91

COSATU'S repeated demand for a radical restructuring of the economy — and particularly the "moribund" manufacturing sector — again found voice in its fierce attack on the Budget last week.

The lack of provision for work creation and training was also lashed by Nactu general secretary Cunningham Ngcukana.

Insisting that the only beneficiaries of the Budget were "big business and apartheid bureaucrats", Cosatu said the government had offered no new direction which might lift an economic crisis of its own making.

"There was no vision of a new economic growth path, or an overall economic development strategy which would create jobs for our people, address critical social needs and lay the the basis for the development of our manufacturing sector."

Massive development schemes should be immediately implemented in the critical areas of housing and electrification, it added.

Also attacking "gross racial discrimination", Cosatu said the budget failed to achieve racial parity in social spending and made no move to scrap duplication of spending on apartheid bureaucracies.

Pledges of a massive social upliftment programme had also failed to materialise, with social spending remaining at the same percentage of the total Budget — 38 percent — as last year.

Cosatu also took issue with the "shifting of the tax burden on to the shoulders of workers". While Value Added Tax had been introduced at a higher than expected rate and applied to formerly tax-exempt goods, company tax had been cut to 48 percent.

"In reality, the large corporations will be paying closer to 30 percent, once they have exploited the loopholes in the tax system."

Nactu's Ngcukana said no money had been allocated in the Budget for the training of the unemployed or public works programmes.

"There is no systematic approach to the problem of unemployment and no mechanism for the spending of development money — last year's R2-billion (for the Independent Development Trust) has still not been spent."

He also complained about inadequate provision for health and land purchase. Last year the government allocated R1-billion to clear capital backlogs in in black areas of which R319-million has been spent. The current Budget merely tops this up to R950-million.

SA needs a national 'business plan' to benefit all its people

B10ay 28/3/91 (49)

CHARLES STRIDE

SOUTH African business, answering calls for nationalisation and redistribution of wealth, needs to do better than say "it won't work". It has to demonstrate, through positive action, that it is committed to redistribution of *opportunity*.

So far, its performance has not been very impressive.

Business has to show, for instance, that capitalism does not require blacks to have inferior education, or restrict their freedom of choice and ability to acquire assets.

On Budget day, when Finance Minister Barend du Plessis placed great emphasis on achieving equity through growth and opportunity, it was also shown in a special annexure to the Budget papers that the life and pension industry had R25bn deposited with financial institutions at the end of 1989.

Du Plessis's special adviser, Japie Jacobs, has been investigating saving trends in SA. He says there is no evidence that these huge amounts are being used unproductively, and that the institutions have no role in making risky investments.

But should we not look at what we *are* doing with the R25bn to R30bn that flows into our financial institutions each year? Are these funds not being invested only in white shopping centres, high rise office blocks, shares on the stock exchange and gilts? Can we expect overseas investors to put money into wealth-creating activities when we don't do so ourselves?

Before deciding on what steps business should be taking, it is necessary to examine why many black South Africans are sceptical about their chances of earning a place in the sun in a capitalist society.

Capitalism is seen as part of a system which has prevented blacks from realising their aspirations in many fields. They have almost no access to the country's mineral and financial resources. There are huge educational, health and housing requirements, which the system seems unable to fulfil.

First World economic policy decisions have been taken which have had a massive adverse effect on the Third World component of the economy, which has also been restricted by a costly bureaucracy, the development of strategic industries and the misallocation of resources.

Domestic liquidity has been siphoned off into market speculation rather than into badly needed employment growth. In an apartheid society, there could not be true capitalism because the proper free market forces, essential to avoid the worst aspects of capitalism (the exploitation of the weak) did not exist.

Apartheid aside, there is an excessive concentration of economic power in monopolies, cartels and control boards. The country's wealth is seen to be in the hands of professional managers in giant corporations, who are not entrepreneurs and are averse to taking risks. On the other hand blacks' capacity to help themselves has been restricted by legislation, education policy, high inflation and lack of facilities.

In these circumstances, it is hardly surprising that deprived people should see nationalisation as an answer to their needs. Fortunately, it is now being realised that nationalisation is a failed ideology wherever it has been tried, and that there is no sense in using limited financial resources to buy what already exists, or to borrow, or to mortgage the future to do so.

It is trite to say that the real answer is to create more wealth through capitalism. The question is, how can this be done?

What SA needs is a national business plan, setting out the country's priorities, and then establishing how these can be attained. It must be relatively simple, and capable of being implemented quickly.

It seems to me the national priorities are:

- Wealth/job creation;
- Education and training;
- Health and housing; and
- A substantial reduction in inflation.

Once the priorities are accepted by government and the community at large, no business practices, tax policy or any other legislation inhibiting them should be allowed.

Even big-hearted businessmen will probably agree that they will not voluntarily change their ways, in which investment decisions are tax driven and taken for short-term financial gain. It will therefore be necessary to take some drastic steps in the interests of the established priorities. These could include legislation to:

- Restrict the abuse of tax allowances by having some limit curbing the capacity of incentives to reduce taxable income by, say, more than 25%;
- Limit economic power exercised through multiple pyramid listings on the JSE; ☐ Give incentives to wealth-creating activities, and disincentives where scarce national resources are used for purposes that are not really national priorities (like the mindless redevelopment of central city office blocks); and
- Create competition by breaking down monopolies and cartels.

☐ STRIDE

A successful business plan will need national support, with businessmen and consumers together creating a culture in which there is pride in the country and what it can achieve. If people were eagerly buying good quality SA products, imports could be drastically reduced.

Government philosphy seems to be directed at creating more competition irrespective of the impact on foreign currency reserves and jobs. While we should never protect uneconomic and inefficient businesses, there is a very serious danger that we will allow goods to be dumped in SA, thus destroying jobs and the country's capacity to create wealth.

Effective and timely ability to stop dumping is necessary. This would perhaps curb SA's R800m worth of textile imports which cost something like 10 000 jobs.

If this new culture is to be achieved, there will have to be a national effort to eradicate pervasive corruption in our society. We need high moral and ethical standards in all fields, with adequate policing and monitoring. There will have to be efforts to minimise government's role in the economy, and the influence of the bureaucracy. To promote accountability and create a more open society and a more competitive business environment, there is a strong case for an amendment to the Companies Act, allowing for directors' reports of all trading companies to show how they have succeeded in meeting the national priorities decided on, such as through job creation and training programmes.

To stop overseas corporations overpricing exports to SA, it might be an idea to legislate for the disclosure of all related-party transactions within a group, and an affirmation that transfer pricing has taken place on an arm's length basis. To curb institutionalised inflation, perhaps financial statements of all trading companies should be available to customers on request.

Steps will be needed to stem the brain drain, and make it financially less attractive to emigrate. A percentage (say 25%) of all blocked funds and assets in trusts with non-resident beneficiaries should be required to be invested in long-term educational bonds, or entities like the Small Business Development Corporation.

There are all sorts of possibilities through which existing capital could be mobilised. Prescribed asset requirements could be reintroduced for investment in education and job creation.

Economic policies would have to be internationally acceptable, so that foreign investment would be encouraged. And it goes without saying that risk-taking cannot be rewarded unless there is political stability in a growing economy.

All these efforts would be undermined by inflation, which consumes the country's assets and hits the underprivileged hardest. Ways to combat it include the linking of wage increases to increases in productivity, terminating the policy of allowing the rand to depreciate, scrapping the control boards and prohibiting import parity pricing.

Despite all SA's problems, there are strong reasons to believe that such a plan could succeed — not the least of them the quality of our people, and the vast reservoir of goodwill that still exists among them.

☐ **Stride is deputy chairman of the Altron group.**

LETTERS

REDISTRIBUTING WEALTH FM 29/3/91.

THE WRONG WAY TO GO

49

If the prime objective of the trade union movement is to redistribute wealth, then the pressure it plans to put on employers this year to raise wages in the face of falling demand (see page 21) is going to achieve precisely the opposite.

First, because employers will have little choice but to try to maintain costs by reducing jobs or containing the number of future jobs by mechanising. They won't find this too difficult — throughout the world the cost of advanced technologies is declining.

Moreover, advanced technologies tend to absorb mechanical tasks at the lower end of the skills spectrum. So management skills will remain at a premium. Inevitably the outcome will be a greater disparity in earnings between not only the jobless and those employed, but between workers and supervisors.

Second, the unions will inevitably try to bargain for the retention of certain uneconomic jobs to frustrate the redistribution implicit in the price mechanism, in this case the price of labour. The ultimate outcome is to frustrate the optimum allocation of resources and thus cause the economy to function inefficiently.

Of course, income redistribution is already taking place vigorously. This is largely as a result of deregulation and the emergence of many small businesses. The rare phenomenon of buoyant personal consumption expenditure in the midst of a slump is testimony to that. It can be seen in the rising profits of certain clothing and furniture chains that cater mainly to the black consumer market.

The trend in the national Budget towards social expenditure is another example — though that redistribution won't stick. It will ultimately reach an unsustainable proportion of budgetary spending; when it does the jobs that this unsustainable demand created will disappear.

The way to ensure that income is redistributed more vigorously and with greater permanence is for wages to fall. There is enough evidence to suggest that in markets where union-devised wage levels don't exist, workers enjoy greater job security. Another characteristic of these markets is that usually, when wages fall during a slump, profits and prices in general fall to an even greater degree. So in relative terms the workers are better off. But that happens, of course, when inflation is absent.

If trade unions are eager to redistribute wealth they should be bargaining, not for extravagant wages that employers cannot pay without reducing jobs, but for deferred income packages linked to future profitability. Meanwhile, shorter working hours and greater access to training could be presented to employees not merely as employment benefits but as palpable investments in the future. ■

ECONOMIC OUTLOOK

SEEDS OF GROWTH

FM 29|3|91 (49)

As recessions go, 1990 proved unusual. The latest Reserve Bank *Quarterly Bulletin* confirms a trend that emerged early in the year: while production continues to fall, consumer confidence remains surprisingly intact.

Economic output shrank in 1990 by nearly 1% — but real final demand rose almost 1% for the year — and an annualised 3% in the fourth quarter. Most of the impetus came from private consumption, up 1,5% in 1990.

Particularly unusual is that much of it was generated by spending on durable goods, up 2,9% (see graph.) In 1985, when the GDP shrinkage was only slightly greater, real final demand dropped by more than 3%, private consumption spending 3,5% and spending on durables by more than 22%.

The trend arises partly from recent real increases in salaries and wages — 3,2% in 1989 and a slightly moderated 2,1% in 1990. More important, perhaps, as much of the spending is financed by instalment credit, it is due to expectations for the future.

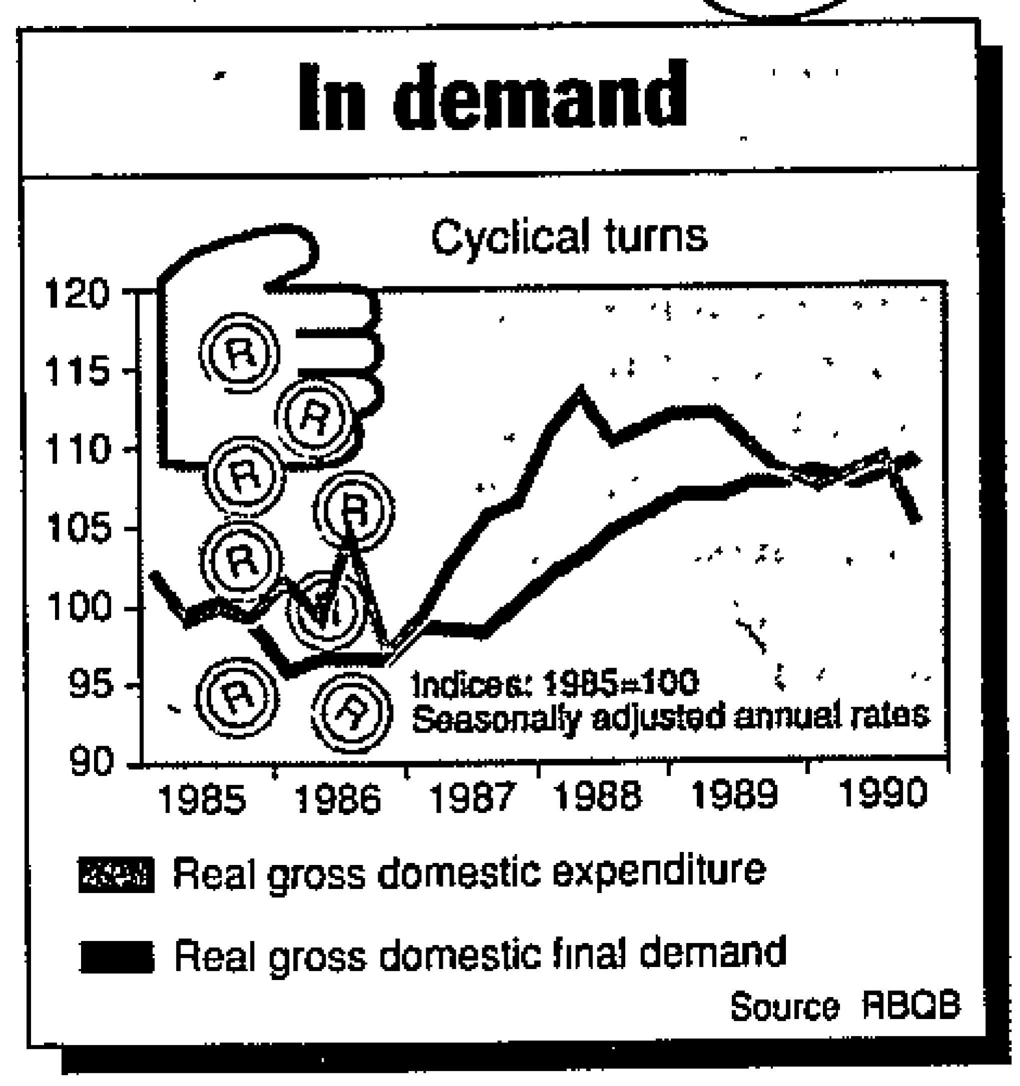
The sector that benefited most was furniture and household appliances, up 5,9%, and recreational and entertainment goods, up 9,7%. (In 1985, sales of these categories fell 9,8% and 21,8%.) The effects are evident in recent results from companies supplying furniture and electrical goods:

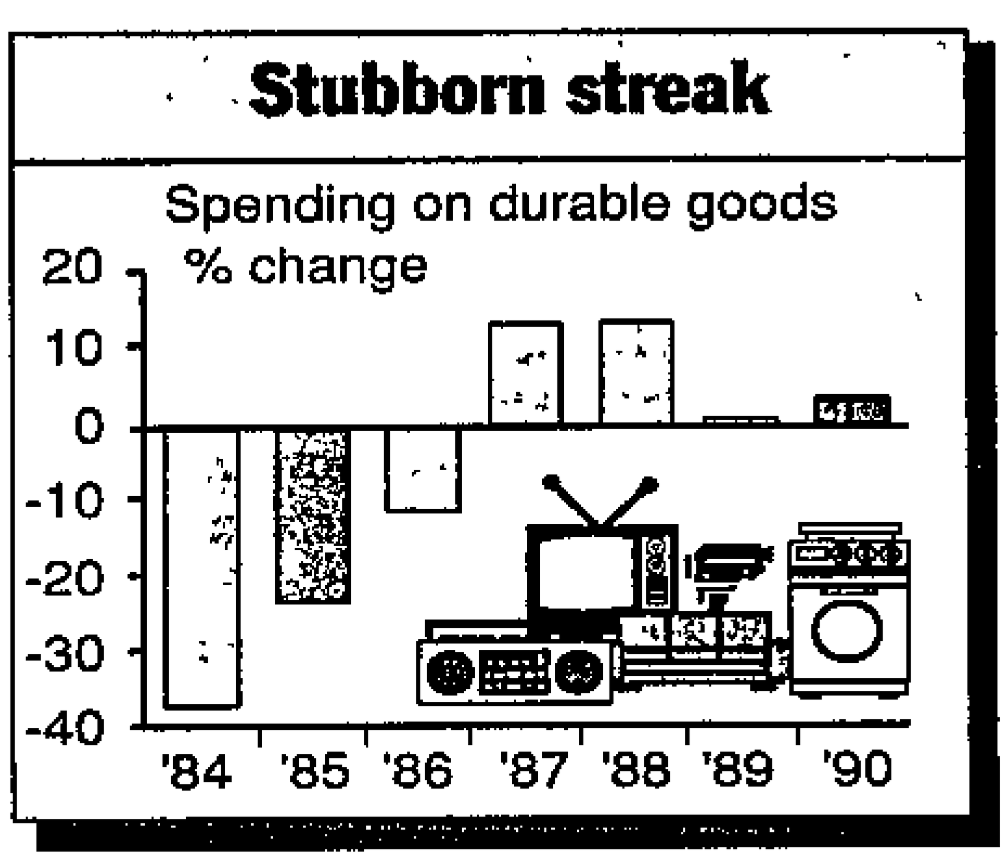
- In the six months to end-February, Ellerine's sales rose 30%;
- In the year to end-December the J D Group saw a 37% rise in turnover; and
- In the six months to end-February, Tedelex reported a 37% increase in business.

This unexpected demand has resulted in a large rundown of inventories — a massive R3bn in constant 1985 prices.

The ratio of industrial and commercial inventories to GDP fell to 19,4% in 1990 from 22,2% in 1985.

Herein lies the seed of recovery. Says Standard Bank group economist Nico Czypionka: "There is no scope for inventories to run down much further. Unless demand falls off, we will soon get positive growth on the production side which will underpin employment in industry and related areas." With capacity utilisation at a low 81,7% there is scope for expansion.





These developments are too tentative to be seen as signs of a recovery; more is needed before the cycle can turn. In the short term, an improvement in commodity prices to bolster export revenue would be a useful spur to growth, as so often in the past.

Longer-term what is needed is improved productivity. In the first three quarters of 1990 it was 0,9% lower than in the first three quarters of 1989. This was partly a cyclical phenomenon, says the *Bulletin*, but reflects also days lost due to strikes, work stoppages and labour unrest.

If income is to be redistributed without priming the already dangerous strength of inflation, productivity must match demand. ■

FINANCIAL SERVICES

DOUBLE TROUBLE

FM 29|3|91

Bankers will not accept without protest what they interpret as a victory for life offices in last week's Budget. Nor will they willingly accept the tax of 0,75% on interest and finance charges in the form suggested there.

A procession of business leaders headed for the parliamentary Joint Standing Committee on Finance this week. The Association of Clearing Banks was due to see the committee on Wednesday, preceded on Tuesday by the Life Offices Association.

Bankers believe the Budget favours life offices at the expense of deposit-taking institutions. They point to the lopsided effect of the proposed 0,75% tax and are also worried at the tone of the Jacobs Committee memorandum accompanying the Budget speech, which seems to favour the life offices.

FM 29|3|91

The LOA delegation argued for the full application of the principle that life offices are merely trustees for policyholders and should be taxed in the same way as individuals. Specifically, they want to be relieved of tax on dividends received, a reduction in their tax rate from the proposed 43% to about 30% and an increase in the expenses they may offset against tax.

The bankers' mission is twofold: before the ACB and Association of Mortgage Lenders can formulate any resistance to the 0,75% tax, they must know how it will operate. "I haven't been able to find anyone who knows," says UBS CEO Mike De Blanche. He is echoed by Nedcor CEO Chris Liebenberg: "It's so vague, it makes planning very difficult." Vague or not, Liebenberg insists the tax leaves banks worse off than had they been subjected to a straight value-added tax (VAT).

Standard Bank chief accountant Henry Shaw says the tax as presented in the Budget could severely disrupt money markets. The multiplier effect, he calculates, could have swingeing effects on corporate interest rates. "A margin of a paper-thin 0,25% would have to go to about 0,85%".

There are other problems of definition, says Shaw. "If we buy bills at a discount, what is the interest rate?"

Bankers believe the tax is unworkable. There is general acceptance, however, that a quantum of money has to be levied from the industry, to approximate what VAT would have yielded. Several say they will co-operate in constructing a workable levy system — but emphasise the tax, as now proposed, is fraught with problems.

Bankers' other objective this week is to get clarity about the Jacobs Committee report. The committee was set up largely at the request of banks-building societies campaigning for a more level playing field between themselves and the life offices. Far from achieving that, they have been confronted with a report that is critical of banks and supportive of the life offices.

Jacobs concludes: "There is no evidence that (life office) funds are utilised unproductively, that personal saving is metamorphosised into consumption spending (apart from pension payments used in this way) or that their activities harm the financial market.

"Contractual saving is not responsible for the negative element of discretionary saving; indeed, household dissaving is made possible precisely by the consumption credit obtained from the deposit-taking institutions to which households must direct those discretionary savings. There is also no reason why discretionary saving should rise if contractual saving falls." ■

(49)

31/3/91

The good news and the bad news of economic stability

S/Times 31/3/91 (49)

TOWARDS THE FUTURE SA

IN the last of the economic articles in our Towards the Future South Africa series, **CHARLES SIMKINS** spells out a five-point plan for national recovery

ANY manager of a successful enterprise knows — either explicitly or intuitively — that a few key strategic variables determine its fate. Control over these is essential to survival.

The same is true for national economies, though in their case the capacity for control has to be built by political means rather than through market operations. If, as Peter Berger suggests in his keynote article, rapid economic growth is required for political stability, any list of strategic economic variables has implications for the form of a desirable political settlement.

Five items seem of particular importance at present:

● First, economic strategies should aim at increasing investment rather than consumption.

Severe class conflict means that workers become militant and capitalists disinvest; social instability shortens time horizons and strengthens preference for consumption in the present above consumption in the future.

Resumed growth requires not only the restoration of incentives for investment in existing markets, but also the extension of market relations into new sectors such as housing

Resumed growth requires not only the restoration of incentives for investment in existing markets, but also the extension of market relations into new sectors such as housing. For this to happen, political agreement is needed that private goods will be produced by private enterprise.

This requirement is bad news for some popular expectations, but good news for others. It is bad news for those who advocate redistribution of income and wealth through means other than the market or market-conforming state policy. Some people suppose that markets merely stabilise the existing distribution of income and wealth.

This is untrue — even in South Africa where racial discrimination in entitlements to state spending persists. In 1970, 70 percent of personal income accrued to white people; this year the proportion will be around 53 percent. Since most households hold wealth in order to adjust income streams to desired consumption streams, the distribution of wealth is also changing.

This process can be speeded up by well thought out schemes of asset transfer combined with the development of capital markets.

The requirement is good news for those who support the extension and upgrading of education — undoubtedly the most investment-oriented component of social spending by the government. It is of the highest importance to remove discrimination in education and to make the system more efficient.

Doing so will remove many sources of inequality in the labour market — by far the most important source of inequality in personal income.

● Second, economic strategies should aim to reintegrate South Africa into the world economy.

There are several aspects to this requirement. The first is that it looks as though we shall have to learn to live with lower resource rents than in the past. This economic adjustment has been under way for several years; an indicator is the radical reduction in taxes paid by gold mines during the 80s.

One implication is an escape from the "Dutch disease" — international uncompetitiveness of manufacturing exports occasioned by high prices for minerals. Another is the reliance on manufacturing as the engine of growth — here success depends on improvements in productivity and the ability to identify strategic opportunities, rather than on windfall gains.

One looks to improved export performance and the creation of conditions for foreign investment to release the balance of payments constraint on the expansion of domestic demand. Movement towards a more liberal foreign exchange regime would help; this is likely to require a further devaluation of the rand, the timing of which needs to be well-judged if the inflationary shock to the domestic economy is to be minimised.

Foreign investors will also be looking at domestic investment in improved efficiency; progress in terms of the preceding requirement will aid re-integration into the world economy.

● Third, macro balances should be maintained.

One great danger facing states in transition is that control is lost over the state budget deficit and, more generally, over demand, unleashing a hyper-inflation ending in economic collapse. A rapid rise in poorly-financed state expenditure resulting in sharp increases in consumption would powerfully assist this process, as would the introduction of new taxation which discourages accumulation.

All these outcomes are real possibilities — especially if two factors identified by RW Johnson in his earlier article in this series come into play: the systematic promotion of unqualified people into key posts and a substantial emigration of skilled people belonging to ethnic minorities.

● Fourth, the South African state should be transformed from an extractive to a developmental institution.

Merle Lipton — also in an article in this series — rightly points out that a range of economic functions are appropriately performed by the state in a capitalist society. These include regulation and the provision of public goods.

Widespread calls for the state to assume functions it does not perform well, accompanied by silence about improving the performance of activities the state ought to undertake, constitute a double mistake. Consider local government, for example.

One great danger facing states in transition is that control is lost over the state budget deficit and, more generally, over demand, unleashing a hyper-inflation ending in economic collapse

It has taken the peculiar genius of two nationalist movements — one historically statist, the other currently so — to debilitate thoroughly the capacity of local government to aid urban development. Large parts of the system can neither process private sector proposals for new development nor assist it by the provision of bulk infrastructure.

On the one hand, both the ability and the duty of municipalities to assist development in large parts of our cities has been denied. On the other, rent and services boycotts have permitted a rapid rise in private consumption at the cost of increasing public squalor.

Under these circumstances, one may permit oneself an ironic smile at both proposals for devolution of more responsibilities to a system which cannot manage its existing tasks and at demands for public sector provision of private goods.

Instead, the task — and it will be expensive — is to build up local government's capacity to deal with its core functions. In general, a sharp eye will be needed to discern proposals (couched in developmental terms) for extractive activities on the part of the state. Public institutions require a fair degree of civility for their successful operation; they inevitably fail in their purpose when they are used as agencies for private accumulation by elites or minority groups.

● Fifth, a balance between urban and rural development should be aimed at.

There are three reasons why rural development deserves special attention. The first is that poverty is more severe in rural than in urban areas. The second is that there will be efficiency losses if efforts are not made to create the framework for rural development. These will take the form of expensive food in the urban areas together with overwhelming flows of rural people into the towns and cities.

The third is that there is a distinct danger of a rural shut-out, especially given the tendency towards rural marginalisation in both black and white politics. This shut-out need not take dramatic forms; urban groups, by virtue of more powerful organisation, may simply pre-empt development funds needed in rural areas (and, for that matter, by marginal urban communities).

What are the political conditions for the adoption of this economic strategy? One may start by identifying the conditions which will work against it.

If the dominant interest in the government is an urban-based nationalist coalition bent on rapid expansion of consumption and occupation of key offices in state and business irrespective of qualifications, then it could easily happen that none of the strategic requirements are met.

Such a coalition might give its attention to the international context. Indeed, autarchic tendencies might be justified as an escape from the forces of "imperialism".

Other macro balances — notably those requiring fiscal discipline — may come to be ignored. Demands for redress could underpin new taxation highly detrimental to accumulation.

The effects on the improved management of public spending could be desultory, while there would almost certainly be little interest in undertaking the demanding job of rural development. In due course, one could expect new pressures for control of the resulting migration from rural to urban areas. Under such a scenario, economic performance would certainly deteriorate.

Countervailing political forces are needed to avoid such an outcome. Two are available; but they are not politically well organised. The first is business, for whom the scenario just sketched would be a disaster. The second constituency comprises rural people who would also be heavily disadvantaged.

How these interests will interact in the political arena depends upon the building of alliances in the next few years.

Government in a democratic dispensation could be either from the centre — in which case the interplay of interests would be reflected in the changing strengths of parties within a grand coalition — or it could alternate between a conservative coalition and a left-wing grouping.

If the latter turns out to be the pattern, the first new government may well turn out to be left-wing. It would have little chance of avoiding poor economic policies, the costs of which would have to be put down to learning how to advance one's interests in a democratic context.

It has taken the peculiar genius of two nationalist movements — one historically statist, the other currently so — to debilitate thoroughly the capacity of local government to aid urban development

The questions would then be those which faced Nicaragua: would an electorate made wiser by experience have the opportunity of replacing the government? And how quickly could the damage to the economy be repaired?

☐ *Professor Simkins is with the Urban Foundation. Next week Dr Chester Crocker, former US Assistant Secretary of State, introduces the debate on what sort of foreign relations South Africa should maintain in the future.*

Pressure on ANC to come clean

(49)

By CURT VON KEYSERLINCK

S Times 31/3/91

THE ANC is under pressure to spell out more clearly its economic policy.

The pressure comes in the wake of the revised long-term economic strategy prepared by the President's Economic Advisory Council.

Released last week, the document is a thorough revision, necessitated by "rapidly changing circumstances", of the strategy adopted by the Government in 1987.

EAC chairman Warren Clewlow says: "It is critical for our future wellbeing that economic policy should not only be correct but have the visible support of the widest possible spectrum of political, community and business interests."

The document has been given to all interested parties. They are invited to respond before it is handed to President De Klerk in its final form.

A major challenge to ANC thinking is that the strategy gives economic growth the highest priority and describes it as a prerequisite for socio-economic reform.

It notes the urgent need for upliftment of poor communities, but says there should be no excessive demands to inhibit the modern sector that is the most important source of income, employment opportunities, government revenue, development capital, expertise and impetus for the less-developed segments of the economy.

The modern sector has to be reinforced and developed.

It says a simple redistribution of wealth will not reduce poverty significantly, but will weaken the tendency to save. Income redistribution should be financed from growth.

It notes a "disturbing lack of confidence" limiting economic growth potential and a reluctance by the private sector to invest. It attributes this to political factors, unrest and unfavourable expectations about the course of events in SA.

Of the need for foreign investment it says: "There is a grave danger that SA will not succeed in normalising its financial relations with the rest of the world if doubt exists about the country's ability to maintain stability and private initiative. This, in turn, will impose a further limitation on the ability of the country to utilise its domestic savings for economic growth."

The strategy calls for a market-oriented system with some government intervention in the economy under special circumstances.

For example, the report suggests that contractual savings be channelled into less-developed sections of the economy if the Government provides risk insurance to the institutions concerned.

It also recommends:

- Real interest rates.
- A reduction of the public sector's share of gross domestic expenditure, more deregulation and privatisation, and a requirement that State capital expenditure render economic returns.
- Elimination of all discriminatory and other barriers that prevent full participation in the economy by all.
- Basic education for all with a policy closer to the needs of the economy and an immigration policy to provide skills that cannot be developed in the short term.
- A favourable climate for investment in which public opinion is disposed positively to profits as the most important source for capital formation and growth.
- Lower tax rates to encourage domestic and foreign investment.
- Export promotion by programmes to help industries which have the potential to be internationally competitive, and more beneficiation of raw materials.
- A reduction in import tariffs.
- More electrification with the proviso that costs be recovered from those receiving the service.
- Subsidies for disadvantaged groups to be paid to the recipients themselves and not employers and suppliers of goods and services as has been the case.

Mr Clewlow says: "It is vital that the country reaches a broad consensus on economic policy in the very near future. We do not have the time to indulge in a three-year debate before action is taken."

ECONOMY — 1991

APRIL — JUNE

EAC maps out radical new economic deal

49

Star 11/4/91.

By Sven Lünsche

The highly influential economic body, the State President's Economic Advisory Council (EAC), has put South Africa clearly on the road to a mixed economic structure.

The EAC consists of leading businessmen and has considerable influence with the Government, notably State President FW de Klerk.

The EAC's findings, disclosed last week in the council's revised long-term economic strategy, are therefore likely to form the blueprint for the Government's longer-term economic thinking.

The economic structure proposed by the EAC is strikingly similar to those of some central European countries, notably Germany's.

In it the Government's direct role in the economy will be effectively limited to a socio-economic development function, with the remainder being left to the market.

This is a marked divergence from the ANC idea of a mixed economy, which, apart from the provision of social services, also sees the state intervening heavily in market operations.

Outlining the role of the state, the EAC says political democratisation, liberalisation and the effective accommodation of the growing population in the economy will ultimately lead to changes in the pattern of the distribution of wealth, income and opportunities.

The effect will become evident in a marked increase in demand for social welfare services such as education, health and housing.

Here the EAC says the Government's role is twofold:

- Concentrating primarily on the really needy in the provision of basic social services, for example in respect of accommodation.
- Providing social services — education, infrastructure, health services and training — on an affordable and equal basis for all.

But that should be the limit to direct involvement of the state in the economy, says the EAC.

In effect, it should deregulate the economy to eliminate any unnecessary restrictions and create opportunities for everyone.

The share of government consumption in gross domestic expenditure and the public sector's claim to scarce capital and manpower resources also need to be reduced drastically.

In a further move to limit the state's role, the EAC suggests the continuation of the privatisation programme, "wherever it is able to contribute to a more productive utilisation of production factors".

Proceeds from privatisation should not be used to finance current expenditure, but instead to eliminate backlogs in the provision of basic social services, among other things.

A constant theme throughout the report is that sustained growth, development and long-term stability are only achievable in a market-oriented system characterised by private property.

However, the council is under no illusion that the economy can function without a stable and peaceful political system.

"A correct economic strategy cannot compensate in the long term for political factors and the continuing unrest situation," the EAC says.

"In this regard, continued political reform, the maintenance of law and order and dealing with the domestic situation in a way that will instil confidence in the country's future are of cardinal importance."

The EAC warns that any doubts about the country's ability to maintain stability and private initiative would prevent the normalisation of international financial relations and further limit the ability for economic growth.

The EAC concludes its findings by addressing the serious shortcomings of South Africa's export promotion and industrial protection policy.

Here it leans heavily on findings in an earlier report by the Industrial Development Corporations.

As exports will be one of the driving forces in the next phase of South Africa's economic development, the EAC proposes that exports of manufactured goods be promoted and the export culture be strengthened considerably.

On industrial protection, the EAC notes that the indirect method of tariff protection is internationally preferred and that South Africa's current tariff protection policy will require fundamental reform.

Reserve Bank charter urged

Star 11/4/91

(49)

CAPE TOWN — The Reserve Bank should be given a charter to define its relationship with the executive of the Government and ensure its independence in a new South Africa, says Mrs Sheila Camerer (NP Rosettenville).

Speaking in Parliament in the First Reading debate on the Budget, she said yesterday the Bank's independence had to be maintained to ensure economic stability.

It had been shown that Western democracies with relatively independent central banks had lower inflation, higher growth rates and relatively lower taxes.

The Bank should be independently accountable to the community as represented by Parliament, rather than to the executive.

The recent independence of spirit shown by the Bank had more to do with the personalities of those running it than with any change in its legal framework.

"If we are reassessing our institutions in terms of moves to a democratic future, we must look at ways by which Reserve Bank independence can be reinforced and ensured for that future," she said.

Consideration should be given to amending the Reserve Bank Act to bring it into line with the Bank's mission statement. — Sapa.

Retiring Anglo American senior economic consultant Aubrey Dickman ... Reserve Bank independence has sent positive signals to foreign investors. Picture: CATHERINE ROSS

Reserve Bank praised for its independence

(49)

B/Day 2/4/91

SHARON WOOD

RESERVE Bank independence was the most important development of the past three decades, retiring Anglo American senior economic consultant Aubrey Dickman said at the weekend.

He retired from the Anglo American Corporation this month after being with the group for almost 32 years.

In an interview, Dickman applauded the independent stance of the Reserve Bank, which he said sent positive signals to foreign investors as to the role of monetary policy in the SA economy.

The Reserve Bank recently asserted its independent stance by disagreeing with various aspects of the 1991/92 Budget.

Dickman believes this is probably appropriate, because international studies show a high correlation between the degree of Reserve Bank independence and inflation and growth records.

Any future government must welcome the fact that the country is following a route which has proved to be the best one, he says.

During his career, Dickman was a member of various councils and committees, including the Economic Advisory Council and the commission of inquiry into electricity supply. He was also president of the Economic Society, and an alternate director of Anglo American Corporation.

He remains a director of Anglo American Gold Investment, the Discount House of SA and UAL Merchant Bank, and will continue to represent the SA Chamber of Business on the electricity council.

He is a highly respected economist and has written numerous articles on the SA economy, particulary on the money and capital markets.

Dickman says the most interesting part of his career has been the great political and economic changes made since the beginning of last year.

"The unbanning of political parties and the great debate that arose from this is important and encouraging, because it has instilled a greater realism as to the way in which our past mistakes need to be corrected,"

Apartheid, he says, has left SA with a legacy of unemployment, lack of housing, training and skills, combined with resentment and animosity towards a private enterprise system.

SA now faces a great challenge to restore equity and to reach its long-term growth potential.

SA has rejoined the world by recognising the importance of containing inflation by adhering to the right economic policy, he says.

The growth in the quality and quantity of economists, analytical skills and statistics had contributed greatly to the present sophistication of economic policy.

During his retirement Dickman will do some teaching at the Wits Business School.

Anglo American economist Jim Buys will succeed Dickman as senior economic consultant.

FM 5/4/91 (49)

ECONOMIC ADVISORY COUNCIL

STRATEGY UPDATE

FM 5/4/91 (49)

The revised long-term economic strategy of the Economic Advisory Council (EAC) has two broad thrusts. One is towards more market-related policies and a reduction of government's role in the economy; the other, towards a socio-economic, as against a purely economic, role for government. So that the second should not counter the first, it recommends re-allocation of expenditure rather than a real increase in public spending. It stresses that "the share of government consumption in domestic expenditure and the public sector's claim to scarce capital and manpower resources has to be reduced."

It differs in two important respects from the version drafted in 1986.

The latest clearly defines the goal of monetary policy as the protection of the internal and external value of the rand. In the 1986 document, recommendations were heavily qualified. It targeted as goals both growth and the reduction of inflation, referred to stabilising the business cycle and advocated the application of measures such as HP requirements.

On industrial policy, the revised document makes no reference to import substitution and inward industrialisation. It is critical of current tariff protection policy, pointing out that "excessively high import tariffs unnecessarily increase the domestic cost structure and impede exports."

In 1986, the EAC spoke of the "possibilities for import substitution (arising) from urbanisation and inward industrialisation." It referred vaguely to options to tariff protection in certain cases but in general found no fault with their application.

Other differences reflect the changed political environment. For instance, in 1986, urbanisation was discussed "within the context of government's regional development policy." The update talks only of comparative advantages of different areas.

As an exposition of policy, the new document is an improvement (the original buried meaning in syntax) but it is not without flaws. Some recommendations are so general that they confuse rather than enlighten.

Discussing stabilisation policy, the EAC says emphasis "should not be placed on demand control but rather on controlling public debt and borrowing." Discussing demand, it refers to measures "to ensure that the demand for goods and services deviates as little as possible from those which the economy is able to provide at maximum capacity utilisation."

The second statement is mystifying and contradicts the first.

The only hint on how social expenditure will be increased, while government expenditure is reduced, is that part of the proceeds of privatisation are to be directed to "backlogs in the provision of basic social services."

However, the document is intended to set out general principles — partly for the sake of brevity and partly because it is meant to be a point of departure. It has been widely circulated to business, political and community leaders for comment.

The EAC's three-year term expires in June. It seems likely its composition (almost entirely white) and structure will be reconsidered. ■

AHI calls for urgent action on economy

GERALD REILLY

PRETORIA — The critical and worsening state of certain sectors of the economy demanded urgent action by goverment and the private sector, Afrikaanse Handelsinstituut president Gerrie Steenkamp said yesterday. B\Day 5|4|91.

He was reacting to the closure of the Stilfontein gold mine and the threatened closure of other mines before the year-end.

Official figures, he said, showed that between 1987 and the end of last year, 80 000 mineworkers, out of a total workforce of 470 000, had lost their jobs.

Steenkamp said the economy was still in decline and more jobs would be lost before the economy bottomed out. Organised commerce and industry should set up a job creation committee to urgently liaise with government on possible action to slow down unemployment.

(49)

Econometrix chief Azar Jammine warned against the inflationary consequences of a job-creating scheme funded only by government.

This could bring short-term relief, but the long-term consequences for inflation could be disastrous.

ANC budget plans for host of new taxes

PATRICK BULGER

49

AN ANC budget would introduce an array of new taxes to boost state revenue by almost 50%, the latest issue of its official mouthpiece Mayibuye says.

A capital gains tax, a capital transfer tax, a land tax, a progressive property tax and a minimum business tax would be used to boost tax revenue from its present 28% of GDP to 35% of GDP.

The ANC says it would increase government share of GDP to 35% over five years. If this could be coupled to a 3% annual growth rate, an additional R40bn could be raised for government spending.

It would also pursue a less conservative deficit financing policy — increasing its share of GDP to 5%, compared to government's present 3%.

Savings would be made by redirecting spending away from defence and duplicated apartheid structures to social expenditure. BDay 5/4/91.

The ANC would provide a capital subsidy of R12 000 for 1,2-million houses; spending R20m on each of 250 townships; R5bn for an employment training scheme; R6,5bn to establish 150 000 small farmers; R7,5bn for school building and teacher training; R550m to train one million adult literacy teachers; R11bn to equalise pensions; R2,5bn on a feeding scheme for pregnant mothers; R2,5bn on a school feeding scheme and R3,2bn on industrial restructuring. About R300m would be set aside to provide short-term work to one million people developing a rural infrastructur and R300m for primary health clinics.

This is a total of R58,75bn.

The ANC said a budget should form part of a comprehensive national development strategy.

The organisation criticised the 1991 national Budget for being "uncaring" and favouring the rich while providing limited direct relief for the poor.

‘People’s Budget’ a very taxing burden

Star 6/9/91 (49)

‘Basic restructuring of economy needed’

SVEN LUNSCHE

THE ANC’s “People’s Budget” proposals revealed yesterday came as an unpleasant surprise to business and individuals alike.

Outlined in the latest edition of the ANC’s mouthpiece Mayibuye, the plan is to boost state revenue by almost 50 percent through a host of new taxes.

Outlining their structural ideas on a future Budget, the ANC pointed out that the problem of low economic growth and poverty could not be addressed without a fundamental restructuring of the economy.

It said recent state Budgets allocated on average four times more on each white person than on each black person, a fact best illustrated by the vastly different living standards of whites and blacks in this country.

Pointing out that the Budget would be part of a broader national development strategy the ANC concluded: “A democratic government will need to use the Budget to decisively reverse these effects.”

The ANC effectively proposes a three point strategy to achieve this reversal, and it is at this point that its programme will undoubtedly run into severe opposition.

Key points

The three key points are:

- A wider tax net.
- Higher government expenditure.
- Extensive social development programmes.

The tax proposals in particular will be strongly opposed by the private sector.

According to the ANC its Budget would boost state revenue by almost 50 percent, or R40 billion, from its present 28 percent of Gross Domestic Product to 35 percent.

A range of new taxes would be added to the already wide net of taxes to achieve this: A capital gains tax, a capital transfer tax, a land tax, a progressive property tax and a minimum business tax.

Implicit in this proposal is that business will keep on producing income that can increasingly be taxed.

Raymond Parsons, the director general of the SA Chamber of Business, points out what he calls a fundamental flaw in this argument: “A sound taxation system will aid such growth, while an unsound system will negate it,” he said in a statement released yesterday.

Mr Parson adds that at the end of the day most taxes are passed on to the public — either in the form of higher prices, lower wages or in unemployment.

The ANC also envisages that government expenditure will take a much larger share in the economy through a less conservative deficit financing policy — raising the deficit before borrowing as a percentage of GDP from the present three percent level to a “still responsible” five percent.

This higher level of deficit financing will inevitably lead to further inflation and says Mr Parsons: “This will impoverish all South Africans, threaten the balance of payments, and reduce the country’s ability to achieve even a fraction of the social expenditures envisaged by the ANC.”

Five-year target

The ANC sets a target of five years for the government to achieve a 35 percent share of GDP and if the economy was to grow by three percent per annum over this period “then an additional R40 billion could be raised for social expenditures”.

Further savings of about R28 billion are envisaged by “redirecting current government expenditure from defence and the duplication of apartheid structures to more socially necessary expenditures”.

But there are three big if’s in the scenario.

The economy is unlikely to come close to growth rates of three percent over the next few years; expenditures on defence will still be necessary; and although duplication, for example in education, will be avoided the total number of schoolchildren will inevitably rise.

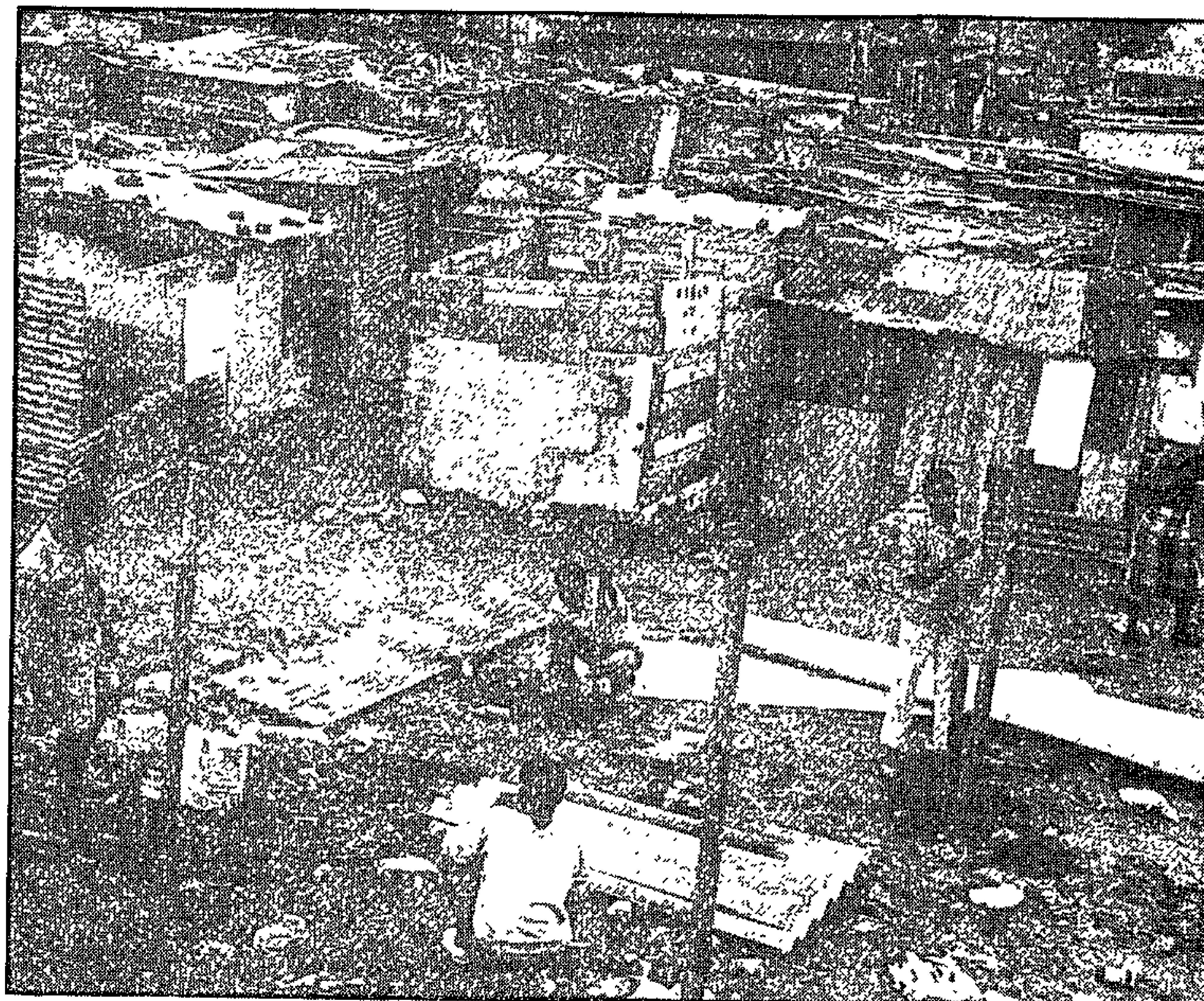
Despite these uncertainties the ANC says these total savings of R58 billion could be used for an extensive five-year social development programme that will reverse the current inequalities.

The programme includes expenditures of R14,4 billion for housing subsidies, R6,5 billion for land reform, R5 billion each for township upgrading and employment training schemes, feeding schemes for primary pupils and pregnant mothers worth R2,5 billion each, R7,5 billion for educational facilities and R11 billion for equalising pensions.

These are undoubtedly essential priorities for any future government to meet and would go far further than the government’s meagre allocation of R220 million in this year’s Budget to alleviate poverty.

But economists believe it is unlikely that the funds necessary to achieve these programmes can be raised through a wider tax net and higher government expenditure.

As the Chamber of Business indicates — this could backfire and lead to even greater economic impoverishment, defeating the very purpose of the “People’s Budget”.



POVERTY: The R40-billion question posed by the People’s Budget is will it help these squatters, and others throughout the land, to raise their living standards?

ANC 'PEOPLE'S BUDGET UNPLEASANT SURPRISE'

W/E Argus 6/4/91

49

Weekend Argus Correspondent

JOHANNESBURG. — The ANC "people's budget" proposals have come as an unpleasant surprise to businesses and individuals.

Outlined in the ANC mouthpiece Mayibuye, the plan is to boost state revenue nearly 50 percent through a host of new taxes.

Outlining their structural ideas on a future budget, the ANC pointed out that the problem of low economic growth and poverty could not be addressed without a fundamental restructuring of the economy.

It said recent budgets allocated on average four times more on each white person than on each black person, a fact best illustrated by the vastly different living standards of whites and blacks.

Pointing out that the budget would be part of a broader national development strategy, the ANC concluded: "A democratic government will need to use the budget to decisively reverse these effects."

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A range of new taxes would be added to the already wide net of taxes to achieve this: A capital gains tax, a capital transfer tax, a land tax, a progressive property tax and a minimum business tax.

Implicit in this proposal is that business will keep on producing income that can increasingly be taxed.

Mr Raymond Parsons, the director general of the South African Chamber of Business, points out what he calls a fundamental flaw in this argument: "A sound taxation system will aid such growth, while an unsound system will negate it," he said in a statement.

Mr Parson adds that at the end of the day most taxes are passed on to the public — either in the form of higher prices, lower wages or in unemployment.

The ANC also envisages that government expenditure will take a much larger share in the economy through a less conservative deficit financing policy.

ANC social tax plan draws business flak

S Times 7/4/91 (Bus/T)

By CURT VON KEYSERLINGK

THE ANC's proposal to increase State spending by R40-billion in the next five years, financed by more taxes and greater deficit spending, will scare off investors in their droves, says an executive of a mining and industrial group.

The proposal and comments on this year's Budget are contained in the ANC publication Mayibuye.

The ANC calls for an increase in State spending from about 25% of gross domestic product (GDP) last year to 35%. The money would be raised by new taxes, such as those on capital gains and capital transfer. It wants a land and progressive property tax. It calls for a minimum business tax.

The calculation of the additional revenue is based on the assumption that the economy grows at 3% a year. This appears optimistic because average growth since 1985 has been less than 2% a year.

The ANC says that cutting the top marginal tax rate in the latest Budget is "inappropriate given the current priority to redistribute income to the poorest sections of the population ... In fact, further taxation of the rich would have been completely justified."

The Government's deficit financing policy — about 3% of GDP — is conservative. Deficit financing amounting to 5% of GDP would be "responsible", says the ANC.

The additional funds could be allocated to social upliftment programmes over and above money already allocated to them.

The ANC says the latest Budget of R75-billion should be allocated differently.

But Econometrix director Tony Twine says: "This approach to the economy has been tried before in Eastern Europe and has failed ignominiously. If a future government went ahead on these lines, South Africa's GDP would shrink dramatically and State spending would quickly exceed the 35% proposed by the ANC.

The mining and industrial executive says: "We had hoped that our discussions with the ANC showed them some sense, but these proposals prove the opposite. The ANC has been coy in talks with us and has avoided spelling out the excesses contained in these proposals.

"Businessmen have made the mistake of assuming that the ANC's silence indicates that it is listening to their arguments."

SA Chamber of Business (Sacob) director-general Raymond Parsons says: "Sacob urges the ANC to understand that an even larger State share of GDP, especially if it involved yet higher deficit financing, would produce higher inflation.

ANC

Negate

NA 49

"That would impoverish all South Africans, threaten the balance of payments, and reduce SA's ability to achieve even a fraction of the social expenditures the ANC envisages.

"We all agree that SA needs a faster economic growth. A sound taxation system would aid such growth. An unsound system would negate it. Implicit in the ANC tax proposals is the idea that business can be taxed in isolation. Most taxes are passed on to the public — either in higher prices, lower wages or increased unemployment.

"SA must remain internationally competitive when it comes to taxes if foreign investment and even local investment is to be encouraged."

SIMON BARBER's Washington Diary

49

IN THE past fortnight, the managing director of a major South African financial institution has been staging his company's dog and pony show on SA's future at such places as the World Bank, the State Department, Capitol Hill and the Brookings Institution.

For reasons that are not apparent, the performances have been off the record, but some readers will no doubt be familiar with the show, having seen it themselves before it went on the road. The government and the ANC were both given the full six-hour presentation. Joe Slovo reportedly liked almost all of what he heard.

The story it tells is pretty gloomy. Essentially, if present trends continue (trends for which SA business management is alleged to bear a heavy share of responsibility), SA will end up as a cross between Ethiopia and Lebanon; the only way out is a set of dirigiste redistribution policies not unlike those outlined by Pallo Jordan, the ANC's information secretary, in this newspaper recently. The private sector can either play or pay.

ONE may agree or disagree with this proposition. (According to the presenter, just about everyone except SA's captains of industry wholeheartedly agrees.)

What remains mysterious is why the authors thought it necessary to take their piece abroad. They seem to think that SA's social and economic renewal must be a largely autarkic affair in which the rest of the world has only a limited role.

Those who believe that the flow of foreign capital must be restored if SA is to have a chance of attaining growth rates commensurate with economic restructuring and redistribution are, one learns, misguided.

The miracle of creating an "outward-looking", manufacturing-based, high-growth economy in five years, driven by producers rather than consumers, not to mention one capable of sustaining massive public expenditure without inflation, must apparently be achieved largely by domestic savings, protectionism and a cheap rand.

Now it is reasonable to argue that outside finance and investment cannot be relied on. There are more pressing demands elsewhere, not to mention more certain promises of return. But this is not the argument being made.

The case instead is that there is already enough capital locked up inside SA, most of which is being misallocated by troglodytic managements bent on maximising short-term rewards to their shareholders rather than improving long-term productivity and competitiveness.

Restored capital flows, either from such institutions as the International Monetary Fund and the World Bank or from private sources, will only aggravate this disease by "entrenching" current structural problems and modes of economic behaviour.

S/Times 7/4/91.

BESIDES, there is too much "foreign control" of the economy as it is.

THE suggestion seems to be that, should foreign lenders and investors wish to get back into SA, they must expect to be told how and where to channel their resources. The mechanisms of control implied by this do not seem calculated to make the new SA a particularly enticing investment opportunity.

It also seems a small step from the case being presented here to arguing that sanctions — especially financial ones and those covering such raw exports as coal — are really no bad thing in that, having forced SA to set off down the right political path, they will also oblige it to take its economic medicine.

This is an odd message to bring to Washington as it prepares to start lifting sanctions and begins to wonder how American investment in SA might be encouraged.

Ken Vernon reports on an economist who scorns ideas of an African common market

It'll be every country for itself

Star 8/4/91.

(49)

DR Christopher Coker is a political economist who takes delight in setting fiscal cats among cosy economical pigeons.

At a recent Swaziland conference he let loose just such a cat, but the pigeons — who had gathered to coo over the prospect of South Africa joining a southern African common market — chose to ignore the feline, perhaps to their eventual cost.

Several hundred leading South African businessmen and assorted economic fundis had gathered at the conference to hear several dozen leading African businessmen and assorted economic fundis explain how imperative it was for South Africa to rejoin Africa so that it could present a common front to the (European) Common Market.

But Dr Coker splashed cold water on their snowballing enthusiasm by suggesting such a union would not be to South Africa's advantage — or to southern Africa's.

He suggested that in the run-up to the 21st century, the seemingly bottomless Western purse that had paid Africa's way for so long would be adopting a more "Darwinian" (survival of the fittest) approach to foreign aid — "in which bilateral aid (and investment) will once again favour those countries that are most able to produce immediate returns on investment."

"For southern Africa, the 20th century came to an end in November 1989 when the Berlin Wall came down," he said, adding that he did not think the West would be very interested in Africa in the future.

Instead, he said, the focus would be on the "frontline" states on the West's doorstep. Russian and/or Albanian rather than Zambian and/or Mozambican development would instead occupy its time and money.

Dr Coker pointed out that this trend had already begun, with European Community funding for southern Africa having fallen by 30 percent in the past year — and still falling. At present, southern Africa accounted for less than 1,5 percent of Britain's exports, and less than 1 percent of imports.

On the other hand, Eastern Europe at present received $28 (about R75) a head of population from the EC, compared with $16 (R43) a head for southern Africa.

He argued that sanctions had merely accelerated a trend of disinvestment in the area as a whole by Western companies. Added to the almost complete end of investment/aid by Eastern Europe, this meant that southern Africa was becoming very "marginalised" in world economic terms.

What money there is will be invested according to hard-nosed financial criteria only, and, according to Dr Coker, that boils down to South Africa — possibly including Namibia.

In other words, the conscience money is about to dry up.

He said his impression was that European businessmen and government officals felt they had supported the area for 25 years, that nevertheless the area had got itself into a disastrous economic predicament, and they felt no responsibility for that predicament.

To the layman, that would seem to indicate that regional unity or co-operation of some kind was imperative. Not so, says Dr Coker.

Once again, he points out that just as aid and investment will follow hard-nosed financial criteria toward bilateral agreements between buyer and seller countries, scarcity of aid and investment resources will lead countries that are able to do so to make individual deals for their exclusive benefit.

This would be the case, he argues, no matter what the colour of any future South African government — and once again in Dr Coker's eyes, it is only South Africa that stands up as an investment opportunity in purely economic criteria.

If South Africa were to join in any southern African common economic organisation that broke down regional barriers, the only result would be a flood of goods, services, investment capital and skilled personnel flowing to South Africa from other members of the organisation.

Dr Coker also pooh-poohed the idea that, with South Africa aboard, southern Africa would "take off" into economic prosperity.

Instead, he suggested that it would take a decade just to get back to where it was a decade ago.

"We are talking not about regional development, but regional rehabilitation after the disaster of the '80s," he said.

He estimated that regional export earnings would be half what was expected because of worsening terms of trade between raw material-exporting countries and the developed world.

A post-Cold War world would drive much harder bargains, while wanting to pay less for raw materials, including oil.

A further quarter of export earnings would have to go to debt repayments, he added.

Finally, Dr Coker said that South Africa and southern Africa would find it almost impossible to combine in any meaningful economic way because of the vast gulf in the sophistication of their economic systems.

He suggested it would be almost impossible to co-ordinate and intergrate South Africa — with its vast and functional system of tariffs, exchange controls, control boards, licensing systems and zoning arrangements — with neighbours that boast little but large and inefficient government sectors.

Dr Coker admitted it all added up to a very pessimistic picture of the region and its chances of internal co-operation in order to present a united front to an expanding and aggressive Western world.

In his defence, he quoted George Orwell as being perhaps right that the only "ism" to survive the 20th century would not be capitalism or communism, but pessimism. — Star Africa Service. □

Subtle changes in revised economic plan

BDay 8/4/91 (49) 183

SHARON WOOD

AT FIRST glance, government's revised long-term economic strategy hardly differs from the first attempt in 1987, apart from the new emphasis on urbanisation and development. But close scrutiny of the two documents reveals subtle policy changes.

The new Economic Advisory Council document differs from the original economic strategy in its suggestion that government should have an even smaller role in the economy than first suggested. The revised strategy breaks away from the popular IMF-suggested maximum for government's deficit before borrowing of 3% of GDP. It says the deficit should be confined to government's level of capital expenditure to prevent dissaving.

This is a major move away from the original document in which the council used the 3% of GDP as a benchmark for government's role in the economy. The council suggested that it may even be desirable to exceed this to provide a boost to the economy during a recession.

However, the envisaged smaller role for government did not materialise in the 1991/92 Budget in which the deficit before borrowing exceeds capital expenditure by some R5bn — an indication of the extent to which government dissaves to finance current expenditure. The government has consistently dissaved during the 1980s.

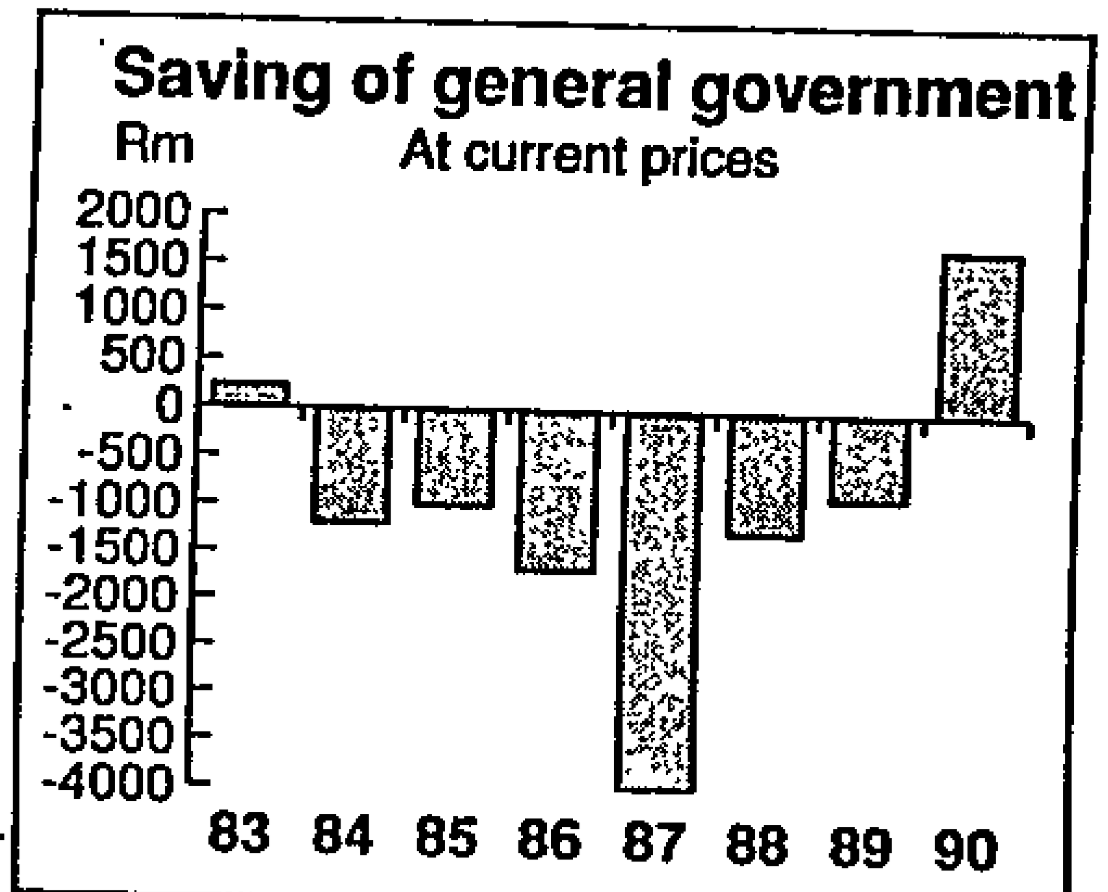
The revised document shifts the emphasis of monetary policy away from the concentration on targeting monetary growth that was evident in the 1987 document. The Reserve Bank's main function in the new document is "protection of the internal and external value of the country's currency". To fulfil this function the Bank's independence must be respected, it says.

The original document addressed monetary targeting in depth, focusing on the role flexible interest rates would play in stabilising business cycle fluctuations. The new document's shift in monetary policy emphasis followed Reserve Bank Governor Chris Stals's move away from strict money supply targeting to "guidelines".

Despite this official move away from monetary targeting, monthly Reserve Bank money supply figures remain an important indicator to markets of the success of Stals's anti-inflationary policy.

The priority given to a stable exchange rate in the revised document differs markedly from the original council position when it was envisaged that policies to encourage growth could come before exchange rate stability.

On combating inflation, there is also a marked difference between the old and new strategies. The new document suggests that the inflation rate should be brought down even further than originally suggested. The original document targets inflation "considerably closer to single figures" while the revised document suggests it is brought down at least to the level achieved by of SA's trading partners.



Graphic: LEE EMERTON Source: RESERVE BANK

The lower priority given to inflation in the original document is indicated by the council's suggestion that inflation should not be reduced by depressing local demand at the expense of exploiting the growth opportunities presented by the balance of payments.

There is a slight shift in emphasis in trade policy in the revised document, in reaction to SA's changing position with respect to availability of foreign capital and export markets.

The document says the "advantage of import replacement has become more restrictive" and that stronger promotion of exports after local beneficiation of raw materials is necessary.

The council still advocates tariff protection as preferable to direct import control measures. But it says "tariff protection policy requires fundamental reform". It says tariffs should be revised continuously and be instituted only to protect infant industries.

The call for fundamental reform of tariff protection policy reflects the late Economic Co-Ordination Minister Wim de Villiers' concern with "import parity pricing" — when local producers price their commodities at the level of similar imported commodities, although the price could be lower.

The council gives recognition to the increasingly important role urbanisation and informal sector activity have had, and will continue to have, in providing a financial safety net and as an incubator for small businesses.

While there are differences in nuance, the revised document adheres closely to the original. The focus is on the role of economic growth in improving living standards for all South Africans. It says these objectives will only be achievable in a market-oriented system, with government in a supportive role.

Top brass focus on economy

49

Sowetan 8/4/91

TOP representatives from the Government, the African National Congress, Congress of South African Trade Unions and business will take part in an economic conference this week in Bellagio, Italy.

The conference will discuss the role of the state in the economy, economic justice and the restructuring of the economy.

Members of the delegation include the Governor of the Reserve Bank Dr Chris Stals, Dr Ben van Rensburg of the South African Chamber of Business, general secretary of the National Union of Metalworkers Dr Alec Erwin, ANC national executive member Dr Pallo Jordan, ANC economist Mr Max Sisulu, Mr Reg Munro of Old Mutual, special adviser to the Minister of Finance Dr AS Jacobs and a number of academics.

The Institute for a Democratic Alternative for South Africa yesterday said the theme of the conference was inspired by the quotation: "The economy is an entity consisting of groups with conflicting interests held together by rules of the game.

"When the conflicts become so acute that the rules are unplayable, the economy ceases to be viable and explodes or changes into a different entity."

Questions that will be examined include: What is wrong with the old rules? What new rules are envisaged? Who should be involved in drawing up the new rules? - *Sapa.*

ITICS

Multiparty Budget conference mooted

CAPE TOWN — A multiparty economic conference was urgently needed to allow all major players to take part in the formulation of next year's Budget, Geoff Engel (DP Bezuidenhout) said yesterday. (49)

Speaking in debate on the Budget, he said real growth could not take place until stability had been achieved and parameters were set for the new SA's economy.

"Joint participation and decision-making will be as important as tax reform if we wish to see a market-oriented economy in the new SA."

The 1991/92 Budget would impoverish the poor further and slam the middle class even harder. Many lower-tomiddle-income blacks would be paying tax for the first time at marginal tax rates of 20%.

"As most blacks fall into this income category, or below it, it will slam the brakes on black economic enrichment and narrowing of the huge wealth gaps."

If SA was serious about being internationally competitive, surcharges and excessive duty rates on some manufactured equipment should be eliminated.

"Sadly, business confidence has dropped to an all-time low and business cannot lead a recovery until short- and long-term prospects appear to reflect more certainty. This is a functional investment criterion all over the world." The tax reform programmes were not sufficient and would not ultimately be successful as the tax base was simply too small.

"Years of economic mismanagement and self-induced sanctions have prevented our economy from achieving its growth potential." B Day 9/4/91

The tax system alone could not finance the realistic expectations for stability and growth in the new SA as government could not generate the funds.

"The private sector controls massive funds and the challenge will be to access this cash flow without further regulation and without further distorting market-related principles." — Sapa.

time comes, by the appropriate line function Minister. There is the closest liaison between these two investigations in order to make sure that we arrive at the right kind of objectives.

The conclusion of this whole question is this: The idea was not to put something else in the place of the bread subsidy. Hansard 9/4/91

Mr K M ANDREW: Pocket the money. [Interjections.]

The MINISTER: Mr Speaker, if one is busy with a serious discussion such as this, and one gets this kind of childish, facetious remark, then one wonders about the integrity of the question in the first place. [Interjections.]

†The ACTING SPEAKER: Order! I must just bring it to the hon the Minister's attention that the time for the answering of questions has already been exceeded.

†The MINISTER: That suits me, Mr Speaker, thank you very much. [Interjections.]

†The ACTING SPEAKER: Order! If hon members continue to waste time in this way, we shall never get through the Question Paper.

Business interrupted in accordance with Rule 180C(3) of the Standing Rules of Parliament.

Reserve Bank: foreign exchange losses

*18. Mr L F STOFBERG asked the Minister of Finance:† Hansard 9/4/91

(1) What, as at the latest specified date for which figures are available, was the total amount (a) of foreign exchange losses sustained by the Reserve Bank and (b) made good or voted to the Reserve Bank out of public funds by the State since such losses had first occurred;

(2) (a) in what way and (b) when is it proposed to make good the exchange losses incurred by the Reserve Bank on behalf of the State? 49

B543E

The MINISTER OF FINANCE:

(1) (a) Audited balance due by the Treasury as at
31 March 1990 — R15 139 995 640
Unaudited balance due by the Treasury as at
28 February 1991 —R10 290 037 174

(b) Losses reimbursed to the Reserve Bank by the Treasury as approved in the respective annual budgets:

20 July 1983	R 892 343 749
13 January 1986	R 654 651 064
21 December 1989...	R1 000 000 000
27 December 1990...	R3 000 000 000
Total	R5 546 994 813

49

(2) (a) As legal appropriation by Parliament Hansard 9/4/91

(b) Policy regarding this matter is continually revised. The official viewpoint was elucidated in the 1990/91 Budget Review, which was tabled on 14 March 1990. The latest trends are contained in the 1991/92 Budget Review.

New questions:

Criminal Procedure Act: section 205

*1. Mr P G SOAL asked the Minister of Justice:

(1) whether, in the light of the public concern at the conviction of a certain person (whose name has been furnished to the Minister's Department for the purpose of his reply), he is considering reviewing section 205 of the Criminal Procedure Act, No 51 of 1977; if not, why not;

(2) what (a) are the circumstances surrounding the conviction of this person and (b) is his name; Hansard 9/4/91

(3) whether he will make a statement on the matter?

B585E

The MINISTER OF JUSTICE:

(1) There can be no doubt as to the justification of the procedure set out in section 205. The objective with this section is to compel persons who are in the possession of evidence pertaining to an offence but who do not want to reveal it to the police, to furnish the information under oath. This section is applicable to each and everyone in order to ensure that justice is done. Society expects that where its interests outweigh personal interests, that there should be a duty on everyone to testify. The community has an interest in the disclosure of information which may lead to the bringing to task of a guilty

person. It is, however, understandable that certain persons may, for various reasons, choose not to disclose that which they have seen or that which they became aware of. It cannot, therefore, be doubted for one moment that this section must be applied with the greatest caution

I have a sound appreciation for the necessary role the media has to play when they have to bring important information to the attention of the public. However, one should always strive to maintain a balance between the different interests. On the one hand journalists would for understandable reasons wish to protect a reliable and trustworthy source, but, on the other hand, justice should also prevail. Wigmore states as follows:

> "When the course of justice requires the investigation of the truth, no man has any knowledge that is rightly private.".

The public has a right to the evidence of each and everyone. This has indeed been an accepted principle for more than three centuries. Where any person, and that includes a journalist, has evidence at his disposal which will serve the cause of justice, there rests a moral duty on him, in the interests of society, to place that information at the disposal of the law That journalists may face certain problem situations is evident from the work of Kelsey Stuarts', The Newspaperman's Guide to the Law, Fourth Edition, Chapter 19.

Due to the sensitive nature of this section, I initiated an amendment during the course of 1990, which was discussed with interested parties and which was placed on the Statute Book during the present Parliamentary session by means of the Criminal Procedure Amendment Act, 1991 (Act No 5 of 1991).

In order to prevent any random use of this section and to confine it to those cases where it is actually necessary, the authority to request that a person appear before a magistrate for questioning, is now vested in an attorney-general whose objectivity and judgment have always been above suspicion. Furthermore, a savings provision has been added to the section to the effect that a person instructed to appear on a particular date before a magistrate for questioning and who furnishes the required information prior to the said date to the satisfaction of the attorney-general or authorised State prosecutor, his appearance before the magistrate will no longer be required. This creates a mechanism enabling the person concerned or someone else with a material interest in the matter to enter into a discussion with the attorney-general concerned. The information required may then be the product of negotiation.

An opportunity is also afforded to the person involved to inform the attorney-general of the reasons for his disinclination to make a statement and the attorney-general may in turn inform him as to why the information is regarded as being important.

I am of the opinion that the amendment I have referred to addresses this issue satisfactorily. This amendment was discussed with, *inter alia*, the Media Council of South Africa and has its approval. During consultations during March of this year, the Media Council and individual legal representatives accepted that section 205, in its amended form, should remain on the Statute Book and that this mechanism should be at the disposal of the State in appropriate circumstances. Certain proposals pertaining to administrative co-operation in the event of media involvement, which, *inter alia*, contain a closer interaction between the attorneys-general and the interests of the media, have been made. These proposals are at present receiving our attention.

(2) (a) and (b) Mr Patrick Laurence was subpoenaed to appear before a magistrate in terms of section 205 of the Criminal Procedure Act, 1977, for questioning in respect of certain allegations made by him in "The Star" of 12 February 1991. At his appearance before the magistrate on 5 March 1991, Mr Laurence refused to answer a question put to him, namely to identify the source of his allegations, whereupon he was sentenced to ten days'

Budget 'fails to promote stability'

BILLY PADDOCK

CAPE TOWN — Government was berated in Parliament yesterday for the Budget's failure to promote stability, the "essence for investment and sustainable economic growth". BiDay 9/4/91 (49)

DP finance spokesman Ken Andrew said that shortages of houses, schools and jobs were the primary causes of instability during 1990 and Finance Minister Barend du Plessis' Budget "will ensure that 1991 is worse".

He said Du Plessis' analysis of economic and social problems was sound but the Budget did not correctly identify SA's priorities; it protected special interests and the taxpayer was getting inefficiency, incompetence and maladministration.

The Budget failed to achieve the correct balance between appropriate fiscal policy and creating stability.

It made an enormous R5bn concession to business in the form of reduced import surcharges, full VAT input credits on all capital and itermediate goods and reduced company taxation which would reduce cost structures and increase competitiveness and profitability of industry.

Andrew said this was a desirable and necessary part of restructuring the economy and would help to promote growth — but only in the medium and long term.

Among the evaluations reported by SA Foundation representatives overseas was the concern over stability with one saying: "Violence deters investors and if you look at the cause of the unrest — socio-economic backlogs and unemployment — the situ-

To Page 2

Budget

BDay 9/4/91 (49)

From Page 1

ation looks disastrous."

Andrew said the amount allocated to housing was down in real terms compared with last year and, according to figures supplied by Du Plessis, the housing shortage was budgeted to increase this year.

When inflation and the growth in pupil numbers was taken into account, the 16,1% increase in education spending meant education would be worse off and in financial terms there was no scope for improvement.

Unemployment levels were between 30% to 60% and given the state of the economy and the lack of any large-scale job creation programme it was inevitable that unemployment would rise.

"This Budget fails because it does not do enough to promote our top priority of stability."

The Budget should have been written to promote the interests of all 35-million South Africans. Instead limited resources were utilised for the benefit of sacred cows and special interest groups.

Andrew said the Budget reflected mismanagement, particularly on the expenditure side where there was little evidence of forward planning.

The handling of VAT was a particularly good example where promises had been broken, the rate was excessive and ill-conceived adjustments were made to render a good idea politically unsaleable.

"The Minister is living in a dreamland if he thinks the introduction of VAT at 12% and the financial services turnover tax will result in anything other than an immediate increase in the inflation rate."

SA needed a Budget that would address the problems of poverty, inequality, instability, unemployment and economic growth but it fell far short of this.

CP finance spokesman Casper Uys said SA households would be in a weaker position as a result of the Budget. No incentive had been given for the average household to save and the economy would be smothered if the have-nots tried to lift themselves on the necks of the haves.

See Page 7

Star 9/4/91

49

On slicing up the pie

By JO-ANNE COLLINGE

THE FREQUENCY – and intensity – of strike action and the substantial gains made by trade unions in the last two decades tell us that South Africa has an organised and militant urban working class.

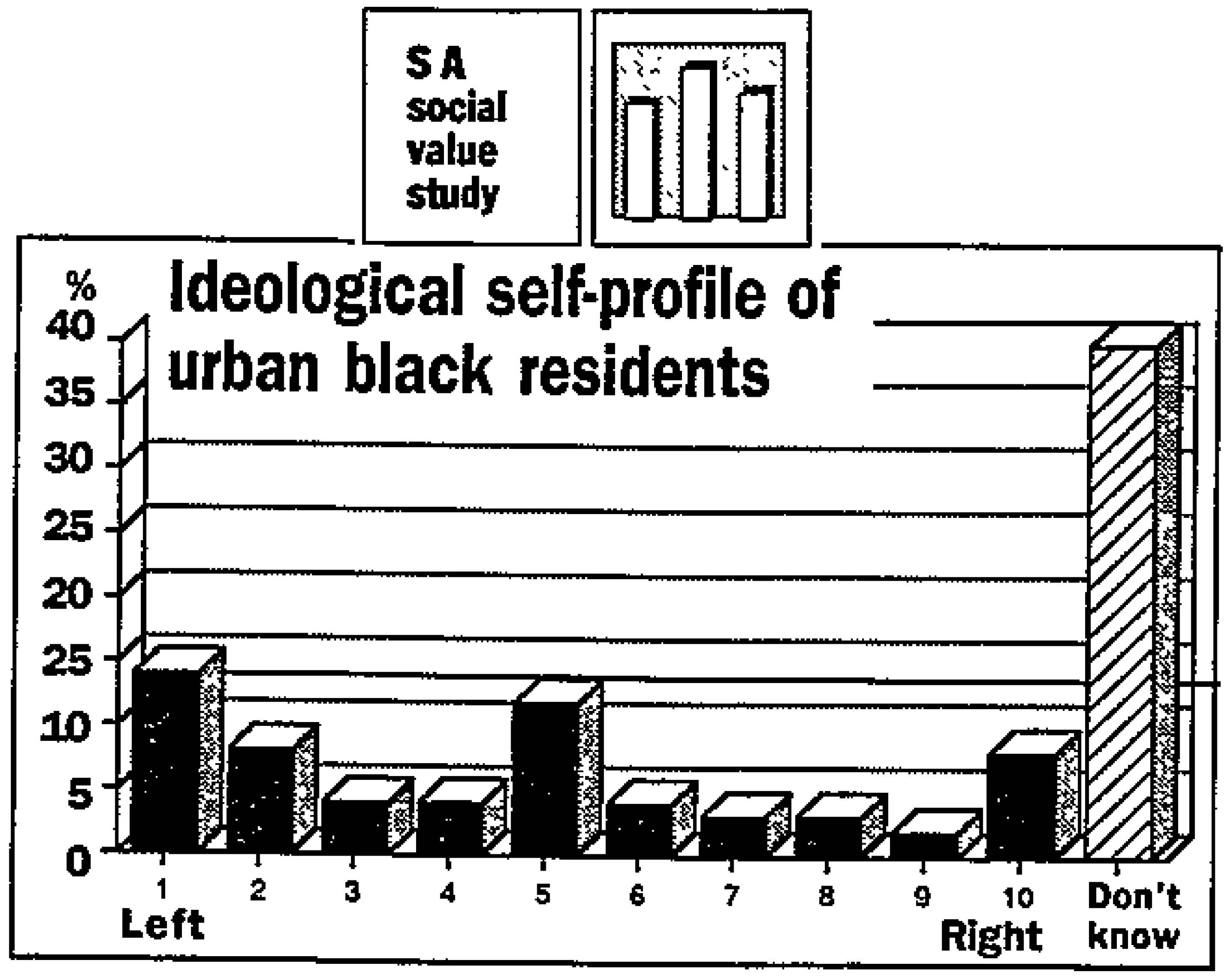
Is it also a working class that sees economic issues in terms of leftist or Marxist constructs?

Markinor's survey offers some tentative insights on the question. It must, however, be borne in mind that the sub-sample on which these are based is small – 600 black residents of Durban, the PWV area and the coastal Cape cities – and that it contains a small proportion who are not workers. Although there is no "working class" sample as such, information about the "black urban" sample suggests that it is composed overwhelmingly of workers or members of their families.

For instance, 30 percent of the sample were unemployed, 15 percent were students and 5 percent housewives. But three out of four respondents who had jobs declared that they were artisans or skilled, semi-skilled and unskilled workers.

Household incomes confirmed this. The average household income for this sample was R850, dropping to R616 in the Cape. And fully 35 percent of households – with an average size of 5,6 members – had an income of less than R700.

Furthermore, only 16,4 percent had completed school, while 43 percent had some high school education and 42 percent had varying degrees of primary school education or no formal schooling.



Asked to place themselves on a Left-Right ideological continuum, 40 percent of respondents came up with a "don't know" answer. Those with little formal education, women and old people were particularly reluctant to commit themselves on this question.

Among those who did answer, there was a strong preference for the Left. On a 10-point scale, fully 22 percent of the black urban sample placed themselves on the far Left and 42 percent claimed they were somewhere to the Left of centre. Only 20 percent claimed to be Right of centre.

Does this mean the majority of workers in South Africa's cities want to see the means of production placed under their control, that they believe that only owners of capital fatten on the efforts of workers and that the State should carry the burden of economic planning and management?

No, says the survey.

According to the poll, South African workers certainly want fundamental reform of the economy and a greater share of the pie. They believe the State should play a more assertive role in directing the economy. But they do not look to nationalisation of industry nor to worker self-management of factories.

These are some findings:

Workers, as represented by the urban black sample, were far more likely to explain poverty in terms of injustice than the more affluent white group. Fully 64 percent of the urban black sample blamed poverty on social injustice and only 14 percent felt it was due to the laziness and lack of will of the individual.

Among whites, there was a strong tendency to blame the individual for lack of effort (43 percent of respondents) and only 30 percent felt injustice played a major role.

Despite the prevalence of the notion of injustice, only 10 percent of black urban residents associated themselves strongly with the statement that "people can only accumulate wealth at the expense of others".

A substantially greater 61 percent agreed strongly with the proposition that "wealth can grow so that there is more for everybody".

It is unlikely, by expressing this view, that respondents were looking to the "hidden hand" of the free market to ensure that all get a better deal from a growing economy. Fully 53 percent felt strongly that government regulation of the economy should increase.

In addition, 61 percent expressed strong agreement with the notion that salaries should be made more equal. Only 16 percent felt strongly that increased incentives were a better idea than more-equal pay.

But relatively few envisaged State ownership of trade and manufacturing. Only one in five respondents agreed strongly that the Government should increase its share of trade and industry. Twice as many felt strongly that private ownership of commerce and manufacturing should be increased.

Considering jointly the questions of ownership and management, only 10 percent chose the arrangement where the State owned enterprises and appointed managers. Minimal support (8 percent) was forthcoming for the notion that workers themselves should own businesses/factories and choose their own management.

By far the most popular notion was that "owners and employees" should take part in selecting management – the idea was approved by 49 percent of respondents. In addition, 30 percent were prepared to leave the running of the show, including choice of managers, to the owners.

Despite its nominally leftist character, this sample showed almost equal levels in confidence in the trade union movement and big business. The rating of a "great deal of confidence" was accorded the trade unions by 42 percent of the sample, while 40 percent gave the same rating to major companies.

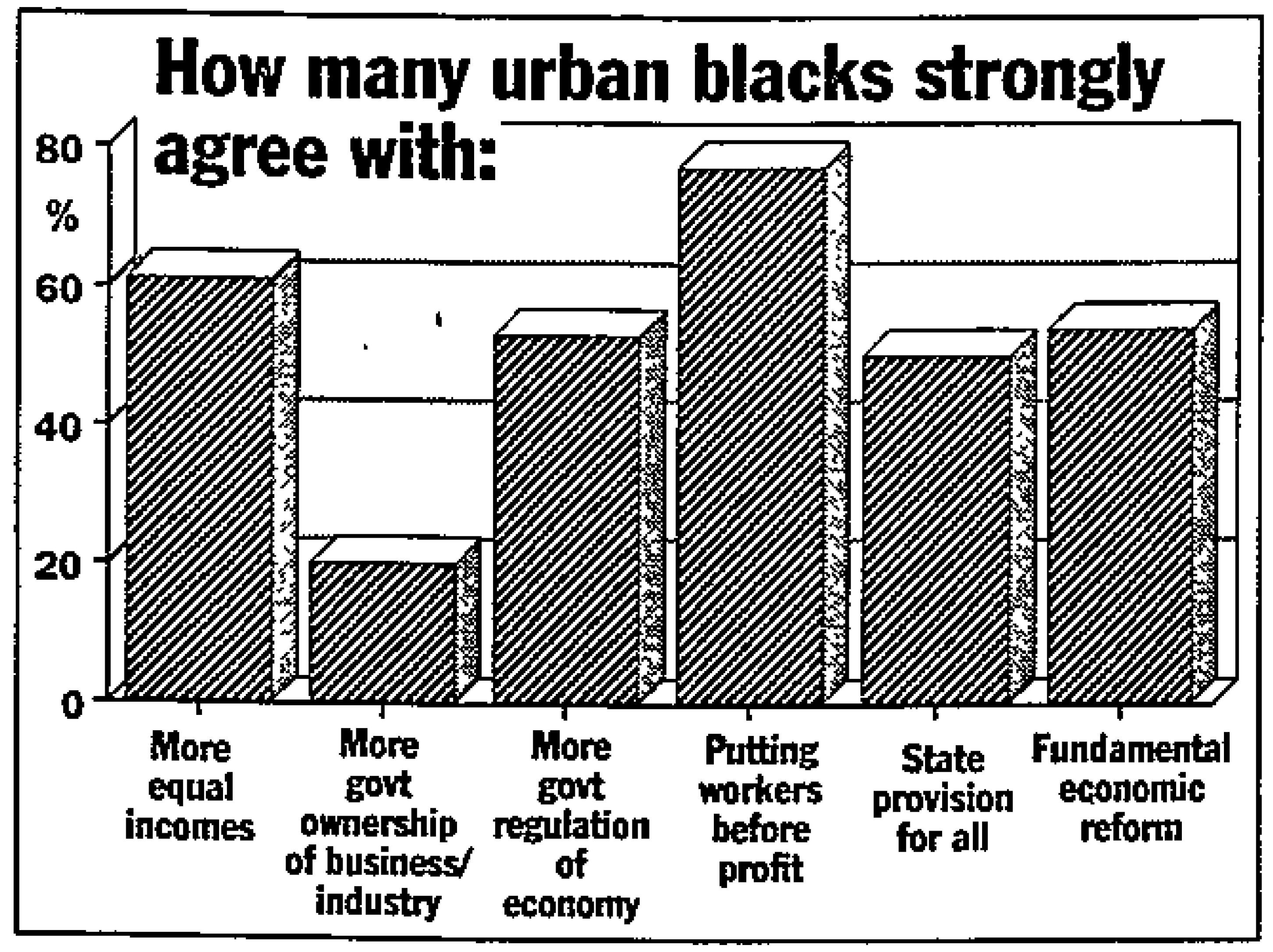
"Quite a lot" of confidence was granted the trade unions by 34 percent of respondents, and major companies won similar support from 35 percent.

The existing social security system enjoys a much lesser degree of confidence in the townships. This must be seen in a context where 50 percent are emphatic – and not just mildly in agreement – that the State should take the initiative to provide for all.

The survey suggests that urban workers have a keen appreciation that economic growth is vital to their well-being and is a key national goal. □

The World Social Value Study, initiated by the Institute for Social Research at the University of Michigan, spans some 42 countries. The South African component used a locally adapted questionnaire. The sample comprised 1 236 whites (rural and urban), 200 coloured residents of Cape Town, 200 Asian residents of Durban and 600 black people in major urban centres. The black, coloured and Asian sample was stratified by city and township.

● More details: contact Marketing and Media Research.



Budget won't foster stability — Andrew

49

Star. 9/4/91

The Budget had failed because it did not do enough to promote South Africa's top priority — stability — DP spokesman on finance Ken Andrew (Gardens) said yesterday.

Speaking in first-reading debate on the Budget, he said there was no evidence that the Budget would bring about visible change on the ground so that the quality of life of the average township resident would improve.

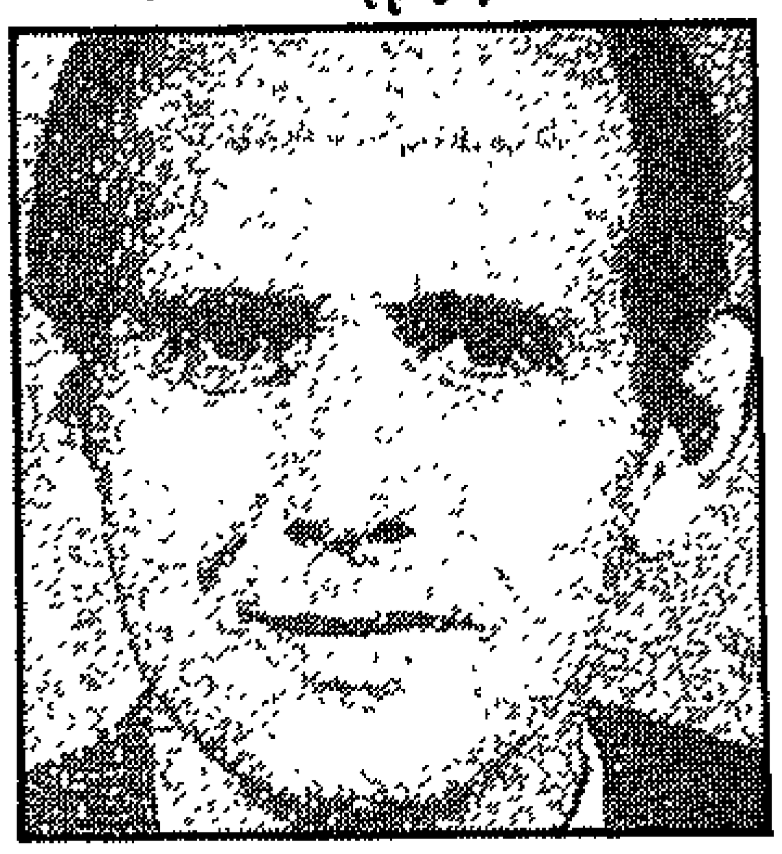
The handling of VAT was a good example of Government mismanagement.

"Promises have been broken, the rate is excessive and last-minute ill-conceived adjustments have made a good idea politically unsaleable.

"I believe the Minister of Finance is living in dreamland if he thinks the introduction of VAT at 12 percent and the financial services turnover tax will result in anything other than an immediate increase in the inflation rate."

Mr Andrew said stability was a prerequisite for investment and sustainable economic growth, but regrettably, the Budget would have little positive effect in promoting stability in the townships.

The housing shortage was budgeted to increase this year, so overcrowding in those townships would deteriorate.



DP MP Ken Andrew

Taking into account inflation and black pupil growth, education would be worse off and there would be fewer jobs.

"This Budget should have promoted the interests of all 35 million South Africans. It has not done so," Mr Andrew said.

A State lottery in one form or another had been enthusiastically supported by the vast majority of South Africans and would raise hundreds of millions of rands to finance desperately needed social projects, yet the Government stubbornly resisted such a proposal.

The Government had repeatedly argued against food subsidies and tax exemptions in favour of targeted aid, yet bread subsidies had gone, no Government relief programmes were in place and only R220 million had been allocated for food relief.

Had bread subsidies not been phased out, in real terms they would now amount to R471 million, the MP said.

In addition, in this tax year the Government would receive more than R1 billion from VAT on basic foodstuffs previously exempt from GST.

Using this money alone would enable the Government to double the amount provided for food relief and to bring about pension parity on October 1 to coincide with the introduction of VAT.

Mr Andrew said the Minister had promised huge increases in social spending for the Budget but this promise had not been kept.

Nor had he kept his promise that 40 percent of the Budget would be earmarked for socio-economic spending.

What had been needed was a Budget which would address the problems of poverty, inequality, instability, unemployment and economic growth.

This Budget fell far short of these essential requirements, Mr Andrew said. —Sapa.

State's share of the economy 'too high'

Star 10/4/91

(49)

By David Canning

The public sector's share of the economy has continued to rise in recent years, despite many undertakings to reverse or at least slow the trend, according to the Standard Bank's latest economic review.

In an effort to solve the problem various expedients have been used, such as the placing of many government activities off-balance sheet.

However, the State's share of the public sector in the total expenditure has continued to rise.

"Not surprisingly, the financing of this has placed an even greater tax burden on the economy, which is partly responsible for the progressive reduction in the country's growth performance."

Pressures for current expenditure on items such as public sector remuneration, goods and services purchased by the public sector, security services, social welfare and pensions and interest on public debt have increasingly crowded out capital expenditure.

"Pressures for current spending have been so acute that ever since the early 80s, the general government has had to finance current spending with debt. This is most imprudent and undesirable."

Costs of maintaining the bureaucracy have remained far too high in practice, it says.

The challenge of the recent Budget was to send out an unequivocal message that despite the magnitude of socio-economic and political challenges, it is still possible to base economic policy on sound internationally-accepted standards.

The most obvious strategy is for the Government to tightly circumscribe its role: To limit itself to providing a "safety net" for the chronically poor, basic equal education, public security and helping the private sector to reach broad economic objectives.

Confidence will plunge, ANC warned

By Michael Chester Star 10/4/91

The SA Chamber of Business has warned the ANC that the current weak level of business confidence in South Africa is likely to plummet even further as a result of its controversial ultimatum to the Government to meet new demands by a May 9 deadline or face a breakdown in political negotiations.

Sacob also forecast that potential new investments from overseas would be affected if political talks collapsed.

Concern over business reaction was voiced by Sacob at a news conference in Johannesburg yesterday at which it was disclosed that its business confidence index last month was at its lowest since apartheid caused the crisis in international isolation in 1986.

Sacob director-general Raymond Parsons said: "The whole busines mood is now fragile and vulnerable — appalled by the degree of violence in black townships and now by ANC threats to post-apartheid political progress."

Business sentiment both inside and outside SA was bound to suffer still more damage if there were a breakdown in political talks — with a dramatic impact on the chances of new investments vital to the faster economic tempo that was a prerequisite for political stability.

Crucial

If the ANC genuinely wished to encourage foreign and local investment, said a Sacob statement, it would also have to modify its proposals about still heavier taxation burdens.

As successful overseas economies moved towards lower direct taxation, it was crucial that SA taxes stayed at competitive levels. A positive future tax scenario was essential if foreign and local investment was to be promoted.

The business world was deeply concerned about the combined effect that the ANC ultimatum and tax proposals could have on business confidence.

Vital social goals — such as adequate education, housing, health services and social pensions — became feasible only if the economy grew fast enough to finance them.

Sacob urged the ANC to understand that an even larger State share in the economy would inevitably produce still worse inflation and thus reduce SA's ability to achieve even a fraction of the social expenditures envisaged by the ANC.

Sacob appealed to all the parties concerned to make every effort to keep political negotiations on track.

● The ANC's decision to involve itself in negotiations with the Government had so isolated the organisation that it had ended up using the death of people in the townships "as leverage to boost its bargaining power at the negotiating table", the Azanian Students Convention charged yesterday.

Azasco publicity secretary Sipho Maseko said in a statement that "the present internal wrangling between the ANC and the Government" showed not only that negotiations between the two parties were a non-starter but also "the bankruptcy of the joint monitoring groups they have both established".

● The ANC Youth League yesterday issued a strongly worded counter-attack against Inkatha Freedom Party leader Chief Mangosuthu Buthelezi and said it was not surprised by his "insults and accusations" as he was "echoing his master's voice, President de Klerk".

Bludgeoned

This week Chief Buthelezi said the ANC's latest demands to the Government would plunge SA into a major crisis.

"Having run his KwaZulu bantustan as his own political domain and on a one-party basis, the IFP leader had ruthlessly amd ferociously bludgeoned any opposition," the Youth League said.

Outcry over Bank's securitisation proposals

BDay 10/4/91

ROBERT GENTLE

AN outcry has greeted Reserve Bank proposals which would require major corporations to route their securitisation transactions through banks — and so incur added costs and bother.

The Reserve Bank has defended the proposal on the grounds that it would protect the banking sector from disintermediation, a process whereby corporations bypass banks and fund themselves directly from each other or from the public.

The proposal, in a Reserve Bank discussion paper, means that if a corporation such as a large industrial or mining company wants to securitise certain assets, it will have to sell them to a bank, which will perform the securitisation.

Sources in corporate, chartered accountancy and banking circles said yesterday the banks did not need such protection.

A leading corporate treasurer said: "If the new Deposit Taking Institutions (DTI) Act is founded on the need to protect banks, then it needs rethinking."

It is thought in some quarters that the Reserve Bank's caution on disintermediation is in part because of concern that securitisation could mean billions of rands will fall outside the ambit of the banking sector — and the monetary authorities.

However, a banking source said that all the monetary authorities had to do was ask for returns from corporates every time they wanted to securitise. "That's how it's done overseas."

Nico Marais, researcher at the office of the Registrar at the Reserve Bank, said that the original motivation for securitisation in SA was to redirect funds from the assurers to the banking sector. The Reserve Bank had already shown itself to be very accommodating in allowing disintermediation in the three- to 12-month maturity period through the creation of a corporate debt market, he said.

'Guarantee independence of Bank'

CAPE TOWN — The SA Reserve Bank should be given a charter to define its relationship with government's executive and ensure its independence in a new SA, Sheila Camerer (NP Rosettenville) said yesterday. B Day 11/4/91.

Speaking in First Reading debate on the Budget, she said the Bank's independence had to be maintained to ensure economic stability.

It had been shown that Western democracies with relatively independent central banks had lower inflation, higher growth rates and relatively lower taxes.

The Reserve Bank should be independently accountable to the community as represented by Parliament, rather than to the executive. (49)

The recent independence of spirit shown by the Bank had more to do with the personalities of those running it than with any change in the legal framework within which it operated.

"If we are reassessing our institutions in terms of moves to a democratic future, we must look at ways by which Reserve Bank independence can be reinforced and ensured for that future."

Consideration should be given to amending the Reserve Bank Act to bring it into line with the Bank's mission statement. — Sapa.

Bank moves again to reduce liquidity

49

ANDREW GILL

THE Reserve Bank moved again yesterday to quell money market liquidity as government expenditure continued to play a major part in buoying banks' excess cash.

It invited tenders for R400m in 14-day special Treasury Bills, receiving a four-time subscription of R1,6bn at an average rate of 17,025%. This followed a week after a R600m tender that saw subscriptions over R4bn at rates marginally above the 17% re-discount rate. BDay 11/4/91.

Dealers said the combined R1bn drain on the market along with dollar swaps not yet matured could conceivably make up the R1,58bn shortage (banks' debt to the Reserve Bank) currently in the market.

If open market transactions by the Bank were excluded, the market could experience a surplus, a treasurer said.

Dealers said recent low shortages were seasonal as government expenditure for the first month of the fiscal year was high.

The likelihood of further tenders in the month was strong, if only as rollovers on the current issues, a dealer said.

The R600m issue will expire on April 18 and the R400m one on April 24. He said a rollover of "some R300m to R400m" on the R600m issue could happen around April 18.

A senior dealer said the shortage was unlikely to come under upward pressure as a result of the R400m drain because it would be balanced by inflows.

The 90-day liquid BA rate is being quoted as low as 17,15%, 35 basis points below the Bank's official re-discount rate.

Drop boardroom colour bar, says Nafcoc

Poor economic growth 'will make country ungovernable'

BDay 11/4/91.

(49)

GRETA STEYN

● STALS

BELLAGIO If SA's poor economic growth performance continued, the country would become ungovernable by 1995, Reserve Bank Governor Chris Stals said yesterday.

Speaking in Italy at an economic conference organised by the Institute for Democratic Alternatives for SA (Idasa), Stals put the blame for the poor economic performance on the political situation.

He said there were three reasons for SA's economic stagnation — political uncertainties that inhibited business confidence both locally and abroad, social unrest and industrial action, and sanctions.

"As managers of the economy, we find the situation frustrating because it is beyond our control. It will be impossible to develop SA's economic potential before these problems are solved," he said.

Many economic factors were cited as reasons for the poor growth of the economy, but these were often symptoms, rather than causes, of a problem that was fundamentally political. They included the low savings propensity, weakening productivity of capital and labour, and rising government deficits.

"The Third Force referred to by ANC delegates discussing violence in the townships could be the low economic growth rate. We must not overlook the influence of the low growth rate on the prevailing violence," he said.

While it was not the role of the Reserve Bank to foster growth, he did not want to just "wash my hands" in the interim before a new government takes over.

He believed more ambitious employment creation schemes could be very important, Stals said.

In discussion time, University of the Western Cape academic Pieter le Roux said Stals's interpretation of SA's economic problems as being mainly political raised the question as to why the Bank's officials had criticised the Budget as too expansionary when social pensions had not even been equalised.

The ANC's head of economic planning Max Sisulu said the economic performance would continue to be weak unless demand was generated by providing people with the means to purchase goods. At the same time, there was a need for mass production.

At the conference is Sindiso Mfenyane, a member of the ANC national executive committee who is still based in Lusaka.

Mfenyane briefed foreign diplomats and the Italian government on the ANC's call for the resignations of Defence Minister Magnus Malan and Law and Order Minister Adriaan Vlo before coming to Bellagio.

CAPE TIMES 11/4/91

Vital to upgrade economy — Mbeki

49

JOHANNESBURG. — A future South African economy had to relate to the Southern African region and the rest of the world, and had to be able to compete in international markets, ANC international affairs director Mr Thabo Mbeki said here yesterday.

"What we need is a developed region of Southern Africa. It is not in the interest of a liberated South Africa that other countries be undeveloped," Mr Mbeki told delegates to the National African Federated Transport Organisation conference.

He said South Africa had to have the ability to compete in international markets, especially in manufacturing.

"This country continues to be an exporter of raw materials. This is an old colonial relationship that has to change," he said.

Part of the process of mismanaging South Africa's economy had resulted in a decline of manufactured products from 16% in 1960 to 5% now. Production of raw materials had increased from 29% to 42%.

Mr Mbeki said If South Africa's economic problems were not addressed the country would be in deep trouble.

Mr Mbeki was due to fly to Brussels later yesterday to meet European foreign ministers. — Sapa.

Cape Times 11/4/91 49

Stals warns SA

Anarchy by 1995 if economy doesn't grow, says Reserve Bank bos

From GRETA STEYN

BELLAGIO, Italy. — If South Africa's poor economic growth continued, the country would become ungovernable by 1995, the governor of the Reserve Bank, Dr Chris Stals, said yesterday.

In a hard-hitting speech at the economic conference organised by the Institute for Democratic Alternatives for SA (Idasa), he placed the blame for SA's economic stagnation on the political situation.

While it was not the role of the Reserve Bank to foster growth, Dr Stals said he did not want to just "wash his hands" in the interim before a new government took over.

"The monetary policy strategy for the interim period is to prepare SA for growth The question is, of course, will we survive the interim period?"

He singled out three aspects which inhibit economic growth:

- Political uncertainties that inhibit business confidence both locally and abroad.
- Social unrest and industrial action.
- Sanctions.

Symptoms

"As managers of the economy we find the situation frustrating because it is beyond our control. It will be impossible to develop SA's economic potential before these problems are solved," he said.

Many economic factors were often cited as reasons for the poor growth of the economy, but these were often symptoms rather than causes of a problem that was fundamentally political.

These included the low savings propensity, the weakening productivity of capital and labour, and rising government deficits.

He said that the "third force" referred to by ANC delegates in discussing township violence could in fact be the low economic growth rate.

"We must not overlook the influence of the low growth rate on the prevaling violence."

Dr Stals said there was no trade-off between inflation and unemployment, and SA could not look to monetary policy to make the interim period more bearable.

"But I believe more ambitious employment creation schemes could be very important."

The head of ANC economic planning, Mr Max Sisulu, said South Africa's economic performance would continue to be weak unless demand was generated by providing people with the means to buy goods. At the same time there was a need for mass production.

He urged Dr Stals to reconsider his stand that there could only be one interest rate for all borrowers as determined in the market. He suggested a return to prescribed asset requirements and lower interest rates to subsidise housing.

Mr Nelson Mandela yesterday telephoned Chief Mangosuthu Buthelezi — and the move was immediately interpreted as a bid to heal a threatening rift between the two leaders ever since the ANC's ultimatum to the government last week. — PAGE 2

PAGE 2

ANC'S ECONOMIC NONSENSE

49.

FM 12/4/91

Hopes that ANC economic policy is getting more realistic have been dashed by proposals in the latest issue of its mouthpiece *Mayibuya.* Their core is a swathe of new taxes — including progressive property and minimum business taxes — which will raise the tax take from 24,9% of GDP to 35%, while the public-sector deficit will be jacked up to 5% of GDP from 3% (or 3,4%, before Finance Minister Barend du Plessis' juggling with the figures.)

Then, it says, with a growth rate of 3%, over five years an extra R40bn could be raised for government spending on housing, education and welfare services.

There is no point in analysing this fatuous programme — which could come straight from the economics faculty of the university of Zagreb — in any detail.

With such a programme, who needs nationalisation? The private sector will be killed stone dead, foreign investors will look on eastern Europe as a haven of sanity, and mere implementation of the programme will automatically make a growth rate of 3% unattainable.

All it would achieve would be a massive diversion of resources from productive sectors of the economy and a huge increase in inflation. The only individuals who might benefit would be a growing army of pen-pushing functionaries.

Let's hope that this sabre-rattling is part of the ideological struggle for power within the ANC (see *Current Affairs.*) If not, there can be no chance that political reform will bring any amelioration in the poor living standards of most people.

represents many big manufacturers, says tariff cuts will help "to reduce some of the lead which has accumulated in industry's saddlebags as a result of protection." But the council is also disappointed by parallel government attempts to reduce distortions in the tax system by simplifying depreciation rules and broadening exemptions from wholesale taxation of business.

Most economists say tariff cuts will accelerate structural reform, making managements and unions recognise the importance of increased productivity in competing with imports and building export markets. Prof Ross Garnaut, whose 1989 report on Australian competitiveness provided much of the intellectual justification for tariff reform, says greater competition from imports will "entrench the process of structural change."

Economic Planning & Advisory Council director Fred Argy adds that competitive pressures will spread rapidly from private-sector manufacturers to the largely publicly owned service industries. ■

GERHARD DE KOCK MEMORIAL ESSAY **FEATURE**

LIFE, LIBERTY ... PROPERTY

FM 12/4/91
49

This is an abridged version of the winning entry in the *FM's* Gerhard de Kock memorial essay competition, in memory of the late Governor of the Reserve Bank. It will be the SA entry in an international essay competition organised by the International Students' Committee of the University of St Gallen in Switzerland. The winner, Dru Danford, will attend, at the *FM's* expense, the International Management Symposium at St Gallen on May 27-29 and be eligible for a prize in the international competition of up to SwFr8 000.

Danford (20) is a business science student at the University of Cape Town.

The focus of this essay is to answer what exactly the State is expected to do in the economy. To answer this fully, one needs to have a clear understanding of the new international realities and their effect on national policy formation.

"The Gulf crisis is helping Switzerland to shrug off doubts about its status as the premier banking safe haven — US$15bn in the first two weeks of August alone by some estimates — headed almost exclusively into the vaults of Swiss banks"[1]. This statement sums up two fundamental developments that have taken shape over the past two decades. One, that capital is incredibly mobile; and two, that the world economy is subject to vast uncertainty. Unplanned change seems to bring uncertainty. This breeds low levels of confidence, which discourage investment.

Thirdly, "the world is going through a burst of innovations"[2] — micro-electronics, biotechnology, photonics and ceramics, to mention a few. The world is moving to more knowledge-intensive products with a smaller raw material content. The value of world trade in future will be determined more by knowledge than by raw material values.

Consequently, many primary producing countries will see their products become obsolete, or less valuable. There has already been a shift in the world's economic centre of gravity to the Pacific Basin — Japan and the Little Tigers. Fourthly, there is no doubt that the world is entering a recession. There has been a marked decrease in growth rates since the early Eighties, coupled with increasing inflation, unemployment, higher interest rates and less international trade.

Finally, the effect of individual economies

Continue →

SPEC

'People's Budge

Star 13/4/91

(49)

DR AZAR JAMMINE, Director and chief economist of Econometrix (Pty) Limited

TABLE 1: ADDITIONAL GOVT EXPENDITURE PROPOSED BY ANC — RAND BILLIONS

HOUSING:	Capital subsidy for 1,2 m houses @ R12 000	14,4	
	Upgrading of 250 townships @ R20 m	5,0	19,4
EDUCATION:	School building and teacher training	7,5	
	Adult literacy training for 1 m	0,6	
	Employment training for 2 m	5,0	13,1
PENSIONS:	Equalisation of Pensions		11,0
LAND REFORM:	Establish 150 000 small farmers	6,5	
	Short term employment for rural people	0,3	6,8
HEALTH:	School feeding scheme for 5 m pupils	2,5	
	Feeding scheme for pregnant women	2,5	
	Primary health clinics	0,3	5,3
INDUSTRIAL RESTRUCTURING (R&D)			3,2
TOTAL			58,8

TABLE 2: GENERATION OF FUNDING FOR UPLIFTMENT
Assumption of 3% annual economic growth
Rand Billions

	Static Government Expenditure				Rising Government Expenditure		
	Govt Exp as % of GDP	Total Govt Exp	Additional Govt Exp	Real GDP	Govt Exp as % of GDP	Total Govt Exp	Additional Govt Exp
1991/92	28,3	85,0	0,0	300,0	28,3	85,0	0,0
1992/93	28,3	87,4	2,4	309,0	29,4	90,8	5,8
1993/94	28,3	90,1	5,1	318,3	30,8	98,0	13,0
1994/95	28,3	92,8	7,8	327,8	32,4	106,2	21,2
1995/96	28,3	95,6	10,6	337,7	33,6	113,5	28,5
1996/97	28,3	98,4	13,4	347,8	35,0	121,7	36,7
Cumulative Additional Government Expenditure			39,3				105,2

SINCE President de Klerk unbanned the ANC on February 2 1990, debate about the economy of a "new South Africa" has taken off in a manner undreamt of a mere 18 months ago.

Much of the debate has taken the form of a slanging match between proponents of socialism, led by the ANC and SACP, and proponents of capitalism, led by the business community, about the best way of uplifting millions of South Africans.

The emotional and acrimonious manner in which issues have been debated has often obscured constructive suggestions. Indeed, the aggressive manner of the debate has probably reduced — domestically and internationally — the already low level of confidence in the long-term future of an economy reeling for years under the cost of decades of apartheid.

Nowhere can the destructive nature of the debate be more vividly illustrated than in two articles in the April issue of the ANC mouthpiece, Mayibuye, and in subsequent reaction and comment.

In a cavalier exposition lacking accuracy and consistency, the ANC flaunted its desire to increase the involvement of Government in the economy through new taxes and large budget deficits.

In turn, the business community by and large has not bothered to analyse the articles with a view to exposing weaknesses. It instead resorted to its usual retort about the harmful effects of rising government expenditure and taxation.

Yet if both sides had bothered to study the numbers involved they would have concluded they had made a meal of what was really not a complicated analysis.

It is the first Mayibuye article on a "People's Budget" that attracted most controversy. In the process, the ANC's very valid, potent and potentially constructive criticism of last month's Budget, which appeared in the second article, lost impact.

In the first article the ANC attempts to show how an extra R58,75 billion — on top of the existing annual budget — could be raised by Government over the next five years for social upliftment. Projects for which the additional cash is earmarked are reflected in table 1.

Of this R58,75 billion, the ANC has correctly determined that R18,75 billion — R3,75 billion a year — can be saved from the present Budget by reducing defence spending and eliminating the costly duplication of functions implicit in the present apartheid-based government administration.

It is the remaining R40 billion that cannot be financed through budgetary savings that constitutes the core of the controversy.

In the Mayibuye article the ANC suggests Government can raise the additional R40 billion on condition the economy grows at 3 percent a year and government expenditure as a percentage of GDP — budgeted by the Government at 28,3 percent for 1991/92 — is increased to 35 percent over the five-year period.

To pay for the rise in State spending the organisation suggests raising the size of the budget deficit and "widening the income tax base to 35 percent of GDP". It said the latter could be achieved by introducing new taxes, such as a capital gains tax, a capital transfer tax, a land tax, a progressive property tax and a minimum business tax.

In swift reaction to these suggestions the financial press has interpreted them as constituting an ANC shadow budget and the business community has been up in arms, arguing that such proposals would devastate the economy.

Talk of emigration has sprung to the fore again, and Mr Mandela has been compelled in London this past week to appeal to businessmen not to leave the country because they are vital to the health of the economy of a new South Africa. Yet closer analysis of the article reveals the ANC's intentions in publishing it were primarily educational.

The article was merely one of a series looking at options for redistribution. It was meant to describe, by means of an example, how the State Budget could be made to work as one of a set of different mechanisms — nationalisation presumably being another one — through which redistribution could be promoted. It was not meant to represent an ANC Budget at all. Indeed, the list of expenditure suggested by the ANC in table 1 refers to allocations over a five-year, not one-year, period.

Careful examination of table 1 reveals the expenditure envisaged is not exorbitant or unreasonable, as had been implied by the financial press and business community.

Taking into account the fact that one-third or R18,75 billion of the suggested additional expenditure over five years would come from savings in the existing budget, one is really talking about adding only R8 billion a year or 9,4 percent to the current annual budget.

The goal of such expenditure is noble and directed towards tackling mass poverty, homelessness, illiteracy and unemployment — major causes of the unrest and violence engulfing the country.

In a sense the idea underlying the five-year social spending programme cited by the ANC is not dissimilar from the kind of 10-year social upliftment programme the Sacob — representing the business community — put forward last October.

Little acknowledgement has been given by the business community to this latest sincere attempt by the ANC to find an alternative to nationalisation as a means of achieving redistribution.

However, the ANC may have done a great disservice to itself and shaken the confidence of the business community by shoddy analysis. It has suggested raising government spending and taxation as a percentage of GDP to achieve its upliftment goals. Closer analysis reveals that, amazingly, and yet extremely encouragingly, R40 billion worth of additional government spending on social projects over five years could be generated from a 3 percent annual growth in economic activity alone — without raising government spending or taxation as a percent of GDP.

This is borne out by table 2 which shows that at today's prices — even if government expenditure were to remain permanently at 28,3 percent of GDP, currently budgeted for the

:UM

a curate's egg

FIRST AND THIRD WORLDS: Bridging the gap between the two is the great economic challenge facing South Africa.

/92 fiscal year — a 3 per- 'annual growth in GDP : of itself cumulatively · available an additional billion over the next five

fact, in line with the Mayi- article, if government "·ꞔ were to be increased percent of GDP and 3 per- annual growth were some- attainable under such cir- ances, additional annual ment expenditure could to R105 billion over five , not R40 billion as sug- by the ANC.

ever, were government diture as a percentage of raised in the manner sug- by the ANC, with a sig- nt concomitant increase in incidence of taxation, our metric model shows that h would become negative . than a positive 3 percent. derably less would be ble to be spent on social ment as a consequence.

rise in Government's of economic activity ' tend to lead to more, not bureaucracy and waste in vil service, eating away of the potential economic its derivable from the on of apartheid. A rise ation to pay for such in- ed State spending would to erode people's dispos- omes and act as a disin- - to productivity and en-

, it is precisely because surge in State spending ation over the past dec- t economic growth de- to a mere 1,5 percent a om more than 5 percent 1960s. To pay for apart-heid, the Government had to continuously increase the level of taxation and the number of taxes, making people poorer, dampening productivity and reducing economic growth. As a consequence, insufficient funds have been generated in the economy to meet its vital social needs. Violence and unrest ensued.

The ANC's latest suggestions stand to extrapolate such errors into the future.

The organisation does not seem to have recognised that the generation of positive economic growth, even at a fairly modest rate, can do wonders in providing the extra money needed for upliftment. In this regard, if relentless increases in government spending and taxation ceased and sanctions were lifted, allowing the country access to loans from abroad, the 3 percent annual growth rate required to accommodate R40 billion worth of additional social spending would be forthcoming.

There is another critical error in the exposition of the Mayibuye article. It suggests that over and above increased taxation, Government should also be prepared to run a much larger budget deficit — allow its expenditure to exceed its tax revenue and borrow the difference. A "still responsible" deficit equal to 5 percent of GDP, compared with the current 3 percent of GDP, was recommended. However, the article is confusing in that it suggests the income tax base be widened to 35 percent of GDP — the same level to which government spending was supposed to be raised. Then why should there be a budget deficit at all?

It is understood that what was really meant was that taxes should rise to 30 percent of GDP so that, together with a budget deficit of 5 percent of GDP, this would accommodate State spending equal to 35 percent of GDP. Here again the ANC has frightened the business community and done itself a disservice. A rise in taxes from the current level of 25 percent of GDP to a future 30 percent of GDP is a far cry from and significantly less ominous than a rise in taxes to 35 percent of GDP. By making this simple expositional error, the ANC has sent shivers down the spines of businessmen.

And deficit financing of the magnitude proposed would tend to lead to a massive increase in government debt, soaring inflation and soaring interest rates.

Ultimately an ANC government's interest bill would surge to such an extent it would dwarf all forms of social expenditure. Hyperinflation could ensue because an ANC government would have no alternative but to print money to pay its way.

In such an environment, the rich would get richer and the poor would get poorer, contradicting the very object of ANC economic policy.

Next, one has to query the array of new taxes proposed. No clue whatsoever is given regarding the nature of such taxes or the rate at which they should be introduced to generate the revenue required. It is therefore impossible to gauge the feasibility of the ANC's proposals.

While one might have some sympathy with the notion of a capital gains tax and minimum business tax as a means of accommodating cuts in personal income tax, company tax or GST/VAT, it seems unlikely this is ANC's intention. No mention is made of rehashing the country's current progressive income tax system with a view to eliminating the pernicious fiscal drag phenomenon that effectively sees inflation pushing people's salaries, mainly in lower and middle income groups, into ever higher tax brackets.

Rather, the new taxes proposed seem to be supplementary to an already heavy tax burden that individuals, many blacks included, already have to bear.

As for capital transfer tax, if this were introduced at a rate in excess of a couple of percentage points, it would tend to freeze the ownership of capital assets, such as property and equities, in existing, mostly white, hands.

It is a pity the ANC did not think its policies through and perform its calculations more accurately.

By pursuing large budget deficits that will tend to cause inflation, the ANC's proposals are likely to accentuate rather than reduce such trends. The organisation's primary goal should instead be to tame inflation and rehash the tax structure in its entirety — not call for new taxes.

Finally, the controversy surrounding the Mayibuye articles has a message for the ANC. It must come to realise it is now under the spotlight.

As a consequence, it needs to be careful about how and what it publishes or its leaders will be repeatedly called upon to allay the fears of businessmen and skilled people threatening to leave the country.

CHAOS LOOMS SAYS BAREND

New sanctions warning of 'teeming millions out of work' by mid 90s

By MIKE ROBERTSON
Political Correspondent

FINANCE MINISTER Barend du Plessis has warned that South Africa has just four years to save itself from sliding into chaos. (49)

"There will be so many jobless people that you will have an ungovernable situation. There will be teeming millions of people who will have no jobs," Mr Du Plessis said in an interview this week. S/Times 14/4/91

His warning of impending chaos if violence and sanctions were not ended soon to allow the economy to grow followed similar grave predictions by Dr Chris Stals, governor of the Reserve Bank, at a conference in Italy.

Mr Du Plessis said that unless growth rates improved dramatically, the South African economy would enter a downward spiral and, by the mid-90s, the government of the day would not have the resources to meet the demands of the populace.

The finance minister said no profound knowledge of economics or history was needed to grasp that a high unemployment level, coupled with a rapid rate of population growth and an inability of the formal sector of the economy to absorb more than a fraction of the new entrants to the job market would eventually spill over into civil upheaval.

This applied particularly in a society where expectations of a new deal were being fostered and running high.

"Our very low rate of employment growth stems directly from the disappointingly low rate of economic growth in recent years, which in turn reflects both domestic structural problems and external factors such as a falling gold price and natural disasters in agriculture.

"But perhaps most telling is the necessity imposed upon us of having to forego domestic growth, deliberately and otherwise, on account of a lack of offshore finance. We can handle the debt standstill; what we cannot do is attract new investments in an atmosphere of violence."

WARNING: Stals and Du Plessis

Mr Du Plessis said that at a conference in London at the end of last year he had first warned that SA would be ungovernable by the mid-90s if present low rates of economic growth continued.

"I said to the ANC members who were also present at the conference that no matter who was in charge they would not be able to govern. I argued that if they wanted to govern the country or be part of the government of a new South Africa they had the responsibility to abandon their stance on sanctions."

Mr Du Plessis said growth was not something that could be turned on like a tap when a new fully democratic government came to power in SA.

Resources

It had required an act of faith on the part of government to start closing disparities in social spending and to sell off strategic stockpiles at a time when sanctions were still being maintained against SA.

Resources to complete the elimination of disparities would have to come from growth and this, in turn, required stability and an end to sanctions.

"The resources can only come from growth. Those who desire the disparities to be eliminated and at the same time perpetrate violence or take inadequate action to resolve it and, secondly, maintain their stance on sanctions .... will have to account to those who will not benefit from the achievement of parity."

Mr Du Plessis said he was receiving mixed signals from overseas investors and banks.

One group expressed confidence in the ability of South African politicians to reach agreement. They were entering into discussions now with a view to investing once visible progress had been achieved.

"Others say no, not one cent, not one bean of additional borrowing until such time we are sure you are becoming a stable democracy"

Business backs Stals warning

(49)
S/Times 14/4/91 (Bus/T)

SPENCER STERLING: Too many without jobs or hope

BUSINESSMEN agree with Reserve Bank Governor Chris Stals that South Africa will be ungovernable in five years' time if present trends continue.

Dr Stals issued this warning at an economics conference organised by Idasa and attended by ANC representatives in Italy this week.

He said ungovernability would result if there were no economic growth. Economic growth was being inhibited by political uncertainty, violence, industrial unrest and sanctions.

By DIRK TIEMANN

Spencer Sterling, managing director of motor-maker Samcor, says: "I agree with Dr Stals. Our biggest problem is unemployment. Too many people have no assets of their own to protect, no job to keep them busy and no hope for the future.

"They are available to political activists who incite them to violence."

Econometrix director Azar Jamine says "I am glad that someone of the stature of Dr Stals has made this statement.

Sanctions

"We need economic growth because there is a long-term relationship between unemployment and violence.

"We also need a lifting of sanctions because although they did not play a major part in the economy's decline they are now stifling growth. If sanctions went we could probably get, among other things, a loan of about R3-billion from the World Bank."

Toyota SA chief executive Bert Wessels says: "To create jobs we need foreign investment, but foreign investors are wary.

"SA manufacturers are finding it difficult to get export orders. In the present climate of instability there is a lack of confidence among potential foreign customers. They doubt that we can be

"I spoke to some ANC members who seem genuinely concerned about the negative effect political violence is having on investor confidence. They also question the wisdom of the ANC's ultimatum to the Government.

"I get the impression that these members at least will try to get their organisation to play a more responsible role in the present crisis."

Barlow Rand economist Pieter Haasbroek says the violence is more effective in constraining economic growth than sanctions.

Dr Haasbroek says: "We need to employ the retrenched, as well as the 1 000 job seekers who come on the labour market every day. This requires the economy to grow at a rate of at least 6%.

"This year we will probably employ one in every 10 job applicants — that puts us on the same level as Zimbabwe.

Healthy

"The crisis is not on the horizon. It is here. Businessmen are not making long-term investments and under current circumstances, we will be fortunate if our economy grows at 3% for the next five years.

"The economy is basically healthy and can emerge from

"The investor makes his own assessments and will hold off while violence continues.

First National managing director Barry Swart says: "The businessman likes a climate of certainty before he will put money into new plant. This is not happening.

"In five years' time we should have political compromises, sanctions lifted and the availability of foreign investment. At the moment there is no long-term capital investment to speak of."

Mr McDonald says: "Business confidence is low. Italy and Britain abandoned their ban on investments in SA a year ago, but little has been forthcoming.

"A growth rate of 3% is optimistic and the lifting of sanctions alone will not do it. Our industry has lost valuable markets which will not be easily regained. In three to four years we might be back where we were in 1986.

"If sanctions were lifted and there was new investment, our industry would grow. But that would not necessarily mean more jobs because the metal industry is becoming more capital intensive."

South African Chamber of Business deputy director-general Ron Haywood believes sustainable economic growth is needed for long-term investment confidence.

"A world economic upturn is expected next year and it will have positive spin-offs for us.

"Business is looking at an uncertain scenario. We believe that all parties know that the low road is no road."

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lack of confidence among potential foreign customers. They doubt that we can be reliable suppliers of goods of consistent high quality."

Steel and Engineering Industries Federation chief economist Michael McDonald says the position might be even worse than depicted by Dr Stals.

"Merely to maintain current employment requires a growth rate of 5% a year as the absolute minimum. We need 6% to start some expansion and 10% to really get things right."

A senior executive of a large company says: "We all agree with Dr Stals. But it is not only for the Government to rectify the situation. Other political leaders must act.

nomy grows at ...% or the next five years.

"The economy is basically healthy and can emerge from the recession if we can expand exports and get manufacturers to use idle production capacity.

"Institutional funds must flow into real capital investments. The end to violence is the prerequisite for growth."

Nedbank chief economist Ted Osborn says: "Our growth rate is likely to be below 3% for the next five years. This is inadequate in terms of population growth.

"Some parts of the country are ungovernable. The low growth performance of the past years was partly because of the lack of investment, especially in factories, houses and machinery.

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Short-term needs 'neglected'

BDay 16/4/91. (49)

BILLY PADDOCK

CAPE TOWN — The Budget focused too strongly on economic restructuring and not enough on urgently required socio-economic development, such as labour-intensive housing and classroom-building job creation schemes, DP finance spokesman Ken Andrew told Parliament yesterday.

He said in the Budget debate he had argued persistently that the Budget was a medium- and long-term one that ignored the short term.

Reserve Bank Governor Chris Stals had raised this when he addressed a conference in Italy saying "the question is, of course, will we survive the interim period", he said.

He said among Stals's statements showing that the Budget had fallen far short of what was required were: "There were three reasons for SA's economic stagnation — political uncertainties that inhibited business confidence both locally and abroad, social unrest and industrial action and sanctions"; "Poverty and unemployment are major factors behind township violence" and "It will be impossible to develop SA's economic potential before these problems are solved".

He said the Budget was all about VAT set at a very high rate because of full input credits on capital and intermediate goods, large increases in income tax and a very real increase in spending on the SA Police.

Andrew said the Budget lacked imagination in addressing socio-economic problems.

Du Plessis should have introduced social old age pension parity from October 1, he said.

"This Budget represents a missed opportunity to demonstrate to SA's deprived majority that the quality of their lives is going to improve."

□ Government was relying too heavily on monetary policy to create the economic climate and on the private sector to deliver the goods rather than having a comprehensive and co-ordinated plan to prevent SA sinking, DP foreign affairs spokesman Colin Eglin said in the debate.

He said sound international economic relationships were of critical importance if SA was to get the economy moving forward. Internally, a comprehensive and co-ordinated plan of action was needed which would involve the private sector, government and a range of non-governmental organisations.

Sound international relationships went beyond just investment. They had a bearing on markets and trade, on loans and credits, on the transfer of knowhow and technology and they had a bearing on the climate of business confidence abroad and locally.

He said President F W de Klerk's February 1 speech and Finance Minister Barend du Plessis' Budget speech showed that government saw foreign trade and the export industry as important components in the economic growth of the country.

Eglin said he was looking to government to be more pro-active than it has been thus far in assisting the private sector to get the economy moving forward again.

However difficult negotiations may be, solving our economic problems is a bigger challenge, says **Harry Schwarz**

Freedoms which go beyond the vote for all

Star 16/4/91.

(49)

THE negotiating process in South Africa is not going to be easy. Some organisations do not want talks about negotiations but wish immediately to plunge into the negotiating process. Some want a transfer of power, not a negotiated settlement. There are preconditions to be fulfilled and manoeuvring and positioning, but somehow I am optimistic that the negotiating process will begin within a reasonable time, that after the process has been going for some time, others will join in as they will realise that they will have to do so if they are not to be sidelined or entirely left out.

What kind of constitution would I personally like to see and what is likely to happen? Regrettably the two might not be identical.

Bearing in mind the nature of our population and the history of our country, I would like to see the kind of constitution which exists in the US. Horizontal and vertical separation of powers, nonracial and with a universal franchise. A Bill of Rights with access to courts to provide remedies. A powerful Supreme Court and a constitution which can only be changed upon attaining predetermined majorities.

My own view is that democracy involves the vote for all, but it also requires something more, as the right to vote, while vital, is also not the only right. The freedoms which US citizens enjoy go beyond the vote and I would like my people to enjoy at least the same rights. What is, however, likely to come about?

1. A universal franchise — one person one vote if you like to call it that — is not negotiable.

2. A Bill of Rights will come into existence. The terms are still being debated. The probability is that individual rights will be protected, not group rights, but that the individual's rights as a member of a group will be safeguarded.

3. The main dispute will be over the question of whether there will be a simple one chamber unitary state or a two chamber legislature with special powers to an upper house elected on a proportional representation basis, or whether a true federation will exist.

What many of the liberation movements would like to see is a continuance of the present unitary form of government with perhaps limited changes, and a transference of power from a white minority government to a majority government.

The rule of a minority would be replaced by the rule of a majority. The minority would then be at the whim, pleasure and good graces of hopefully a benevolent majority, as opposed to a majority having been at the whim of a discriminating minority.

To those of us who objected to apartheid rule, we have strived to have it replaced by a human rights-orientated democracy in which the minority feels it is as secure as the majority.

However difficult the negotiations for a new constitution might be, the solving of the economic problems of our country present a far more formidable challenge.

The scenarios which economists and politicians sketch vary from straightforward simple capitalism to generate growth to major redistribution policies, from old-fashioned socialism through social democracy to simple trickle-down growth concepts.

The danger in South Africa is a new democracy without a sound economic base having to face expectations it cannot meet. This government might have recourse to unacceptable economic practices resulting in hyper-inflation or otherwise causing serious damage to the economy, or being tempted under pressure to suspend the new constitution or being replaced by others promising more and also being unable to deliver.

The likely scenario for South Africa is a social market economy, much on the West German model: generating wealth by entrepreneurship on the one hand and providing social services on a non-discriminatory basis on the other; redistribution processes taking place, mainly through fiscal mechanisms with some exceptions with land redistribution on a limited scale and some nationalisation of certain economic activities.

The new democratic government must deliver something to those who have struggled for liberation, but it needs to keep in South Africa those who have skills to keep the economy going and growing.

Regrettably apartheid has placed most skills in white hands, and a major exodus before others have had the opportunity to acquire them would be economically disastrous.

There are many things to be done, but perhaps the priorities are jobs, education and housing. If our people have work, they can pay for food, clothing and shelter, and it is here, that what is required is investment, both from home and abroad.

There are many who believe that South Africa can do it alone, that we need no foreign loans or aid.

Certainly there is much we can do. We can rearrange priorities, have greater economic justice and show more confidence in ourselves, but for those with great expectations, we cannot satisfy even their reasonable needs within the time span required for stability.

Those who have decided to try to influence the course of history in South Africa by helping to bring down apartheid should consider their obligations, albeit only moral, to ensure that this victory does not turn into the ashes of poverty and instability.

● **Mr Schwarz is South African Ambassador to the US. This is a shortened version of his address to the Carnegie Endowment for International Peace in Washington last week.** □

Greater confidence in SA 'now possible'

B Day 16/4/91.

SHARON WOOD

THERE is a case for measured confidence in SA's future as the situation has turned around from heading for sure disaster to possible success, says Investec analyst Hendrik du Toit.

"The process of self-destruction, which gained considerable momentum in SA during the 1980s, has indeed been halted, if not reversed," says Du Toit in Focus on the Economy.

Substantial progress has been made towards building a better SA since February 1990. "The major political actors have not only moved from being bitter military enemies to credible negotiating partners, but have publicly acknowledged the relevance and importance of one another," says Du Toit.

It is important that at last the disease, rather than the symptoms, are receiving high level attention.

"The F W de Klerk government is the first one in the history of the country to elevate the assault on poverty and deprivation, in especially the black community, to a national priority," he says.

(49) (Econ)

But there are strong obstacles preventing a "quick fix" solution. For instance, almost half of the 1990 Budget would have to be redirected to primary and secondary black education to lift overall per capita expenditure to the current white level.

The stress of transition started taking its toll by the end of 1990.

Most people clearly understand that they are in a society in transition and that demographic, political and economic forces of change can no longer be denied or wished away.

Pik: violence is deterring investment

BDay 17/4/91

BILLY PADDOCK

CAPE TOWN — SA's international isolation had ended but violence and internal instability were standing in the way of large-scale new investment in SA, Foreign Affairs Minister Pik Botha said yesterday.

Briefing the media on President F W de Klerk's visit to Europe at the weekend, he said the best rewards of the lifting of sanctions were new investment, expanding manufacturing and greater job creation.

A drive for increased foreign investment in SA was to be launched by De Klerk on his visit. He would be addressing prominent businessmen, industrialists and bankers next week.

There was great interest by foreign businessmen and the number visiting SA had quadrupled in the past few months, he said.

"But what is needed is the creation of a climate inside SA — only if stability is attained will investment come in. We all know investors do not easily invest in a situation where people are killing each other on such a scale in this bloodthirsty manner," Botha said.

He said De Klerk was giving the violence his daily attention because this was the only obstacle to investment.

The President could change the laws but he could not change the hearts and minds of the people without the support of all the leaders of other parties and organisations.

"The belligerent, revengeful activity in the country must change. I am convinced that if President De Klerk, Inkatha Chief Mangosuthu Buthelezi and ANC deputy president Nelson Mandela could embark on a joint, deliberate and sustained programme they could do a lot to stem the violence," he said.

Referring to the ANC he said the rewards of investment would not be reaped unless leaders stopped making public statements that left the impression that it was not safe to invest in the country.

The ANC was making a mistake by using sanctions as a bargaining chip in the negotiation process or that government was aiming at the organisation when it fought sanctions, Botha said.

He hoped the ANC would come to realise SA ~~needed~~ economic growth and more jobs: "It can become part of the moral high ground by working with government and parties to gain access to funds and help manufacturers and commerce create more jobs."

He said SA did not need a new constitution before all parties started working together on these issues and those parties participating in economic growth would get countrywide support.

He said the theme for the President's visit, now that the lifting of sanctions was gaining a momentum of its own, was for countries to get involved in SA's reconstruction and to help build a new SA and assist De Klerk and other leaders to get negotiations off the ground.

Bellagio meeting wrestles over the right economic mix

BDay 17/4/91.

GRETA STEYN

49

IN THE soothing surroundings of a plush 16th century Italian villa, delegates at an Idasa conference last week wrestled with SA's poverty, unemployment and inequality. The picturesque surroundings of Bellagio could not dull the feeling that SA could be heading for economic disaster.

Delegates were infected by a common sense of urgency. Flying 18 South Africans to a postcard-pretty Italian village to talk economics and politics seemed an unnecessary luxury at first. But it became obvious the isolation was a major advantage. Away from their in-trays and other everyday pressures, current and future economic policymakers and economists could focus almost exclusively on issues like growth and equity, unemployment, poverty, the role of organised labour and making up for past injustices.

Some time was devoted to defining the problem. More than 5-million people cannot find jobs in the formal sector and about 16-million people live below the breadline. Another few years of economic stagnation will add another few million to those statistics. The skewed wealth distribution and poverty is part of the legacy of apartheid. Does the situation require special action, and possibly some sacrifices from those who have benefited from apartheid for decades? Or should the economy be left to grow and create jobs in an environment of minimum special action and sacrifice?

Attempts to answer these questions took into account Reserve Bank Governor Chris Stals's analysis of the constraints on growth. He said the main factors inhibiting growth were political uncertainty, unrest and industrial action, and sanctions.

If Stals's analysis is accepted, it creates problems for those who argue for minimum intervention to redress imbalances. Their policies to encourage investment and generate export-led growth could be rendered useless by unrest, stayaways and general uncertainty. Cutting taxes and electricity tariffs to boost industry is a strategy that can, at best, only work in the longer term and it assumes that industry has enough confidence in the country's future to respond to these incentives.

Even if industrialists do respond, the sense of urgency prevailing at the conference suggested there was no time to wait for these growth benefits to "trickle down" in time to the bottom end of society.

Higher social spending by government and business could help generate confidence by creating a more stable climate — a climate conducive to growth. Longer-term growth policies might have a better chance of success amid less anger.

There was broad agreement at the conference that economic policy should address inequality and poverty both directly — through spending — and indirectly through growth-inducing policies.

But policy measures to achieve the two aims conflict. Higher taxes to finance social spending impede growth because of a disincentive effect. More borrowing could crowd out the private sector. Finding the right mix of policies became one of the main points of disagreement among delegates.

At the one extreme was Stellenbosch professor Sampie Terreblanche, who argued for redistribution in the short term at the expense of policies aimed at generating longer term growth. The "haves" in SA society had benefited richly from apartheid, and he argued for sacrifices in the form of taxes to make up for past injustices.

Without urgent special action to make up for past sins, SA would simply be "privatising" apartheid and the market would perpetuate the inequalities created by the apartheid system, Terreblanche argued.

ANC chief of economic planning Max Sisulu said there was no question of "either or" when it came to redistribution and growth. The ANC wanted both, and the engine for growth would be the basic needs of the people. He cautioned against expecting too much from policies focused on exports, especially at this point in SA's development.

Sisulu argued SA had to begin "at home" where the markets existed before targeting foreign markets. Economic policies aimed at satisfying basic needs would generate growth. Resources inside the country had to be mobilised first. Demand in local markets had to be made effective by policies that provided people with the means to purchase goods. That would entail substantial redistribution. On the supply side, mass production should be encouraged by subsidies and protection. His view was that there was a demand constraint on growth that could be lifted by substantial redistribution.

The recently released ANC "budget" provides examples of the form redistribution would take. Over a five-year period, the organisation would, among other things, spend R11bn extra in social pensions, R14bn in providing capital subsidies for housing, R5bn in employment training schemes and R6,5bn on land reform. This would be financed largely by increasing the tax base to 35% of GDP from the current 28%. An ANC budget would also follow a less conservative deficit financing policy of 5% of GDP.

At the other extreme to Terreblanche were Stals, Finance special adviser Japie Jacobs and Sacob economist Ben van Rensburg. While Stals conceded that spending on housing, electrification and pensions was needed for "social" reasons, he and Jacobs were adamant this should not push the deficit too high. Even as a short-term "crisis" measure, the deficit should not exceed government's capital spending.

Government has budgeted for a deficit of 3,4% of GDP; its capital spending is only 1,8%. To comply with Stals's criteria, government would have had to forfeit billions of rands in social spending.

Stals and Jacobs argued that deficit financing of social spending "consumes" the country's savings, leaving less available for "productive" output. There was no fixed investment flowing from the use of the savings.

Saving was needed to finance growth. If government consumed savings, there would be less available to finance growth in the longer term, Stals and Jacobs argued.

Jacobs tempered his conservatism, however, with the observation that the "real" redistribution would take place at local government level. With "one city, one tax base", there would be less pressure on central government to redistribute.

Economists between the two extremes argued that the economic crisis SA faced justified breaking the deficit rules to some extent. During the "total onslaught" and the war in Namibia and Angola, government consistently "consumed" savings to the tune of billions of rands. A case can be made for small dissaving in the current crisis situation.

This could be motivated as long as a firm eye was kept on the inflationary and balance of payments implications of massive redistribution. Excessive "consumption" of savings could propel SA into hyper-inflation, with the current account of the BoP in deficit while capital outflows further aggravate downward pressure on the rand exchange rate.

It is with this scenario in mind that conservative economists like Stals argued for extreme financial discipline. The only "solution" they can offer is export-led growth. It is a pity that none of them attempted to explain why a decade of preaching outward-looking policies has failed to yield any meaningful results in terms of employment growth. If the reason is financial and trade sanctions, then that should be spelled out.

An effort to find the right "mix" between equity and long-term growth policies could end up doing too little on both scores — which is why last month's Budget came under fire from all sides. The sense of urgency experienced at the Bellagio conference is not easily translated into action or deliberate inaction. To borrow from the Budget speech, a leap of faith is needed to head off economic disaster.

Star 18/4/91 (49)

DP and CP won't back Budget

The Democratic Party would not support the Budget as it had its priorities wrong and missed an important opportunity to promote stability, **Ken Andrew (DP Cape Town Gardens)** said yesterday.

In a declaration of vote, he said the DP's main criticism of the Budget was that it did not do enough to bring about visible improvements in the daily lives of people in poorer communities.

Casper Uys (CP Barberton) said the CP would be voting against the Budget as it did not provide encouragement to individuals to save.

The National Party supported the Budget as the Minister of Finance had succeeded in doing away with backlogs, narrowing parity gaps and reformed the taxation system through the introduction of VAT.

The House of Representatives and House of Delegates supported the Budget as it was read for the first time. — Sapa.

DP MP Ken Andrew

SA urged to attract foreign investments

Cape Times 18/4/91

By AUDREY D'ANGELO
Business Editor

BOTH Brian Kantor, head of the school of economics at the University of Cape Town, and Don Mkhwanazi, national president of the Black Management Forum, yesterday stressed the need to create conditions which would attract foreign investment to SA.

And Zach de Beer, leader of the Democratic Party, said that the prosperity of the whole southern African region depended on that of SA.

All three were speaking at the national congress of the Association of SA Quantity Surveyors, which is being held at the University of Cape Town.

Kantor said that to attract foreign investment SA must "be unequivocal in a commitment to playing the international investment game by the rules for business written in the successful economies.

"It should be understood that these rules cannot be of our own making. Trying to play a different Third World game will make us highly uncompetitive in the world market for capital."

He said these rules were "not particularly onerous for developing countries.

"What is required by owners of highly mobile capital is some certainty that they will be free to conduct their business without excessive intervention by governments.

Kantor emphasised that the tax regime should not destroy the incentive to earn profits in a publicly accountable way.

Paradoxically, "the more success a country has in developing its economy and the more political stability which may thereby be guaranteed, the easier it is for that country to increase the rate of taxation without damaging effect."

This would be the most effective way of raising more money through taxes to uplift the poorer section of the population.

"The danger to the health of economies occurs when the cart of higher taxes is put before the horse of economic growth. This is a danger that SA has to avoid at this stage of its development."

Mkhwanazi said it was a myth that the liberation movement did not understand the need for foreign capital.

Warning that "while violence is so rampant we must forget about foreign capital", he continued, "our primary task and responsibility is to stop the carnage.

"Foreign investors are looking for stability, security of their investments and a good return. The main priority now is to restore confidence.

"We must be in a position to convince the international investment community that peace, justice, freedom and stability will hold in a new SA."

"Liberation movements are agreed that anti-monopoly policies are a must, and should have to focus on ownership concentration, corporate and management interlocks and severing the link between finance and manufacturing that promotes conglomeratioon.

"Anti-monopoly policies should be distinguished from policies to promote competition.

Platinum	$400,50
Palladium	$54,15
Raw Sugar	£123,30

FM BOARD OF ECONOMISTS FM 19/4/91 (49)

KEEP YOUR SEAT BELTS TIGHTENED

THE OUTLOOK FOR 1991 REMAINS GENERALLY GLOOMY

In the board's post-Budget assessment of the economy, regular members Ronnie Bethlehem (JCI) and Rudi Gouws (Rand Merchant Bank) are joined by Ted Osborn (Nedcor). As always, SA Chamber of Business's Raymond Parsons puts the questions.

Parsons: Do you concur with the overall balance in the Budget between growth and redistribution and the broad aim of equity through growth and stability?

Bethlehem: The Budget conformed closely to what I hoped it would do. In difficult circumstances the minister got the balance right, but there are aspects that I am unhappy about. In particular, if the minister had done nothing, he'd have had a deficit of R5bn; with a stroke of the pen he increased that to R10bn. This may be too stimulatory; alternatively, it may be telling us that government is a lot more worried about the economy than we thought.

Osborn: The minister struck a reasonably sound note. He is at the U-turn of developments towards the new SA. It is all encapsulated in the slogan of equity through growth through stability. Whether these things will be achieved is another matter; I have serious doubts about all of them.

And the Budget should be the focus and consolidation of all State spending. As extra-budgetary funds grow, we are not getting the adequate measure of the total impact that the Budget should give us.

'We will have to develop strategies to address mass black unemployment because black people will be the voters of the new SA'

BETHLEHEM

Gouws: The way the Budget was put across struck the right chord. But I'm concerned it may have gone too far to the other side; it's not that one does not want equity, but economic growth is what will really solve poverty. I have the same concerns that the Reserve Bank seems to have about this Budget. We have veered too far from the supply-side approach with the increases in the Budget deficit, the tax burden and government spending relative to GDP.

Parsons: Is it worrying that the tax burden as a proportion of GDP remains at 24,9%?

Osborn: By international standards 24,9% is not all that considerable. Of more concern is its make-up and the balance between direct and indirect taxation and, within direct taxation, the balance between the individual and the corporate taxpayer. During the Eighties we had an extraordinary shift in the tax burden from the corporate sector to the individual, to the extent that corporations, which used to be 40% of total revenues, are now down to about 20%. In 1980 gold mines contributed a quarter of total government tax revenue; this is now almost nothing.

FM Board ... *Gouws, Osborn, Bethlehem, Parsons*

Conversely individuals, who in 1980-1981 contributed 16%, are now up to 39% of total revenue. The individual taxpayer is suffering a continuing swing of disposal income to the State and is no longer in a position to save.

Gouws: I'm particularly concerned at the sharp rise in the personal tax burden.

Bethlehem: We must encourage saving and deter consumption. But in a sense we need simultaneously to discourage *and* encourage consumption: to discourage it at the upper end but increase it at the lower. VAT will bring a huge increase in the tax burden of white individuals.

The main engine of growth is the corporate sector, which has also become the main contributor to national saving. But corporate saving also fell last year.

Parsons: Is the extent of the deficit before borrowing a matter of concern?

Bethlehem: The minister's intervention effectively raised the deficit before borrowing from 1,7% to 3,4%. You can't go to the IMF and talk about fiscal restraint with that kind of deficit. But the minister must surely have been cautious in his estimate of VAT revenues, so the actual deficit may not be quite so bad. Extra-budgetary items add to one's concern, of course.

Osborn: Three percent is simply a rule of thumb, there's no magic about it. To me the method of financing is what matters. Ten billion rands seem a reasonable deficit to borrow without straining the capital market. We get excited about this not being matched by capital spending, but if you exclude interest charges there is a surplus of revenue over expenditure in the Budget, and interest charges are purely redistributive flows. So I think this Budget is overall contractionary.

There's no point in worrying about government spending when it's still below 30% of GDP. We're going to become more and more socialist. We are heading towards 40%.

Bethlehem: We are trying to establish certain things before constitutional negotiations are set in concrete: the independence of the Bank, and to get government spending down. We don't want to abandon ourselves before the new order arrives.

Osborn: When we're up to Zimbabwe's 47% and Sweden's 45% will be when to start worrying. Be prepared for the future!

Parsons: What are the implications of the Budget for interest rate and monetary policy?

Gouws: The order of borrowing flowing from this Budget should not put any upward pressure on interest rates. Interest rates have gone up since the Budget because of the market's concern with longer-term issues. I go along with Bank Governor Chris Stals's comments: we'll now have a tighter monetary policy for longer, but interest rates should decline further this year, perhaps in the third quarter. The cyclical decline in interest rates is still in place.

Osborn: The governor could use the Budget as further justification for a firm monetary position. He must hold to this because we're not having the improvement in inflation and the money supply that we would like. But as we stay in recession the high interest regime will again seem not to be justified and will have to give way during the year to alleviate financial pressures.

Bethlehem: It's interesting that the governor cut Bank rate two weeks before the Budget. I suppose this was a demonstration

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of independence. The Bank is not aware of the final budgetary proposals, which are finalised literally minutes before the minister speaks. I wonder whether Stals now regrets reducing interest rates beforehand. Interest rates may not come down later this year as people would like, because inflation may not come down as forecast.

Parsons: Are you satisfied that the large sums allocated to social spending will be properly co-ordinated and effectively spent?

Osborn: We seem to be trapped in a belief that the sum allocated to any item adequately measures the benefit to that sector, so we are easily misled by the amount of money we throw at a problem. We need a complete re-examination of the spending mechanisms to ensure that we have not only a greater delivery but a greater efficiency in what is spent.

Bethlehem: This Budget raises the allocation for education from some R13,5bn to R16bn. None of us would argue with that; the central problem for the future is education and in particular the mismatch between what the education and training system produces and what the economy needs. But there is no area where wastage is greater and cost-benefit more deplorable than education. The black matric results show that.

Parsons: Since the Budget there has been a split in the Department of Finance, with Amie Venter taking over management of expenditure. Is this desirable?

Osborn: The split is unfortunate. Revenue and expenditure must lie within one authority under the Minister of Finance. They will find eventually that the tensions are so great that they have to coalesce them again.

Bethlehem: There is a smell of ad-hoccery in the split, with the need to reorganise the Cabinet after the death of Wim de Villiers. I see no advantage in it.

Gouws: The only justification for the split could be to bring more ministerial power to bear. But I would prefer both functions to be under one powerful minister, possibly with two deputies. Du Plessis should be handling the expenditure side.

Parsons: Does the panel see advantages in switching over to the VAT system from GST and in particular is 12% the right rate?

Gouws: The timing is unfortunate. We are in a time of momentous political change and soon probably major economic policy changes. One of our biggest mistakes in tax policy was to remove food from the old GST. I'm not saying that GST is the better system, but given all the other uncertainties perhaps we should have stuck with GST the way it was before food was taken off. Given where we are now, I am happy with the way VAT is being introduced. To comment on the rate is difficult but like Ted I'm concerned with the mix between direct and indirect taxation. From that point of view I'm happy with 12%.

Osborn: I accept the advantages and purity of VAT over GST but I am concerned about introducing a highly sophisticated system in a country with both First- and Third-World elements. I also have reservations about the costs to the State and private sector of administering it.

Yes, 12% is probably the right rate. The IMF calculated 13,3% as the break-even but the minister would have had a very difficult political problem bringing it in at 13%. I do worry where we will end up. Will we be like the UK, at 17,5% in four years' time?

Bethlehem: If we do not introduce VAT now we will never get it. Given all the problems, government deserves applause for going ahead. We will not regret it. It is a better tax than GST and a better tax for a future SA, a modernising, industrialising society. It is a regressive tax, but SA must go that way.

Parsons: Will exempting capital and intermediate goods from VAT bring down costs?

Osborn: The forces of competition aren't strong enough to bring about the results theoretically expected. I am cynical; this will generally be taken as an opportunity to improve value-added positions.

'As we stay in recession the high interest regime will again seem not to be justified and will have to give way during the year to alleviate financial pressures'

OSBORN

Gouws: I am a little more optimistic. We are in a recession, so people who want to stay in business will have to pass on part of the benefit. Even if that doesn't happen, the profitability of companies will improve, and that ultimately is what fixed investment hangs on. This to me is one of the few really growth-enhancing aspects of this Budget. Of course, there will be some holding back of investment because this is a tangible benefit and the economy is still in recession.

Osborn: It's a rational decision to defer investment in these circumstances.

Parsons: Do you agree with the minister's suggestion that year-on-year inflation could fall to 12% or less by December?

Bethlehem: Ministers do not have a good track record in forecasting inflation! I am not optimistic that the minister's forecast will be reached.

Gouws: We won't quite reach 12% but inflation will decline. It always has in times of recession. It will be below 13%.

Osborn: We won't get to 12%. There may be a downward trend but the introduction of VAT will itself push up the measured — as opposed to the underlying — inflation process. I am also concerned about the overall inflationary trend. What might happen to the rand is important: the rand will be under considerable pressure this year, so imported costs will be a potent inflationary factor. I put year-end inflation just under 14%.

Parsons: How does the Budget affect the flow and distribution of savings? This is tied up with the failure of the Budget to address fiscal drag. Is the minister holding out the promise that having got VAT and taken certain business tax decisions this year, he will turn his attention to personal tax next year?

Osborn: Savings come from the taxpaying community rather than the non-taxpaying community. Individuals ability to save is being reduced by fiscal drag — which will remain as high as ever. Corporate savings will be affected by the level of corporate profits, which are under pressure. There will of course be natural expansion through the depreciation provision but overall national savings will, I think, fall further this year, in line with the overall reduction in investment.

Gouws: In a direct sense the Budget made things worse. The effective deficit is almost double government's own capital expenditure, of 1,8% of GDP. That's a major direct negative impact on savings. If you take in all the government institutions, the so-called general government, there may still be a slight positive figure, but the Budget we are discussing now has a negative influence.

Bethlehem: The Budget adds to government dissaving. Private savings are still extraordinarily low. The tax changes may not help much. The point I would emphasise is that the Budget has intervened to help sustain the macro-economy, and to the extent to which it does that it helps sustain particularly the corporate contribution to saving.

Parsons: Can we expect any help from the world economy in the aftermath of the Gulf War? Are the tea leaves looking a little different from two or three months ago?

Gouws: We can look for no help from that quarter. The US economy may pull out of recession by, let's say, mid-year, but it will be a slow, painful recovery from major structural problems. Europe, if not moving into a recession, faces substantially slower growth and there is a distinct possibility that Japanese growth will fall off sharply.

So we'll probably see a continuation of what re-emerged in the fourth quarter of last year: a fall in our terms of trade, coupled unfortunately with, for the first time in a long time, a weakening in export volumes. Prices and volumes will both work against us this year. Easing of sanctions will be a cushion, but they never had much impact.

Osborn: The commodity price cycle is still depressed. I cannot see any significant improvement this year. The same applies to gold, though platinum may respond sooner. Lack of any contribution from the world

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Foreign investment will be crucial, says Mbeki

Star 19/4/91 (49)

Star Bureau

Govan Mbeki . . . denies condemning sanctions.

LONDON — Domestic savings and foreign investment will be crucial in the rebuilding of the South African economy in the post-apartheid era, says leading ANC official Govan Mbeki.

Addressing a meeting of the Royal African Society in Cambridge, Mr Mbeki painted a grim picture of the state of the economy, saying it had failed to provide the needed employment opportunities, and could not feed, clothe or house the population.

"It has created such gross and obscene inequalities in terms of distribution of income and wealth that it must surely be a miracle that the wretched of the Earth have not put to the torch the opulent mansions of the lords of the Earth."

Mr Mbeki has subsequently denied reports in Beeld and on SABC-TV that he condemned sanctions as well as disinvestment by foreign companies.

Mr Mbeki said the ANC was committed to "raising the rate of economic growth, mounting a determined offensive against poverty and reducing the enormous racial disparities that exist in terms of the distribution of income and wealth".

He added: "The masses of those who are today disfranchised would have to experience actual improvement in their standards of living and their quality of life for them to support the political transformation we are working for.

"Without this, the country would be condemned to a level of instability and conflict which would endanger the democratic order and possibly lead to repression and dictatorship, to which we are firmly opposed."

In post-apartheid South Africa, the ANC favoured a mixed economy. "That mixture will consist of a private sector; a public sector; small business, including an informal sector; as well as a co-operative sector."

Economic growth would have to be achieved through both domestic savings and foreign investment, the latter being especially important.

"We are therefore sensitive to the fact that the democratic South Africa will have to provide a climate that would be attractive to the potential foreign investor."

He revealed that the ANC and Cosatu were working on an investment code which would take into account specific measures aimed at redressing structural racial inequalities which would be a legacy in the new South Africa of the system of white minority domination.

The ANC needs a clear economic policy to encourage investors, says **Stanley Uys**

Time running out to sell SA

(49) Star 19/4/91.

SOME years ago, President Robert Mugabe came to London to woo British investors. A reception was arranged for top businessmen and the Zimbabwe entourage mingled hopefully with them.

It was a disaster. The Zimbabweans, insensitive to the time and the locale, "comraded" each other all over the place, and Mr Mugabe's speech, written for him by a socialist zealot, went down like a lead balloon. As the businessmen left the reception, one of them made a thumbs-down gesture to the organiser.

The lesson? A price is paid for rhetoric. Outside of reinvestment and bank loans, Zimbabwe probably received not more than $100 million (R270 million) in the first decade of independence. Only now is an adjustment being made between socialist rhetoric and capitalist reality, and even then it is still incomplete.

Later this year, a major investment conference will be held in London to which the ANC will be invited.

It will be asked to explain its economic policy. There have been a number of such conferences and, it must be said, the ANC has not exactly been forthcoming at any of them. Prospective investors have departed from these conferences little the wiser than when they went in.

The ANC's problem is understandable. It has only just returned from exile and it is still taking the pulse of its supporters. But the feeling is that it can do better than it has done so far.

Certainly, as some weary corporate leaders in South Africa complain, it can begin by answering telephone calls and fax messages. The disorganisation at the ANC's headquarters in Johannesburg is becoming legendary among businessmen, journalists, academics and anyone else you care to name who has tried to make contact with Sauer Street.

There is no doubt that a pool of prospective investors exists here in Britain, but South Africa may never realise this potential if the ANC (and other black political parties) cannot offer investors what they are looking for.

And what are they looking for? I spoke to several experts whose concern is investment in South Africa, and who offered the following ideas.

First, when investors go to an investment conference, they do not want to listen to history lessons. It may sound harsh, but it's the future they are interested in, not the past.

I attended an investment conference in Western Europe last year at which the ANC speakers, almost without exception, simply read papers that retold the apartheid story. Not a clue was given as to what an ANC government would do to achieve "redistribution" of wealth and resources. Clearly, history was masking a policy void.

Second, investors want some assurance of stability. They have to think 10 years ahead, and they want to be reassured that rules announced today (for example, tax rates) will not be arbitrarily changed tomorrow. They have had enough of this experience with the present South African Government, which helps to explain the country's poor investment record.

Investors want certain principles to be acknowledged by a future black government and this has not happened so far.

One of these principles is that investors want a return on their money, and the riskier the environment, the higher the return they demand — or they go elsewhere.

Few radicals in black organisations accept this principle. They believe that profits somehow are evil and they say so, and this alarms, or at least confuses, investors.

These radicals are also inclined to see investment as a kind of beauty parade: There is an array of competitors and the organisers (the State) lay down a code and choose the winners they want. This array just does not exist.

The most important principle, of course, is whether the State will confine its role to that of facilitator, or whether it intends to institute a command economy.

Investors accept that the ANC probably is not quite sure itself in which direction it will eventually move, but they want a broad indication at least at this stage of what to expect. As Barend du Plessis notes with increasing urgency, time is running out for South Africa.

One investment expert put this point to me: What the ANC needs is someone like Zimbabwe's Finance Minister Bernard Chidzero, who is known internationally (by the World Bank and IMF among others), and who, although he lacks a political base, nevertheless has sufficient political clout in Cabinet to ensure that his policies usually are carried through. He is there to help sift the rhetoric from the reality.

Zimbabwe's Bernard Chidzero . . . ANC needs such a man.

It has been a long, uphill struggle for Dr Chidzero, but he has got there (although investors claim that the Zimbabwe civil service is neither civil nor does it provide a service — its function appears to be to turn investment into an obstacle race).

Dr Chidzero has just managed in Paris, for example, to persuade international donors to part with $1 400 million (R3 780 million) over two years — exactly what is wanted under Zimbabwe's economic reform programme.

Thabo Mbeki, the ANC's foreign affairs spokesman but an economist by training, is the closest the ANC gets to a Chidzero-like figure, although some businessmen talk of Professor Wiseman Nkuhlu as someone who might be brought in and groomed.

The whole point of creating such a personality is that he can become someone on whom international investors can take their bearings. But then he must have the political "bottom" to carry his ideas in Cabinet. He cannot be a decoy who tells investors one thing while the Cabinet does something else.

Investors are not looking for a Gladstonian liberal — only someone who is competent and pragmatic, and combines financial soundness with political weight. If the ANC has such a person in its ranks, will he please stand up? □

Economic compact is the only way to avoid total chaos

BDay 22/4/91

PIETER LE ROUX

(49)

DOGMATIC free marketeers and old style historical materialists do not believe in social compacts. The free marketeer believes that optimal progress can be attained only if a society conforms to the inherent laws of the market. At most, a minimalist compact not to interfere with the market is required. And those who believe in immutable historical laws believe that compacts shorten or lengthen the revolutionary transformations which will inevitably take place.

There is neither time nor space to consider the philosophical underpinnings of the economic determinism inherent in both of these schools of thought. Suffice to argue that human beings, in contrast to the objectors of natural scientific behaviour, have the ability to reflect and modify their behaviour.

We are not condemned to repeat the mistakes of the past. We do create our own future but not, as the existentialists seem to believe, under conditions of our own choice, nor necessarily with the consequences that we intend.

A social compact is an attempt to avoid an outcome which all the participating groups and classes see as undesirable. Some societies prefer to muddle through. Britain, for example, except for perhaps during the war years, has never had a successful economic compact. Others, like Lebanon, are destroyed by the failure to establish viable compacts. But the success of some of the economically most successful countries can undoubtedly be ascribed to successful social and economic compacts.

It is the view of many South Africans, from all groups and classes, that SA is today in desperate need of a social and economic compact. If we should wait three or four or even five years for a negotiated settlement (a political compact) to be reached before we turn our attention to the social and economic crisis, it will be too late. The very fabric of our society is being torn asunder. Social and economic compacts need to be reached now even while the political compact is still being negotiated.

There are different understandings of the nature of a compact. It is not, as some would have it, an agreement imposed by a right-wing government eager to co-opt some sections of the working class. Nor can it, in a Stalinist fashion, be enforced by the vanguard of the revolution. It calls for a willing participation by all significant groups and classes.

A compact is also not an all-inclusive consensus. This is not the airy-fairy world in which all differences in interest, and all class conflict, have been suspended. Social compacts are thus not based either on domination or co-option.

A social compact constitutes an agreement on specific goals, often of a short-term nature, and specific programmes, even though deep differences on a very broad range of political, economic and social objectives will remain. The struggle for political and economic hegemony continues, but in a fashion which will not destroy that which is in the common interest of all. Compacts are thus based on common ground rather than on consensus.

Compacts are not static contracts, but are of a dynamic nature. Areas of agreement may expand or contract. Trust can grow or diminish. Success will breed more success. Failure, in the SA context, could breed catastrophe. Compacts can be reached at a macro or a micro level. They can be of a short-term or a long-term nature.

All groups and classes which are willing to participate in a compact should clearly be welcomed. For the success of a compact, it shoud be attempted to include all those who have power, both in the negtive sense that they could disrupt the compact, and in the positive sense that they could deliver their constituencies and in other ways mobilise resources.

If an economic compact is to be made which will overcome the crisis we face, it would seem that it would have to be on the macro level. Participants should include all political parties that meet the criteria set above, the government and other relevant sectors of the public sector, the business sector and the trade unions that meet the criteria set. Somehow, one would also wish to see the the urban and rural poor represented.

It seems as though it should be possible and, if the compact is to succeed, necessary, to agree on or reconfirm commitment to the following goals: firstly, the suspension of the armed struggle by all significant actors; secondly, the establishment through negotiation of a full democracy; and thirdly, the urgent need to deal immediately with the economic crisis even before the political negotiations are completed, in order to uproot poverty and combat unemployment.

The first two goals have already in principle been accepted by some of the main potential participants. It may well be possible that agreement could be reached on a wider range of immediate objectives than the three proposed, but even this limited commitment could lead to the successful implementation of a wide range of programmes needed to overcome the crisis.

Agreements on a micro level, as one has had in areas such as Port Nolloth and Middelburg, are very important, but given the extensive nature of the crisis, it seems as though an agreement on a macro level would be needed for a speedy resolution.

Agreement on the types of programmes that ought to be implemented would be facilitated if there should be a convergence in the understanding of the nature of the problems, although it must be realised that views will continue to be divergent. Programmes which benefit all groups, even if only in the long run, are clearly the most likely to be accepted.

The programmes proposed should have visible and tangible results, which could soon be felt on the ground, but must also address the longer-term structural problems in the economic and social spheres.

The longer-term programmes should have two main thrusts: the transformation of our manufacturing industry into one which can so successfully compete on the export markets that it can provide the foreign exchange needed for high rates of economic growth; and the restructuring of the education system so that it provides citizens with the skills needed for a modern world.

In the short term, agreement could surely be reached on a variety of programmes which could contribute to the alleviation of poverty and the provision of more employment opportunities. Literacy, land ownership, drinking water provision, primary health care and programmes to assure access to finance for those currently excluded are areas which urgently need to be addressed. Housing, electrification and job creation programmes also need to be given a high priority.

There are many potential obstacles in the way of reaching a compact of this nature. The lack of expertise of some groups to participate effectively in the planning of the programmes, the inability of some to deliver their constituencies, the shortage of the personnel to implement successfully the programme, and external factors such as the balance of payments bottleneck and the ability of groups unwilling to participate in the compact to destabilise, may all undermine the successful implementation of the compact.

But though success is not guaranteed, history will not forgive the present generation if it should not at least attempt to address immediately the massive problems that our country faces.

If long-term stability is to be assured, a political settlement urgently needs to be reached. Meanwhile an economic compact is needed if we are to steer away from total chaos and destruction.

☐ **Prof Le Roux teaches economics at the University of the Western Cape.**

Reform has made little difference to the homeless

Star 22/4/91 49

BOOK OF THE WEEK

Urbanisation in post-apartheid South Africa
by Richard Tomlinson (Unwin Hyman R69,95)
Reviewed by James Clarke

WRITING a book about post-apartheid cities right now is a bit like writing on post-war Iraq. It is a mite too soon.

But Richard Tomlinson took the plunge. He produced "Urbanisation in post-apartheid South Africa", while reform was fluid. He certainly could not have guessed, at the time of writing, that the Group Areas Act was about to collapse.

Yet his thesis stands.

Dr Tomlinson (I understand he is only distantly related to the "homelands architect" Tomlinson who died this month) lays bare the apartheid city and its bastardised zoning.

This very useful section is reason enough to read this book.

He goes on to show how "reform" is changing nothing.

Nationalist urban planning ideology, like an Aborigine's unwanted old boomerang, is going to be very difficult to throw away.

In the days of apartheid, black influx was checked by unsubtle controls — blacks had to beg for permits to stay in town and could own nothing.

Tomorrow they are going to have to beg for money instead. The black worker has been priced out of town.

True, he is no longer a migrant worker, yet he is still being "planned" out of town.

He is now a "commuter worker", forced to live on the urban edge because he can afford nothing more.

There is nothing new about commuter workers, of course, but "what the Government is doing," says Dr Tomlinson, "is deliberately accentuating the cost of land close to the cities".

While workers are pushed to the periphery of the city — in fact, to extensions of existing townships — the unemployed are forced to live in even less accessible places far from work opportunities. They can't afford even the site-and-service schemes offered by the Government.

In short, "the city divided" which so epitomises South Africa remains intact.

Dr Tomlinson does not advocate shock tactics in order to induce a more equitable nonracial order.

He sees as the major priority the need to make more land availabile for low-cost housing right where the job opportunities are.

How? With a new land tax to encourage land to come on to the market.

Look at all that sand-smothered mine-owned land which has been kept out of circulation.

The mines could afford to keep it out because they pay no rates and taxes on it.

He also advocates a progressive site-value tax system which will encourage higher densities and spread the financial burden of providing infrastructure.

He warns that land supply must not be seen as an isolated issue (that's been our fault in the past) but in context with urban living patterns.

If housing development is where the jobs are then the less well-off are spared the expense of commuting.

Dr Tomlinson (a respected planner with the Development Bank of Southern Africa) has a great deal to say about the PWV, which he sees as being on the threshhold of a new phase of explosive urbanisation. He battles with the quantitive side and refers often to the incredible disarray of the existing data base.

For example, Soweto's population could be anything between 700 000 to 3 million, depending which survey you prefer.

He shares the view of Wilfred Mallows that South Africa is more aligned to a middle-income country than a Third World country and that solutions to our problems may be found more in overseas experiences than from anything Africa can offer.

His book also examines post-apartheid government and economic values; industrial decentralisation and rural development, including the thorny issue of land redistribution.

As far as the last point is concerned, he sees a situation which is much less traumatic than the average South African would believe. There's a lot of "white land" out there, often unused, sometimes abandoned and some of it already occupied by blacks anyway. □

Sanlam optimistic about 1992 upturn

B/Day 23/4/91

(49)

LINDA ENSOR

SANLAM economists have adopted a cautiously optimistic view of the economy's future.

They say in their April economic survey that prospects for a recovery in general economic activity later this year or early next year have improved considerably during the past few months.

However, they caution that the deterioration in the financial position of consumers as a result of a slow rate of wage increases, high inflation and taxes, will have a negative effect on consumer spending and therefore on economic growth.

"All in all, we do not expect 1991 to produce more than minimal growth; in fact, a further decline in the real production of goods and services cannot be completely ruled out. We nevertheless believe that the foundation will be laid for considerably faster economic growth in 1992."

Among favourable changes has been the early end to the Middle East war.

The survey says indications are that the slowing down in the rate of expansion in countries such as Japan and Germany will coincide with an economic recovery in the US and Britain later this year. This could result in the downswing in the world economy being relatively mild.

Interest rates in most industrialised countries (except for the US) are expected to show a downward trend during the remaining months of 1991.

Other factors cited by the survey are the significant improvement in agricultural conditions, with its positive implications for the balance of payments and food prices; increasing signs of the lifting of sanctions; greater restraint in wage and salary demands in both the public and private sectors; lower interest rates and continued fiscal and monetary discipline.

The lowering of the bond rate and probable further decreases in the rate later this year should contain the increase in housing costs and have a favourable effect on the inflation rate. The survey says the recent significant downward trend in the annual rate of increase in housing costs can largely be attributed to the fact that bond interest rates remained at about 20,75%

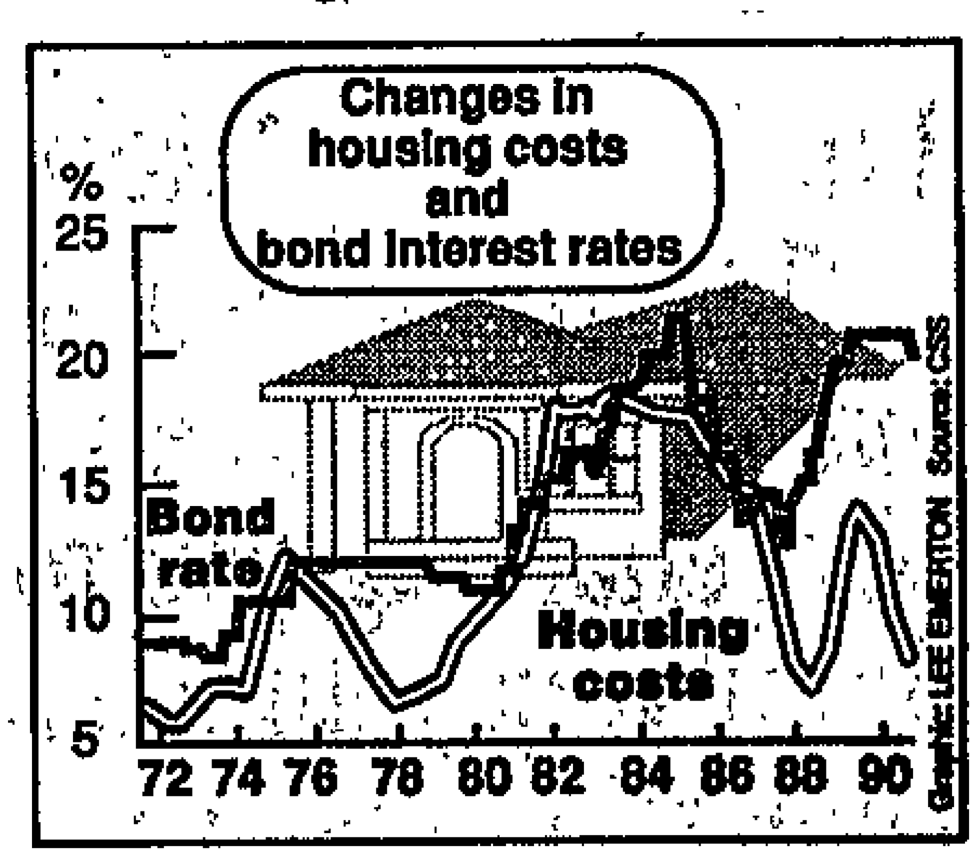
"We believe that the underlying trend in the inflation rate is a downward one, but that the introduction of VAT later this year could possibly interrupt this tendency temporarily. At this stage we envisage an average inflation rate of about 14% for 1991 in comparison with 14,4% in 1990."

Sanlam expects the recent sharp decline in the volume of imports to continue for the larger part of 1991. Together with an unsatisfactory export performance, this will mean the surplus on the current account will be about R3bn for the year compared with R5,787bn last year. The capital account is expected to improve.

"It is clear that the foreign reserves are not yet strong enough to accommodate a significant upswing in the economy."

No lowering of bank rate before the third quarter is expected, with a prime overdraft rate of 18-19% predicted for end 1991.

"We do not expect the capital market interest rates to deviate considerably from current levels in the next few months but we believe that long-term interest rates will drop in the second half of this year in conjunction with the expected lower short-term interest rates and the moderate demand for long-term loan funds,"



SA 'must consider weaker countries'

(49) Star 23/4/91

Star Africa Service

HARARE — South Africa must avoid the temptation to dominate all regional decisions and show special sensitivity to the needs and concerns of weaker countries in southern Africa, leading businessmen were told yesterday.

The director-general of the SA Institute of International Affairs, Professor John Barratt, said there was a real threat that SA's economy would grow stronger at the expense of others.

He was addressing 300 delegates from 20 countries attending a convention on southern Africa called "The Challenge of the 90s" organised by the Zimbabwe division of the Institute of Directors.

Earlier, Zimbabwe's Minister of Industry and Commerce, Kumbirai Kangai, had said a free South Africa would take its rightful place in the region in the 1990s.

The listing as a delegate at the conference of the head of the SA Trade Mission in Harare, Nico Nel, is another indication of the new openness between Pretoria and black Africa.

Mr Barratt warned in his keynote address that some countries were expecting too much from a post-apartheid SA.

The economic and social needs of the majority of SA's own population were increasing daily.

He said, however, that Pretoria had a responsibility to help in resolving conflicts which it had helped to promote and to assist in repairing war-damaged economies.

President de Klerk appeared to be seeking a new pattern of regional relations but there was a fear that SA could be trying to revive in another form its idea of a "constellation of southern African states" once proposed by P W Botha.

At this stage, when the process of transformation was far from complete, other states in the region would hold back from any idea of formal inter-governmental arrangements.

However, trade was growing and bilateral relations had improved.

Mr Barratt added: "One must hope that by the middle of the decade the transition will have taken place in SA and we shall then be able to look more clearly at the probable future course of events in our region."

Subcontinent 'key to growth of Africa'

Star 23/4/91

49

By Robin Drew
Star Africa Service

Dr David Owen, former leader of Britain's Social Democratic Party.

HARARE — The key to reversing Africa's disastrous economic record lay in concentrating on the development of southern Africa, which was a region with the potential for success, Dr David Owen, former leader of Britain's Social Democratic Party, said yesterday.

A former foreign secretary in the Labour Government, Dr Owen flew back to Britain yesterday, cutting short his visit to Zimbabwe following speculation that he had been offered a post by Prime Minister John Major. Dr Owen would not comment on the reports.

He was a keynote speaker at the two-day conference of the Zimbabwe division of the Institute of Directors which opened yesterday in Harare and is being attended by 300 delegates from 20 countries.

The conference is debating challenges facing southern Africa in the Nineties.

He said the most significant event of recent years was the shift towards a market economy, irrespective of ideology, which had gathered momentum in a remarkable way since 1989.

Southern Africa should learn from the experiences of Europe and work to quickly develop an internal market.

It was vital to get people to understand the importance of the market economy and a pluralist democracy to enable development to go in the right direction.

In the South African dialogue it was necessary for the economy, industry and trade to be given as high a priority as constitutional change. A rapid move towards a market economy was of the utmost importance.

Without sustained economic growth it would be that much harder to finance the improvements needed in the social infrastructure.

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Signs point to upswing next year, says Sanlam

By Sven Lünsche

(49) Star 23/4/91

The foundation is now being laid for a considerable upswing in economic growth in 1992, says Sanlam in its latest Economic Survey.

Chief economist Johan Louw says some favourable economic changes in the past months have improved prospects of a recovery in general economic activity later this year or early next year.

These changes include lifting of sanctions, improved agricultural conditions, greater restraint in wage and salary demands, lower interest rates and sustained fiscal and monetary discipline.

For this year, however, Mr Louw foresees no more than minimal growth for 1991 and even sees a further decline in real production of goods and services.

"The consumer's position will continue to deteriorate, mainly as a result of continued high inflation, rising tax pressure and a slower increases in wages and salaries.

"This, together with continued labour unrest, will have a negative effect on private consumer spending and, consequently, on economic growth," Mr Louw says.

The slower consumer spending trend should manifest itself in lower increases in the Consumer Price Index (CPI), he says, adding that the underlying tendency of inflation is downwards.

Impetus

Much of the impetus could come from lower housing costs, which have a weighting of 21 percent in the CPI, after the recent fall in bond rates.

However, the introduction of VAT is likely to interrupt this tendency temporarily and Mr Louw sees an average inflation rate of 14 percent this year (14,4 percent in 1990).

The unacceptably high level of inflation is expected to force the authorities to maintain a tight monetary policy for 1991, he says, despite slower economic growth and a forecast rise in net foreign reserves.

"We think that the next lowering of the bank rate will not occur before the third quarter of this year and expect a prime rate of 18 to 19 percent by year-end."

On the balance of payments, Mr Louw expects a surplus on the current account of R3 billion this year, against R5,8 billion in 1990, and a slight improvement on the capital account.

However, foreign reserves are still too low to accommodate a significant upswing.

● Despite the tighter financial situation of consumers, sales of durable goods continue, particularly amomg blacks, to show growth in real terms, the executive director of the Furniture Traders Association, Frans Jordaan, said yesterday.

He said that sales of furniture, household appliances, audio and TV equipment in February rose by a year-on-year 20,1 percent.

"Despite the continuing unrest in townships, sales in the black sector soared by 31,2 percent at current prices," Mr Jordaan said.

However, overall sales of furniture declined sharply in February.

Banking on closer ties with Zimbabwe

(49)

Star 23/4/91

Star Africa Service

HARARE — A significant shift towards closer relations between Zimbabwe and South Africa took place yesterday with a call on President Mugabe by ~~Dr~~ Desmond Krogh, a senior adviser to the Governor of the South African Reserve Bank.

Dr Krogh, in Harare for a meeting of the Institute of Directors to discuss the challenges facing Southern Africa this decade, told reporters that South Africa was working on the prospects for future co-operation with other African countries.

Already there were some areas of co-operation between Zimbabwe and South Africa.

Zimbabwe's economic reform programme would open up trade co-operation between Zimbabwe and post-apartheid South Africa, he said.

Zimbabwe broke diplomatic relations with South Africa after independence in 1980 but the two countries maintained trade missions in each other's territories.

The missions also handle consular matters.

Mr Mugabe has maintained that there should be no political links.

The meeting between Dr Krogh and President Mugabe was described by the Zimbabwe national news agency as the first between an official link to the white minority regime and the Zimbabwean president.

Dr Krogh said there were prospects of co-operation between the reserve banks of South Africa and Zimbabwe which would be positive for both countries.

The two neighbours were exploring ways of working closely together in their mutual economic interests.

Dr Krogh served with the Reserve Bank of Rhodesia in the 1970s and stayed on with the Reserve Bank of Zimbabwe until 1983.

SA may be invited to join African Development Bank

Star 23/4/91

ABIDJAN. — The African Development Bank (ADB) is studying changes in South Africa with a view to future membership of Africa's top lending institution.

"We are aware of the evolution in South Africa and are watching it closely," ADB secretary-general Alioune Blondin Beye told the media yesterday when asked if Pretoria would be invited to the bank's annual general meeting next month.

He said it was "not yet the political view of Africa" to have South Africa join the ADB.

But ADB sources have said the bank's president, Babacar N'Diaye, favours eventual membership for South Africa.

The sources said it was possible SA would have observers at the meeting on May 7-9 in the Ivory Coast capital of Abidjan or that South African bankers would be present.

Participation in the ADB would be a major step forward in the process of cementing ties between black Africa and South Africa.

Mr Beye said up to 1 500 people were expected to attend the ADB's annual general meeting and that one of the main orders of business would be setting a new five-year programme for the bank. — Sapa-Reuter.

Bank on a new South Africa urges De Klerk

Sowetan 23/4/91. (49)

LONDON - President FW de Klerk had a crucial meeting with some of the world's most powerful bankers here yesterday.

He was hoping to convince them to invest in his vision of a new, post-apartheid South Africa to be negotiated with the ANC and others.

On the pavement outside the South African Embassy, where De Klerk met the bankers behind closed doors, anti-apartheid activists still sceptical of his declared democratic intentions - and who in Britain agree with the ANC's stance that sanctions must stay - were hoping for a good response to their call for a "mass protest".

The British Anti-Apartheid Movement's chairman and Labour Party MP, Mr Robert Hughes, said amid preparations last week that their message was "De Klerk must stop the violence and repression which is wrecking the peace process".

Promises

"De Klerk has broken his promises to release all political prisoners, grant indemnity from prosecution for political exiles, and to repeal repressive legislation by April 30," he said.

Anti-apartheid demonstrations, which used to run non-stop outside South Africa House on Trafalgar Square, have been relatively subdued since the release of Mr Nelson Mandela on February 11 last year.

Topping the list of about 15 of Britain's most senior bankers and financiers giving De Klerk a unique combined audience, was Mr Robin Leigh-Pemberton, Governor of the Bank of England.

Other bankers' names remained secret - as a rule they prefer to do business out of the media spotlight - but Japanese

FOCUS

bankers, representing some of the world's richest and most powerful financial institutions, were reliably understood to be on the panel as well.

While expressing quiet confidence at his Chelsea hotel on Sunday night, on the eve of his week-long tour of Britain, Denmark and Ireland, it was clear De Klerk was anticipating some tough questions from the bankers.

Interest

De Klerk said he felt there was already considerable interest in South Africa from potential foreign investors.

He saw his task as one of securing more solid assurances from them that they would be going ahead anu investing in South Africa's future.

In pure financial terms, for bankers looking firstly at a profit on their foreign investments, South Africa remains a distinct credit risk due to the internecine township violence, wider political instability and question marks hanging over the prospect of South Africans being able to peacefully negotiate a new non-racial constitution.

De Klerk faces the task of explaining to the bankers that without their green light for an injection of foreign capital to revive the tattered economy - so that it can provide the vital socio-economic basis for his "new South Africa - his chances of succeeding are drastically cut".

He will be following this up with the argument that his chances of success will be considerably increased if they accept his as-

PRESIDENT F W DE KLERK

surances a peaceful settlement is possible, and invest now if not sooner with a promise of good profits they will be able to take home in the years to come.

In the frank discussions, De Klerk is expected to give the bankers - renowned for respecting confidentiality - an intimate breakdown of the state of affairs in South Africa at present.

Killings

His latest moves to get black leaders' co-operation in stopping the township killings, and progress on negotiations so far with his opposition, such as Mandela's African National Congress, will feature prominently.

One of his arguments to the bankers is likely to be the prospect of a politically stable, prosperous and democratic South Africa using its economic infrastructure in co-operation with other emerging democracies in Southern Africa to open up a vast new African market for the First World to trade with.

South Africa could be a new southern gateway to Africa, but only if they are prepared to help make it happen, he will argue.

De Klerk confirmed on Sunday night that while he was intent on establishing a good working relationship with British Premier John Major, as it would be their first meeting, and breaking new political ground in Denmark and Ireland, "the emphasis is on the private sector".

On this, his third European mission in less than a year, his agenda is crammed with business meetings, mostly in London. - *Sapa.*

Political comment in this issue by Aggrey Klaaste and Deon du Plessis. Newsbills by Sydney Matlhaku. Sub-editing and headlines by Ivan Fynn. All of 61 Commando Road, Industria West, Johannesburg.

State bid to bolster economy

Sowetan 24/4/91

49

By ISMAIL LAGARDIEN
Political Correspondent

THE Government is to devise two programmes in an attempt to bolster regional economic growth and encourage industrial development.

Both programmes, the Regional Industrial Development Programme and the National Regional Development Programme, were announced by the Minister of State Expenditure and Development, Mr Amie Venter, in Johannesburg yesterday.

The programmes are to focus on the "natural advantages" of the various regions and on the ability of the metropolitan areas "to attain higher economic growth".

"They also seek to provide the necessary momentum towards the establishment of successful and permanent regional industries," Venter said.

Policy

He said the Government had decided to move away from its old policy of decentralisation of economic activities and had adopted a more comprehensive and integrated process of regional development.

The new programmes take into account the constitutional, demographic, social, economic and physical aspects of the national economy.

Venter said regional objectives and needs had been reconciled with national goals.

"These broad development policy guidelines, together with a considerable quantity of detailed information contained in the envisaged programme will ensure that this programme becomes a reference framework, with the aid of which realistic regional objectives could be identified and development strategies devised," he said.

Most of the emphasis of regional development would be in the PWV area because of its "outstanding role" in the political, economic and social arenas, Venter said.

He said further natural urbanisation in the Transvaal would to a large extent focus on this area.

Positive capital inflow is a possibility this year

Star 24/4/91 (49)

By Sven Lünsche

Over the next 12 months South Africa could record positive capital inflows for the first time in years, says Southern Life's economist Mike Daley.

"Capital outflows are no longer the drain they used to be on the economy and a renewed inflow of capital could prove a big boost to growth over the next few months," Mr Daley said at the presentation of Southern's latest Economic Comment.

Capital outflows last year were down by nearly R1,5 billion from 1989 and coupled with a high R5,8 billion surplus on the current account of the balance of payments boosted net reserves dramatically by R2,9 billion.

The expected stronger capital inflows may partially offset other negative developments on the country's trade accounts.

Mike Daley . . . Recovery only in 1992.

Against a background of deepening world recession for the greater part of this year, export volume growth may fall slightly, and no sustained improvement in international commodity prices was in sight, Mr Daly says.

This was particularly true for the dollar-dominated gold price which may come under further downward pressure if the dollar continues its recent strong performance against other major currencies.

The current account surplus will thus be around R4 billion this year, Mr Daly says, allowing for small improvements in the net reserves position.

Given the forecast of a lower gold price and the absence of a major flow of liquidity through the balance of payments, Mr Daly says the economic growth phase was likely to be gradual in its initial stage.

"Recovery, gradual as that, must wait until 1992," he says.

"Interest rates and inflation will be somewhat lower by the end of the year, but the economy will only then have reached its lower turning point.

He sees real GDP growth for 1991 turning out a positive 0,5 percent, provided that real imports fall again after last year's 3,1 percent fall.

Mr Daly expects two further interest cuts by the end of the year, but until his happens, the rising unemployment, limited salary and wage growth and the added burden of VAT in the final quarter will reduce discretionary spending of individual.

"The Budget brought no meaningful tax relief for the person in the street, and the only positive feature this year is the mounting evidence of the rolling back of international sanctions against South Africa."

He adds that the tax proposals in the budget providing little relief from the effects of fiscal drag on middle and upper income groups.

"The extension of the 12 percent value added tax to previously untaxed services implies this fiscal year will be a tough one for consumers."

The Nats aren't too worried about the ANC's budget model, writes **Shaun Johnson**

Clashing budgets not so taxing

Star 24/4/91

49

THE ANC's "shadow budget" bears little resemblance to the real thing produced by Barend du Plessis, but it has caused far less consternation in Government circles than might have been expected.

The level of panic in business quarters which met the ANC proposals has, to the surprise of many observers, not been matched among Government economists.

Although there are chasms between key economic policy precepts of the ANC and the Government, National Party sources told The Star this week that the publication of the ANC budget "did not cause us to throw up our hands in horror".

The "shadow budget" (which is not, it should be noted, a detailed proposal, but rather an exercise in altering principles) upset businessmen primarily because of a suggestion of additional government expenditure of nearly R60 billion, and allegedly punitive taxation of the better-off in the society — all aimed at large-scale socio-economic upliftment.

But, according to senior NP sources involved in fiscal policy-making, "there is, on the basis of the ANC document, a lot of space for negotiation. In fact, this is the beginning of a classic negotiating situation: If you want something, you first put prices on it that you know aren't feasible at all. I then offer as low as possible. At the end of the day you emerge on some sort of middle ground".

The sources' central argument against the ANC document is that it is "naive". Said one NP politician: "Everything revolves around the ANC's assumption of a three percent annual growth rate. That would be very nice indeed, but I'd love to know how they'll go about getting it - some of their proposals will kill the prospects for growth, not stimulate them.

"If you get that growth, obviously you're going to have a lot of additional revenue, you're going to create a tremendous number of jobs, and it's going to change the economic situation in South Africa completely."

The sources said the removal of sanctions "would help" to stimulate growth, "but if they (the ANC) want to get additional money by widening the income tax base to 35 percent of the GDP, that means you're going to tax a lot of people who at the moment are generating growth in the economy ... You are taking away an extremely important source of development capital and also the incentive to develop ...

"A lot of skilled whites might decide to leave, and if those are the tax bases that the businessmen are going to be faced with — and furthermore if there is the possibility that the assets that they have built up could be nationalised — you aren't going to get businessmen coming here at all. They'll stay away."

The sources also found fault with several additional taxes mooted by the ANC, but not fully explained in the brief document: "I actually don't understand what they mean by 'the elimination or limitation of tax expenditure including incentives', or the 'capital transfer tax'," remarked one NP member, "and I am worried by others".

He rejected:

- A capital gains tax, arguing that "it would make any private entrepreneur's hair stand on end".

"There are acceptable forms of capital gains tax — which even we might consider — but it depends on how much," he said.

- A land tax, saying it would "probably be something similar to a poll tax, but meaning that heavy tax burdens will be placed on ownership of anything above a minimum amount of land".

"That will probably be the basic idea of progressive property tax, people who own property will be paying progressively more tax on the size of their properties."

- A minimum business tax, "which we fought against very strongly after the Margo Commission".

"It's built into the system and discourages exports and makes you less competitive on the export market."

The sources argued, overall, that "(South African) individuals fall into a top tax category in the world ... And that is what we're trying to avoid".

Further, NP economists expressed concern about an ANC proposal to increase deficit financing to the "less conservative" figure of five percent. "Government will then be saddled with a tremendous interest bill, and a substantial amount of your revenue will have to be paid back as interest. Secondly, it doesn't meet up with International Monetary Fund requirements."

The NP appeared less uncomfortable with the ANC's actual plans for redirecting funds into socio-economic upliftment, but still voiced doubts about a new government's ability to release funds of the magnitude described.

It is conceded, for example, that there will be savings via the removal of "apartheid octuplication", but it is argued that these benefits will be far from immediate, as the old system has to be phased out: "You don't just fire people, there has to be some sort of agreement with them."

The sources agreed with the ANC's identification of areas of primary need (for example housing, health and education), but argued that "a lot of money should be spent in creating the necessary infrastructure to encourage people to come into the economic world".

"For instance by using development corporations much more extensively ... By doing that you will increase (black peoples') levels of wealth and put them in a position to look after their own requirements.

"If a guy builds himself a better house, moves to a better neighbourhood, you are starting to encourage private ownership and developing an economic culture ... A lot is going to depend on the levels of political stability.

"But I've got no gripes at all about what they (the ANC) have got to do about primary health clinics, the rural infrastructure and the like."

The sources concluded that the ANC proposals could have been "a lot further away from our view", but remained worried about the most basic economic tenets underlying the ANC approach.

"What really should happen," said one, "if you want to follow the route of countries that are developing very quickly economically, is to reduce your tax base, and to reduce the percentage of tax in the GDP. That generates a lot more growth. Now if you take this money out of the companies and from individuals to achieve certain socio-economic development programmes, or to achieve a redistribution of income, you're going completely away from the economic system which is based on the principles of free enterprise.

"Now you're becoming an economy in which Government control plays a far greater role, and which is based on more socialistic ideas.

"That worries us about the ANC, but I think it's absolutely necessary that the time comes soon when one can sit around and start talking about the economic structures that this country requires — even in budgetary detail." □

Settlement possible this year — Mbeki

TIM COHEN

HARARE — ANC international affairs chief Thabo Mbeki yesterday called for a fresh evaluation of SA's reintegration into the southern Africa region, saying the country's political transformation could be achieved this year. BDay 24/4/91.

Mbeki told delegates at the Institute of Directors' Conference in Zimbabwe that political transformation could take place very soon if the problem of violence was effectively dealt with.

He said regional organisations ought to be studying the implications of SA's integration into the region because if it were left to market forces alone, SA would totally dominate the countries in the region — which would create tension.

He was aware that transport and electricity organisations were discussing regional issues and other organisations like universities should also do so.

He said the political process could speedily proceed to the adoption of a new constitution if violence was effectively dealt with. But the political settlement had to be underwritten by a growing economy. A growth rate of 5,5% was needed over the next 10 years to deal with unemployment.

Mbeki said a proportion of savings to GDP, currently about 7%, would have to increase to about 14%. Foreign investment of about R4,4bn would also be required.

● See Page 6

49

'Govt will not abdicate to chaos'

Risk capital pouring into SA, says FW

(DS80) (49)

B'loam 24/4/91.

PATRICK CULL

LONDON — Hundreds of millions of rands in risk capital was flowing into SA, President F W de Klerk told the Royal Institute of International Affairs yesterday.

Responding to a question, he said that the money was being invested in new industries, businesses and job creation. It was not just money that was being "shifted around. For the first time in many years we are experiencing an inflow of capital."

He warned that "those who are overcautious may find others getting in on the ground floor".

Earlier in his speech the President said he was very optimistic about SA's future. "We are a good risk and I don't know of any financial instituion which would disagree."

The President said the biggest problems lay with the IMF and World Bank and the "perception that things might go wrong.

"I coldly, analytically, believe things will go right in SA, and the only problem is the endemic violence which is halting investment — and we are going to end that."

Spelling out the reasons for optimism, he said practically all the key actors in the political arena had committed themselves to a negotiated solution.

Secondly, the sanctions and isolation wall "is disintegrating and should disappear almost entirely during this year", and a strong economy was bound to follow visible progress of the negotiation process.

De Klerk said every political grouping, including those that had previously advocated a centrally planned economic models, was adopting a more pragmatic vision of future economic policy.

The President said there was a growing realism in southern Africa about the need for closer economic co-operation, while prospects for SA's readmission to the capital markets in Europe were improving.

De Klerk said that SA was an under-

☐ To Page 2

President F W de Klerk and former British prime minister Margaret Thatcher shake hands as they part after private talks in London yesterday. Picture: AP

De Klerk

B'loam 24/4/91

(DS80) (49)

☐ From Page 1

borrowed country by international standards with a rapidly growing domestic and regional market.

He said he was frequently confronted with fears about the future and how one could be sure a new government elected in terms of a new constitution would not make the same mistakes as elsewhere in Africa. He said he did not believe there was "any real risk of this happening".

Government was committed to sharing power and "wholly opposed to surrendering it unconditionally". SA, he said, "will not abdicate to chaos".

Further, the President said, SA was, economically a going concern and a substantial proportion of the population had already been absorbed into the country's modern economic, social and administrative sectors.

There was also a strong judicial tradition and, in spite of the violence, a groundswell in favour of a peaceful settlement:

"All these factors lead me to say confidently: Stability will be maintained in SA. The new SA will be capable of avoiding a repetition of that which has crippled large parts of Africa."

Earlier, he told the Institute of Directors economic growth and constitutional reform had to be "mutually reinforcing and that unless the present pressing problems of poverty and unemployment are addressed, elegant constitutional models will be of little avail to us".

The President said the "premier challenge" for the political leadership of the country was the improvement of the quality of life of all people with special emphasis on the less advantaged.

This challenge, he added, could be met only by wealth creation.

SA can help regional economies, up to a point

BDay 24/4/91 (49)

GAVIN RELLY

ECONOMIC interaction between the countries of the southern African region is already substantial. Can and should this interaction be institutionalised, be it by means of a free trade area or an economic union?

The intense interest taken in Europe's progress towards a single market in 1992 has rekindled the enthusiasm for integration. We should, however, not forget that the EC single market is the outcome of some 40 years of increasing economic integration, whose progress has been by no means smooth and consistent. It is by no means certain that 1992 will signal the demise of West European economic nationalism.

That is not to say that we should not be examining measures to increase co-operation. Certainly, we could be considering harmonising investment codes or establishing common tariff barriers.

Beyond these measures, how easy is it to synchronise the economies of the region given the considerable differences in GDP size, and dissimilar manufacturing sector structures? This is an issue for the economists to investigate further. On the political front, nationalism is an untamed force not to be forgotten.

From a business perspective, we need progress towards an enabling environment for business, rather than what may now be castles in the air.

SA may be the engine of the region, but it cannot be southern Africa's saviour. SA will have its hands fairly full with its own internal economic and social restructuring. However, that is not to deny that SA has a constructive role to play.

Firstly, a future SA could act as the entrance to the region for foreign investment. There are already signs that West European countries — in particular France — are considering SA, with its infrastructure, institutional expertise and financial institutions, for this role.

Secondly, virtually none of the 250 companies which disinvested from SA in recent years set up again in neighbouring countries. Does this mean they will have to be wooed back via SA or can we get them to move directly to other territories?

Thirdly, SA could play a role in mobilising financial and human resources from outside the subcontinent, and provide a base from which technical, management and entrepreneurial skills, education and training know-how flows to the region. SA may become involved in World Bank projects in the region.

Fourthly, subject to the constraints alluded to earlier, SA's role could include providing exporters in neighbouring countries with access to the region's largest market, in addition to capital investment. However, SA has always been highly dependent on flows of direct foreign investment in SA itself, and this is a prerequisite for significant SA investment in the region.

Finally, SA has a core-developed economy, but in its totality is a developing country. Its per capita GDP of $2 300 rates it alongside Brazil, Algeria, Hungary, Yugoslavia and Malaysia.

The mining, industrial and financial institutions trace their roots back to the economies of Western Europe and North America. Yet SA is unambiguously an African country. In mining and agriculture, the dominant sectors of the regional economy, SA has locally developed technical know-how. A number of collaborative undertakings are under way — including Cahora Bassa and the Lesotho Highlands Water Project. SA, Mozambique and Swaziland agreed in February to develop the water resources of the Nkomati River basin. How SA performs its role is as important as the nature of that role. If concerns over political assertiveness are replaced by fears of economic hegemony, all the economies of the region will suffer the consequences. South Africans from government and the private sector need to be sensitive to this point — my feeling is that they are beginning to be so.

I very much doubt that we will witness economic miracles in this decade in southern Africa. There will be some but not enough dramatic industrial and commercial successes. For the most part our fulfilment will be the undramatic role of keeping things together, of building slowly, of resisting pressures to behave popularly but stupidly.

In southern Africa governments are embarking on a process of structural reform while at the same time seeking to raise living standards. What is required is an appropriate balance. It will be difficult, but by no means impossible, to resist the temptation to attempt to squeeze a quart out of a pint pot and thus by taking imprudent steps in the short run, ensure not only that the poor but the whole society gets poorer in the long run.

☐ **This is an extract from a talk delivered by former Anglo American chairman Relly to the Institute of Directors in Harare yesterday.**

Invest now FW tells the world

Sowetan 24/4/91.

49

LONDON - President FW de Klerk was confident yesterday that new private sector investment would flow into South Africa once all impediments had been removed.

Addressing an international Press conference in London, De Klerk said it was vital that new investment should precede the finalisation of the reform process.

He also said the release of prisoners and indemnification of exiles was on track and fully complied with the Pretoria Minute. He hoped South Africa's international sports relations would soon be normalised because it would boost efforts to achieve reconciliation at home.

Emphasising the importance of economic growth and development, De Klerk said: "From our point of view, economic development goes hand in hand with constitutional development.

"The high percentage of unemployment is counter-productive to the maintenance of law and order and plays into the hands of radicals who would like to see disruption and disorder.

"Any new government will be faced with high expectations. Economic development is the only answer for the development of our human potential and can and will make a fundamental contribution to efforts in all other spheres.

"Constitutional reform must be underpinned by a vibrant economy."

Tackling huge socio-economic backlogs and meeting the challenge of a "breathtaking rate" of urbanisation would require a sound and strong economy with a growth rate of about six percent.

"All these are potent reasons to get the economy growing as soon as possible."

He said what South Africa sought from the world was "confidence".

"We are not asking for hand-outs or donations. We ask that the impediments be removed and we have no doubt that we will get a flow of private sector investment because of the opportunities our economy and Southern Africa offer to them.

"There is no doubt many private sector companies are ready, willing and able to invest in South Africa. The sooner impediments are removed, the sooner this process can start."

Although it was not yet "immense", South Africa was already experiencing an inflow of new investment capital.

The removal of sanctions - which was being led by the EEC - had led to an increase in foreign trade.

Old markets were being reopened and South Africa was also trading in new markets. Among these were many African countries.

He said he had discussed US sanctions with British Prime Minister John Major and was in direct and regular communication with the US Government.

On constitutional issues, he said his government stood for a united South Africa with full political rights for all - "call it one man one vote if you like" - but providing for the principle that the majority should not be in a position to abuse power to the detriment of minorities.- *Sowetan Foreign News Service.*

Britain's Prime Minster John Major shakes hands with President FW de Klerk at London's 10 Downing Street on Monday.

East Rand princ meet DET offici

By MOKGADI PELA

THE 41 Katlehong principals "sent" by teachers to negotiate "burning issues" with the authorities yesterday reported at the Department of Education and Training offices in Alberton for the second day.

The DET said they could not guarantee that effective teaching was taking place in the absence of principals.

It said Monde Primary School, where 16 teachers had been suspended, was running smoothly with the principal present.

In nearby Tokoza schooling had returned to normal with all the principals at their schools.

On Monday a DET spokesman said that principals had been expelled by teachers belonging to the South African Democratic Teachers Union. The Sadtu denied this.

A Sadtu spokesman said principals had themselves "decided they would not return to school as they were negotiating burning issues with DET".

Meanwhile, an urgent meeting on the education crisis in Katlehong is to be convened by the Azanian Students Con-

Capital outflows have been reversed

49

BDay 25/4/91

SUBSTANTIAL capital outflows in the last quarter of 1990 had been reversed in the first quarter of this year, Reserve Bank Governor Chris Stals said yesterday.

Stals said the increases in foreign exchange reserves this year reflected a healthy capital account on the balance of payments (BoP), rather than a substantial current account surplus.

There was a R1,8bn outflow in the last quarter of 1990 which neutralised the R1,5bn net inflow in the third quarter. Total outflows for the year were R2.9bn.

"A rough calculation shows the increase in the reserves this year exceeds the surplus on the current account," he said.

While he could not provide figures, economists calculate a small current account surplus of R200m-R300m for the first quarter. This compares with an increase in foreign exchange reserves of about R1bn.

Economists say the effective increase is slightly lower because of the higher valuation of gold reserves, but the figures suggest a net capital inflow of a few hundred million rand.

Bankers cautioned against over-optimism after President F W de Klerk's statement in London that "hundreds of millions of rands in risk

GRETA STEYN

capital" had flown into SA. The experience of the last quarter of 1990 showed that a net inflow could easily be reversed.

But while there was little evidence of substantial amounts of longer term foreign finance flowing into SA, the third quarter of last year had seen an inflow of more than R800m in longer term finance.

Kick-start

Economists said capital inflows were essential for sustainable growth when the economy entered its next upswing.

Sacob's Ben van Rensburg said any programme to "kick-start" the economy would put pressure on the current account of the BoP, and capital inflows were needed to offset the foreign outflows due to imports and services.

SA's foreign exchange reserves are at their highest levels since 1987. A healthy reserves position is a key element in Stals' strategy to enhance the country's status as a debtor. Evidence that SA's ability to pay was improving under conservative economic management is expected to help win investor confidence.

Govt plan for better economic structure

CAPE TIMES 26/4/91

Political Staff

THE Minister of Economic Co-ordination, Dr Dawie de Villiers, yesterday announced a new expanded economic restructuring programme rearranging government spending to place more emphasis on safer economic reform.

He said the economic restructuring announced by the late Dr Wim de Villiers was already reaping benefits and the revised plan agreed to by the cabinet involved economic policy directives that included:

- Increased competition through further deregulation.
- Cutting growth in state spending after a review of its responsibility in the economy.
- A determined application of business principles such as cost-benefit and other evaluative techniques in the public sector.
- The elimination of the practice of funding part of government consumption spending through loans.

He said a much more co-ordinated approach had to be followed. Job creation and economic growth were the highest priority for SA and "we must guard against striving after other objectives, such as regional development, in a manner that is at the cost of economic growth and job creation".

He also indicated that he was investigating appointing a group of consultants from the private sector rather than one adviser to assist with economic policy formulation and co-ordination (as announced recently by President F W de Klerk).

With the greater stability in exchange rates, greater wage stability over the past few months and the recent decrease in the petrol prices there could be a lessening of price rises in the foreseeable future.

This would enable businesses to cut costs, be internationally more competitive and have lower price increases, resulting in a lowering of inflation.

During the next two years the government's programme for curbing inflation would be scrupulously supervised and provide for a variety of measures to promote a more efficient functioning of the market system.

Plan for 'safer' economic reform

B/Day 26/4/91 (49)

BILLY PADDOCK

CAPE TOWN — Economic Co-ordination Minister Dawie de Villiers yesterday announced a new economic restructuring programme which will place more emphasis on safer economic reform in government spending.

He said the restructuring announced by the late Wim de Villiers was already reaping benefits and the revised plan agreed to by the Cabinet included:

☐ Increased competition through further deregulation;

☐ Cutting growth in state spending;

☐ A determined application of business principles such as cost-benefit and other evaluative techniques in the public sector; and

☐ Eliminating the practice of funding part of government consumption spending through loans.

He said a more co-ordinated approach had to be followed. Job creation and economic growth were the highest priorities and "we must guard against striving after other objectives, such as regional development, in a manner that is at the cost of economic growth and job creation".

He also indicated he was investigating appointing a group of consultants from the private sector, rather than one adviser, to assist with economic policy formulation and co-ordination.

De Villiers said the adviser or advisers would be unable to function unless they remained in continuous contact with the planning and monitoring of policy strategy. Regular communication with private sector institutions would be necessary.

Other parts of the revised restructuring plan committed government to increasing exports, curbing inflation, promoting responsible wage and price determination, maintaining realistic interest rates, establishing international confidence in the economy and reducing the tax burden.

Normal business principles were intended to be applied in determining power and transport tariffs, he said.

With the greater stability in exchange rates, greater wage stability over the past few months and the recent decrease in petrol prices, "there is no reason why price rises in the forseeable future should not show a downward trend", he said.

During the next two years, government's programme for curbing inflation would be scrupulously supervised.

Economy is ready to leap ahead, says Stals

B10 a/ 24/4/91 (49)

GRETA STEYN

SA WAS ready for rapid economic growth, with an injection of foreign investment just the right kind of fuel needed for an acceleration, Reserve Bank Governor Chris Stals said yesterday.

He told the Germiston Chamber of Commerce and Industries that the way had been paved for economic expansion through positive developments in the balance of payments and in creating an environment of financial stability.

Positive factors included the country's ability to generate surpluses on the current account of the balance of payments (BoP) for six years in succession. In spite of sanctions, merchandise exports rose by 10% in real terms between 1983 and 1990.

SA's foreign debt had been reduced from \$24bn in 1985 to less than \$20bn with less than 40% in short-term debt, compared with 70% in 1985. Further evidence of a healthy BoP came from the R2,2bn increase in the Bank's net gold and foreign exchange reserves in the first quarter of this year. For the first time since 1980, the Bank had practically no foreign loans outstanding.

The rate of growth in the money supply had fallen to 13% from 27,5% late in 1988. Interest rates were in line with the international pattern in real terms.

However, inflation remained a major source of worry and the Bank would have to continue a restrictive monetary policy to fight it.

De Villiers promises to keep tariffs down

Star 26/4/91

49

The Government yesterday promised that within the next few years, general increases in power and transport tariffs would be cut to well below the inflation rate.

In announcing an expanded and updated economic restructuring programme, **Minister for Economic Co-ordination and Public Enterprises Dr Dawie de Villiers** said in Parliament that spending priorities would be changed to put more emphasis on socio-economic reform.

Introducing debate on his department's vote, he also said there were indications that the economic restructuring was reaping fruit.

Various elements of the revised restructuring programme had been an integral part of Government policy for some time. The programme approved by the Cabinet involved a wide spectrum of economic policy directives.

They included:

- Promotion of competition through continued deregulation.
- A reconsideration of the State's responsibilities to cut growth in State spending.
- Purposeful application of cost-benefit and other evaluative techniques in the public sector.
- Elimination of the financing of a part of Government consumption spending by way of loans.

Normal business principles were intended to be applied in determining power and transport tariffs. As a result of surplus capacity and the high relationship of fixed to total costs, it should be possible in the next few years to cut general increases in these tariffs to well below the inflation rate and offer special tariffs to manufacturers who could switch to several shifts.

Other parts of the programme committed the Government to increasing exports, curbing inflation, promoting responsible wage and price determination, maintaining realistic interest rates, establishing international confidence in the economy and reducing the tax burden. — Sapa.

Minister urges business to change attitudes of blacks

BDay 26/4/91

BILLY PADDOCK

CAPE TOWN — One of the most important contributions the business sector could make during a transition period would be to lock black political and business organisations into the economic debate and change their attitudes, Constitutional Development Minister Gerrit Viljoen has said.

He told the Cape Town Chamber of Commerce yesterday these organisations' arguments must be analysed and constructively criticised "to provide a meaningful alternative that will address some of the socio-economic issues involved".

Behind the unacceptable plea for nationalisation, the undeniable fact of poverty had to be acknowledged and alternative, practical solutions to eliminate unemployment and poverty had to be found.

He said business's discussions with the ANC on nationalisation had borne fruit and he suggested the next area it should tackle was higher taxation for social spending.

Business had to manage its constitutional interests by adopting a more pro-active strategy to strengthen the argument for a market economy with minimum state involvement, Viljoen said. (49)

One of the greatest concerns of black political and business organisations was their lack of participation in the economy, and big corporations should investigate methods of promoting black economic empowerment.

Business should intensify and accelerate advancement programmes for people with potential and greater support should be given to black business activities.

Urgent attention also had to be given to improved labour relations. Far too many members of the workforce did not share business' belief in the "market" and the free-enterprise system even though they were very fortunate to be in that system with so many unemployed who would willingly swop positions, he said.

The policy of maximising economic growth and allowing the trickle-down effect to address the problems of the underprivileged in time was unacceptable to black political and business organisations and more was required.

Understanding, in conjunction with the communities, of what constituted realistic and sustainable social responsibility of the business sector had to be reached.

SA is progressing in the world arena, says Fourie

BIDay 26/4/91 (49)

GERALD REILLY

PRETORIA — SA was on the threshold of a new era internally, and on the international front there were indications of real progress, Deputy Planning Minister Andre Fourie said yesterday.

Opening a session of the KaNgwane Legislative Assembly in Matsulu, he said sanctions were crumbling and SA could soon participate in the Olympic Games. Trade missions from all parts of the world were heading for SA and the IMF was ready to do business with SA again.

SA had a lot to offer the sub-continent on regional ventures such as the Cahora Bassa hydro-electric scheme in Mozambique, the Lesotho Highlands water project and the Sua Pan soda ash project in Botswana.

Fourie said economics and not politics dictated a nation's destiny.

Most political parties in SA were already involved in political and constitutional processes that were transforming the political face of the country.

Fourie said apartheid had come to an end. Land reform measures were being dealt with by Parliament.

A growing number of southern African regional leaders acknowledged the new era of contact and co-operation.

Similar views were being expressed by spokesman of Frontline states.

'We won't end up like rest of Africa'

Star 27/4/91.

MICHAEL MORRIS and SAPA

PRESIDENT de Klerk rounded off his three-nation tour in London yesterday with a bold assurance to top British businessmen that the South African economy would not end up like those in the rest of Africa.

And, as he prepared to fly home last night, Mr de Klerk declared that South Africa was no longer merely within reach of taking its proper place in the world, but was making this a reality.

Mr de Klerk is due to return to South Africa this morning after a three-nation tour to Britain, Denmark and Ireland.

On the last leg of his visit, to Ireland, before his return to London, he achieved a breakthrough and influenced Prime Minister Charles Haughey to order a full review of relations with Pretoria.

The Bureau for Information said in a statement yesterday that Mr de Klerk would be met on the apron of Jan Smuts Airport by the Acting State President, Mr Pik Botha

Shortly thereafter, he will address an international press conference in the semi-VIP lounge at the airport.

Final effort

Putting in a final effort to boost British investor confidence before leaving London, Mr de Klerk told the Confederation of British Industry that he was confident a future government would pursue sound economic policies to ensure growth.

His address coincided with a CBI announcement that it will hold a major conference on South Africa in November this year.

CBI president Sir Brian Corby said the conference would enable British businessmen to "form a view on the likely future investment and trading climate in your country where we wish to strengthen still further our long-standing business links".

Replying to questions after his speech, Mr de Klerk said that even the African National Congress had made significant policy shifts.

It was widely recognised that whichever government was in power would need growth and a vibrant economy to "deliver the goods".

This growing realisation of the need for a sound economy was the "greatest source of optimism", he told the CBI.

He also indicated that when US sanctions were lifted — and this was expected soon — the Government would review exchange control measures and the financial rand system as these had had negative effects.

In a lengthy question and answer session after a brief address to the influential Confederation of British Industry yesterday, Mr de Klerk said there was a growing realisation "that with the tremendous challenges facing us in education, housing, health and poverty, unless we ensure that there is growth and development with new jobs being created, no government can make it in South Africa".

He added: "There is no reason to fear that investors will run into the sort of problems they encounter in the rest of Africa."

He said that while one could not entrench economic policy in the constitution, the Government would insist on the entrenchment of private property rights.

In his brief speech to the CBI, Mr de Klerk urged them to consider South Africa for new investments.

He said the country had a magnificent infrastructure and its skillful business and financial community was poised for development.

Confident plans

The Industrial Development Corporation was busying itself with confident plans for huge investments totalling tens of billions of rands in a variety of key sectors and would be looking for partners for these ventures.

The foundation for economic growth had been laid

He told the businessmen that he believed in the economy working together with constitutional reform, each sustaining the other.

Mr de Klerk said: "The time is now.

"If we really wish to capitalise on the window of opportunity history has given us, now is the time to invest in reform."

Sir Brian said in his introductory remarks that "we have great admiration for the courageous way in which you have tackled the removal of apartheid legislation".

He hoped all impediments to normal relations would soon go.

Danes set to do business with SA

STAFF REPORTER

DANISH sanctions against South Africa could be lifted within two months.

In an interview with the Danish newspaper "Information", the spokesman on foreign affairs for the Danish opposition party, Det Radikale Venstre (a liberal party), Mr Jorgen Estrup, said sanctions would be lifted once the three remaining apartheid laws — including the Group Areas Act, the Population Registration Act and the Land Act — were abolished.

The changing attitude of Det Radikale Venstre means there is a majority in the Danish Parliament which wants to lift sanctions against South Africa.

"As soon as the three laws are gone we are ready to remove economic sanctions against South Africa", said Mr Estrup.

He recommended that the Danish government negotiate a timetable for the lifting of sanctions.

But he didn't think it was necessary for Denmark to wait until a new constitution had been agreed, because it was "a process that could take a long time".

Just before State President F W de Klerk arrived in Denmark on Wednesday this week, the Danish parliament opted not to lift sanctions.

See Page 12

Govt. reform ample to ...

Potential investors 'have eye on SA'

CAPE TIMES 27/4/91 (49) (40)

JOHANNESBURG. — Many potential investors were looking with great interest at South Africa as it rapidly progressed towards a resumption of normal economic relations with the outside world, Reserve Bank governor Chris Stals said yesterday.

Referring to what he called the country's "huge" economic potential, he said in an address prepared for delivery to the Germiston Chamber of Commerce and Industry: "There are not many developing countries in the world that can present to potential investors a similar facade of strength and potential."

The local economy shrank by 1% last year, as measured by GNP, and had grown on average only 1,2% a year over the past decade, well short of the more than 2,5% annual growth in population.

But the country had not sunk into the state of permanent economic stagnation, with perpetual growth in poverty, which affected many other African countries.

Although the current economic slowdown had lasted for more than two years, it had so far been relatively mild. "We must have won some respect with the international investment community," he declared, referring to successes in economic management and reforms undertaken in recent years.

Such reforms included privatisation, deregulation and changes to the tax system, along with rationalisation in the public sector and on urbanisation, education, training, industrialisation and export promotion.

For some years the current account had shown relatively large surpluses, with last year's R5,8bn rand surplus comfortably exceeding the net capital outflow of R2,9bn. During the first quarter of 1991 net gold and foreign exchange reserves rose R2,2bn, indicating a substantial net capital inflow.

Total foreign debt had been reduced from $24bn in 1985 to under $20bn now, of which less than 40% represented short-term dues compared with almost 70% in 1985.

Annual growth in broadly defined M-3 money supply had been cut to 13% from 27,5% late in 1988.

And real interest rates after adjusting for inflation are more in line with the international pattern, which Stals said was important for the foreign investor.

Stals however, expressed concern about persistently high inflation, which at an annual 14% would erode South Africa's competitiveness in world markets. A declining trend in labour productivity and excessive wage and salary increases was already having this effect, he added. — Reuter

Conflict looms over finrand

Star 29/4/91

By Sven Lünsche (49)

By committing itself to a revision of the financial rand, the Government is heading for a possible conflict with the Reserve Bank.

President FW de Klerk told British industrialists in London at the weekend that a fundamental revision of the finrand and exchange controls were likely as soon as the US lifted sanctions and relations with the International Monetary Fund and the World Bank were normalised.

The Reserve Bank is on record as saying that the discount between the commercial and the financial rands would need to decline to single figures and stay there for some time to prove its stability, before the abolition of the finrand could be considered.

This would avoid a sudden drop in the commercial rand when the finrand is abolished and prevent a sharp rise in imported inflation.

When the discount was running at 20 percent two months ago, Econometrix estimated that a unitary rand would probably settle at about 10 percent below the current level of the commercial rand, enough to push the inflation rate up by at least 2,5 percent immediately.

The Reserve Bank has been keeping the trade-weighted rand at virtually unchanged levels over the past year to reduce the impact of imported inflation.

The crucial signal for the Reserve Bank to abolish the dual exchange rate system is therefore a fundamental downward trend in inflation, which is unlikely to happen before the end of the year at the earliest. US sanctions are expected to be lifted over the next few months.

When it does decide to end the system the Bank is likely to buy finrands and gradually reduce the discount.

Heavy foreign investment through the finrand and a fall of the commercial rand against the dollar narrowed the discount to just over 16 percent on Friday.

This is the narrowest it has been since the re-introduction of the finrand in 1985.

3 holidays set to cost SA R1,2-bn

Star 29/4/91

By Helen Grange

49

South Africa's economy stands to lose more than R1,2 billion worth of production next month as a result of three public holidays falling during the working week.

The unofficial toll will be higher because of the tendency among workers to extend breaks into long weekends, labour experts say.

May has always been a particularly bad month for businessmen because of the concentration of holidays: Workers Day on May 1, Ascension Day on May 9 and Republic Day on May 31. This year, all three fall during the working week.

These holidays follow closely on the Easter holiday period, when several days are usually lost due to workers taking extended breaks.

It is estimated the economy loses between R400 million and R600 million for each working day forfeited.

"These breaks have a very negative influence on productivity, and business has for years been trying to get a better spread of holidays," said an SA Chamber of Business spokesman, adding that only the Government could introduce changes to the holiday calendar.

Regional incentives tangle

LESLEY LAMBERT

(49) (40)

CAPE TOWN — The new regional industrial development programme is destined to a slow start as government spends some 90% of its regional development budget extricating itself from the discredited policy of decentralisation.

Of the R966m allocated for regional development in this year's Budget, only about R100m is likely to be spent on the implementation of the new incentive package which will replace decentralisation measures on Wednesday.

Although government froze new applications for decentralisation benefits last year, its outstanding financial commitments to existing concessionaires in the 43 decentralised regions remain substantial.

Regional Development Department spokesmen have refused to supply details of government's outstanding obligations. But it seems certain the new programme will be haunted by decentralisation for at least two years during which the entrance of newcomers to the regional industrial development programme (RIDP) is likely to be curtailed.

The authorities responsible for regional development have undertaken to phase out open-ended contracts entered into with recipients of transport, housing and other decentralisation rebates after a two-year period starting from July this year.

They have also undertaken to honour shorter term — seven and 10-year — concession agreements for the full period. However, there have been indications that provision will be made for concessionaires to convert to the new programme. Only those able to comply with the requirements of the RIDP will be able to convert.

Bday 29/4/91

Cape Times 29/4/91

SA lies midway on UN welfare scale

49

Own Correspondent

JOHANNESBURG. — The United Nations measure of welfare, the human development index, puts SA in the 68th-worst position in the world, with Niger the worst and Japan the best of 130 countries.

Unisa's economics journal reports that the UN Development Programme developed the index because of criticism about using GNP per capita as a measure of welfare. The UN index is based on three indicators — life expectancy, adult literacy and GNP per capita, adjusted to take account of the purchasing power of currencies.

SA finds itself in the medium human development group and fares better than Botswana, Lesotho and Zimbabwe. The country is beaten by fellow group members Nicaragua, Brazil and Mauritius.

The article notes that the US is ranked 19 positions below Japan, mainly because of its lower adult literacy rate. SA's relatively weak position is also ascribed to low adult literacy.

Based on GNP per capita, SA is an upper-middle-income country with a per capita income of $2 290 (R5 800), beating Mexico, Chile, Panama and Brazil.

Cpt Times 30/4/91

FW cash plan

Oil billions to pay for relief to violence victims

By ANTHONY JOHNSON
Political Correspondent

PRESIDENT F W de Klerk yesterday launched a fresh initiative to curb the recent spiralling violence which has claimed at least 50 lives since Friday.

Mr De Klerk also announced two new funding projects — one financed by the selling off of strategic oil reserves — to address some of the underlying causes of violence and bring emergency relief to its victims.

He made an impassioned plea for ANC leader Mr Nelson Mandela and Inkatha Freedom Party head Chief Mangosuthu Buthelezi to join him in a crisis "mini summit" to work out a joint plan to crack down on violence and intimidation.

Introducing the debate on his budget vote, Mr De Klerk said that up to R2 billion freed by the reduction of South Africa's strategic oil stockpiles would be used for development programmes — including projects aimed at ending township violence.

He acknowledged that poverty, joblessness and unacceptable social conditions were contributing to the violence sweeping the country.

Outlining the first aim of the two-pronged initiative, Mr De Klerk said about R1bn would be used this year to further social stability and order by funding projects such as the erection of clinics, sport and recreational facilities, schools and the provision of land for housing in poor communities.

The money would come from selling off oil reserves.

As economic relations with the rest of the world continued to improve, the amount could be raised to R2bn.

Disavantaged communities would help to identify facilities needed and, where possible, also contribute labour. The projects would be co-ordinated with manpower training to ensure as much job creation as possible.

A committee of ministers headed by the Minister of Economic Co-ordination, Dr Dawie de Villiers, would evaluate and co-ordinate projects, which would include the repair of the vital road infrastructure.

The second part of the initiative will be the establishment of a Social Emergency Aid Fund to channel short-term relief in the form of food, clothing an blankets to violence-ridden communities.

The fund, which would be established in terms of legislation during the current session of Parliamen would channel financial support it received throug welfare organisations and other approved instit tions.

Mr De Klerk committed the government to making "substantial contribution" to the proposed fund. He expressed the hope that the South African publ

To Page 5

- FW cautions on cultural weapons — Page 5
- Don't trust FW totally, UK warned — Page 5

Cpt Times 49

From page 1

would contribute to the fund and was confident that it would be possible to get international support as well.

He warned that the "violence psychosis" and culture of violence gripping the nation was in danger of plunging the country into "civil war".

"We can't go on like this," he told Parliament. The "senseless" politically motivated violence and intimidation racking the country was jeopardising reform, economic development and the future prospects of South Africa.

Turning to the latest instance of on-the-ground violence, Mr De Klerk said that some black communities were being torn apart and "almost destroyed".

Mr De Klerk said he accepted that Mr Mandela and Chief Buthelezi — as leaders — wished to see an end to violence. "I know that neither of them doubts that I am just as serious about it."

He invited the two leaders to join him in discussions on violence which would precede the proposed Pretoria summit on violence next month.

Mr De Klerk also proposed that they jointly "declare war" on violence and intimidation, co-operate to bring violence to an end and elevate the question of violence "above party-political manipulation".

"The whole country wants this to happen — indeed, even the entire world.

"Let us act in such a way that history will never be able to say that we failed as responsible peacemakers," Mr De Klerk said in what amounted to an impassioned plea for joint action.

Mr De Klerk issued a challenge for all leaders to attend the proposed peace summit in Pretoria by saying: "The time has come for the men of peace to gather."

He added: "If we stand arm-in-arm, we will be able to turn the tide of violence."

To break the spiral of violence, South Africa needed "a massive effort" by all the leaders of society — political, religious, educational and community.

"The time has come for them to speak up in public. We need an outcry against violence."

However, more was needed than mere statements opposing violence, and it was for this reason that he had called a special all-party summit on May 24-25.

Mr De Klerk said the solution to the problem of violence did not lie in apportioning blame or issuing ultimatums. "Confrontation among leaders will merely fan violence."

In an apparent reference to the ANC's planned nationwide mass action programme, he said: "Let us be careful how we demonstrate or protest, so that those who follow us do not get caught up anew in the spirit of blood and flames."

Mr De Klerk said the government was totally committed to the peace process. "We are not playing games and we don't have a hidden agenda.

"If anyone is playing games, we want to know it. The truth must prevail." This was one of the reasons for the proposed establishment of a Standing Commission of Inquiry into violence and intimidation.

"Simultaneously, the leaders of those who are continuously involved in violence have a special responsibility to discipline their followers."

In a side-swipe at Inkatha, he said those who carried traditional weapons should make doubly sure that the symbols they carried in their hands "remain an expression of their true culture".

And in an apparent reference to the ANC, he said: "Let those who are not prepared to allow their opposition to organise and oppose democratically, realise the time for armed struggle is over."

The ANC's strategy smacks of strong Sandinista influence

49

SIMON BARBER in Washington

B Day 30/4/91.

IN MAY 1977, as it prepared for the final offensive that would enable it to seize power from the justly hated President Anastasio Somoza two years later, the National Directorate of Nicaragua's Sandinista Front (the FSLN) drew up a document entitled the General Political/Military Platform for the Triumph of the Sandinista Popular Revolution.

The principal author was Humberto Ortega, leader of the FSLN's hardline, if somewhat unorthodox, Marxist faction, the Terceristas, then viewed as proponents of a benignly nationalist "third" alternative to capitalism and communism.

The platform, as summarised in David Nolan's FSLN — the Ideology of the Sandinistas and the Nicaraguan Revolution (Nolan is currently a US foreign service officer stationed in Namibia), issued the following directives to Sandinista cadres:

□ Develop a "minimum programme" of government calling for political pluralism, a mixed economy and international non-alignment in order to attract broad support for action against Somoza;

□ Build up "intermediate mass organisations" around "day-to-day" issues on the basis, where necessary, of the minimum programme but all the while ensuring FSLN control. Pre-empt organisational efforts by other groups, especially those on the left;

□ In the same vein, create a "broad anti-Somoza front", using the minimum programme to attract "bourgeois/democratic opposition groups" but taking care to preserve "FSLN hegemony";

□ Unify the tendencies of the FSLN into a single ideologically pure vanguard;

□ Mobilise for insurrection "through agitation in the mass organisations, radicalisation of the broad opposition front and exemplary military actions" of the FSLN. Get ordinary citizens "involved in the direct liquidation of agents of the regime";

□ Undermine the integrity of the National Guard, the state's main security force, "while avoiding organisational defections or coups that might defuse the struggle by removing Somoza prematurely; and

□ Construct a strong Sandinista army "with a developed structure and national coordination ability capable for fielding mobile forces in both rural and urban environments".

Use this "to protect the mass organisations, back up popular uprisings . . . and guarantee FSLN control of a post-war government". Engage in a policy of "active accumulation of forces" to gain "combat experience, recruits, supplies and propaganda points".

The phrase "minimum programme", with its connotations of deliberate deceit, are beginning to turn up quite regularly in the context of ANC/SACP front-building.

ANC publicity director Pallo Jordan used it in Harare two weeks ago to describe how the movement was attempting to draw the PAC into a patriotic front.

December's Mayibuye, in an article describing how the ANC proposed to "consolidate its mass base" by attracting everyone from Azapo to Jeugkrag into the fold, argues for "a common minimum platform".

Advance to National Democracy addresses at length the need to coopt and strengthen "independent, democratic mass formations" as well as organisations representing "cultural workers, the intelligentsia, the business community and others".

The anti-apartheid front, the article urges, must recruit anyone who "can enter into even limited agreements the ANC" so long as care is taken to ensure that the "principle and structured alliance" of the ANC, SACP and Cosatu remains in control.

To judge by the reception accorded the ANC's latest constitutional proposals, the strategy is succeeding. Hailed as evidence that the ANC is shifting towards liberal democracy, the discussion paper is a piece of classic deception.

If the ANC's electoral system were adopted, South Africans would be voting not for individuals whom they would have a chance to evaluate at first hand, but for lists drawn up by each contending party.

□ JORDAN

In the ANC's case, the list would all too easily be controlled by SA's own Terceristas, seductive moderates all, until unwittingly placed in power by a blind electorate.

Can anyone dispute that "organisational efforts" of others are not being vigorously "pre-empted"? Last year, the ANC's NEC faxed branch offices instructions for the Peace and Democracy Now Campaign scheduled to kick off with mass demonstrations on December 6.

Organisations under the ANC umbrella were to be encouraged to carry placards identifying themselves as such in order to show the ANC's broad appeal.

Woe betide recalcitrants, however. "The strength of the ANC on the ground must be felt and feared."

As for directives five and six in the FSLN's platform, the ANC/SACP's efforts to "liquidate agents of the regime" proceed apace, especially with reference to town councillors.

The alliance's mass mobilisation strategy has been well documented by the SAIRR.

The institute has also demonstrated the movement's exploitation of violence — much of which is itself the product of mass mobilisation — to "radicalise the broad opposition front" and "undermine the integrity" of the security forces.

The ANC/SACP self-defence unit plan might as well have been taken straight from the FSLN directive requiring construction of "a strong Sandinista army" to "protect mass organisations" and "back up popular uprisings".

The primer For the Sake of Our Lives is transparently designed to achieve an "active accumulation" of revolutionary forces to supplement MK. The purpose can hardly be other than to enforce the ANC/SACP will and thus, to adapt the platform slightly, help "guarantee ANC control of a post-apartheid government". The platform worked.

There is another element of the Sandinista programme, that bears mention, for it may help explain why the ANC/SACP is trying so hard to keep sanctions in place.

Two months after Somoza was toppled, the FSLN inner circle held a secret meeting whose conclusions were distributed to cadres in what would become known as the "72-hour document".

It makes clear that one of the Sandinistas' chief concerns was that their revolution might yet be derailed by the conditional nature of foreign investment and loans, both private and IMF.

The 72-hour document specifically warns against "promoting . . . the thought of the indispensable need for the 'takeoff' of the reconstruction to be based on heavy foreign indebtedness".

IMF support is strenuously to be avoided because it "means shackling our economy to all the extortionist policies of imperialism".

Western capital, "joint investments", even "technology and supplies" are to be shunned where possible, and if not, tightly controlled and channelled toward specific development priorities targeted by the state.

New Nicaragua's economy — under "comprehensive national planning whose hub must be the state sector" — should rather seek to become as autarkic as possible while seeking to move away from raw material production to labour-intensive beneficiation and manufacture.

This should be familiar to anyone who has witnessed Perm MD Bob Tucker's current dog and pony show, perused the Path to Power or studied the ANC's latest economic discussion document.

Could it be that the ANC/SACP likes sanctions not only as a "pillar of people's war" but because they will free it to impose its own economic order once in power?

Concern over effect of off-Budget cash

(49) BiDay 2/5/91.

BILLY PADDOCK

CAPE TOWN — Senior Finance Department sources yesterday expressed concern at the growing funds being administered off-Budget because of the negative effect extra liquidity would have on money supply.

They were responding to President F W de Klerk's announcement this week of a R1bn initiative for socio-economic development projects and a R326m concession to farmers.

One source said there was concern in the department that too many different funds were being set up off-Budget and being handled by different departments or groups. It would be preferable to handle these through the budgetary system, which made control of government spending more manageable and was in keeping with the broad policy of bringing all spending back on-Budget.

Another source said there was no clarity as to how the R1bn would be released, and recalled problems last year with the R2bn used to set up the Independant Development Trust.

Trust chairman Jan Steyn wanted the money released as early as possible to maximise investment earnings, but the Finance Department wanted to hold it back to prevent the negative effects of injecting that much liquidity into the market.

DP Deputy Finance spokesman Jasper Walsh welcomed the use of funds from strategic stockpiles for development projects but said off-Budget financing led to unsound financial management. It made monitoring almost impossible and led to dissipation of central control, he said.

Reserve Bank Governor Chris Stals said as long as new money was not being created, releasing such funds should not be bad for the economy. "As long as it is coming through fiscal policy and represents a reallocation from one priority to another it should be fine."

What should be avoided was injection of money into the market or changing interest rate or exchange rate policy to try to stimulate sectors such as mining or agriculture.

Injection

Agriculture Minister Kraai van Niekerk said yesterday that in terms of De Klerk's announcement on Tuesday, the Land Bank would be forced to take a cut in profits to enable 18 000 small and medium-scale farmers who had loans with it to benefit from the five-percentage point interest subsidy.

The farmers, who have loans totalling about R3bn with the Land Bank and have been paying 17% interest, will pay 12% for one year, giving the industry a R150m injection.

De Klerk also announced a R166m security guarantee to the Land Bank for the Wool Board.

He said Cabinet had noted with concern the problems in the wool and mohair industry and had decided to grant it a R10,5m export incentive for the financial year. The industry had earned valuable foreign exchange for SA and to help it through a difficult stage this incentive was necessary.

De Klerk said the concessions should not be seen as the NP trying to buy voters in the Ladybrand by-election later this month.

Business Diary

By ALI MPHAKI

* Charisma, eloquence and wits will be the key elements at play when Thabo Mbeki and Dikgang Moseneke address the Foundation for African Business and Consumer Services (Fabcos) AGM at the weekend.

Mbeki is ANC's head of International Affairs and Moseneke is PAC's deputy president.

The AGM will be held at the Nasrec near Crown Mines.

* Business Challenge will hold an " Opportunities seminar" at the Downtown Holiday Inn Johannesburg on Sunday at 10am.

According to Mr Phil Khumalo, BC director, the objective is to get people into business with minimum finance required. Admission is R50.

* The formation of a Metro Cash and Carry franchise will top agenda at a meeting of black businessmen at the Pietersburg Holiday Inn tomorrow.

Guest speaker is Mr Phil Khumalo, a director of Business Challenge.

* 'Managing change in turbulent times' is the theme of a seminar scheduled for Sunnyside Park Hotel on May 7.

Bookings can be made at (011) 880-7341. Ask for Hazel.

* A leadership seminar will be held at the Abott Laboratories, 149 Evans Road, Aeroton, on May 13.

Sue Edwards at (011) 494-4255 has further details.

* Tax Planning in Today's World - Perspectives for the New South Africa is a theme of a seminar scheduled for Sandton Sun on May 14 and Cape Town Arthur's Seat Hotel on May 16.

Those who are interested can contact Monique Bergh at (011) 498-1592 for further details.

* Dr Nthato Motlana of the Centre for Black Economic Development, will address a burial societies seminar to be held at the Mamafubedi Hall in Petrus Steyn, Free State, on Sunday starting at noon.

All burial societies, mohodisano clubs and women's clubs in the Heilbron area are invited.

For further information contact Mr Sam Moufhe at (011) 648-2303.

No recovery likely before next year

Sowetan 2/5/91 49

AFTER a modest fall in real economic growth last year, South Africa faced yet another year of economic stagnation and a loss in real output and incomes in per capita terms, Southern Life Economist Mr Mike Daly says.

In his latest "economic comment," he says monetary policy remains tight in a determined effort to bring the inflation rate down further.

He says the Budget provided no meaningful tax relief for the man-in-the-street, noting that the only positive feature this year is the mounting evidence of the rolling back of international sanctions against South Africa.

Positive feature

He forecasts that, while interest rates and inflation will be somewhat lower by the year end, the economy will only then have reached its lower turning point.

"Recovery, gradual at that, must await 1992," he says. - *Sowetan Reporter*

FM 3/5/91 (49)

ANC ECONOMIC POLICY (49)

GROWTH PATHS

FM 3/5/91

Much of the debate between the ANC and business on economic policy is flawed by misperceptions on each side about the other's policy. An example appears in the May edition of the ANC publication, *Mayibuye,* describing the policy of "redistribution through growth" as "growth now and redistribution later."

This is not correct — redistribution will take place simultaneously with growth.

Opponents of a liberal market argue that deprived South Africans have not yet experienced any meaningful redistributive benefits from the existing system. But they argue from the false premise that what we have had is a free market. Apartheid was a massive exercise in central planning, expressly designed and systematically implemented to disadvantage blacks.

Mayibuye is correct to say that in SA, a market solution is like a 100 m race with some people already at the 80 m mark. But it is only partly correct to say that those with money, education and power will dominate. This is true only in the very short term. Economic development is not a race but a dynamic process that will spontaneously remove the disadvantage. The past is done and can't be removed by waving an interventionist wand. It will take time to undo and there is no way to short circuit time.

Mayibuye says growth must come about as the result of an active policy to improve the standard of living of the majority. To achieve this, investment must be directed towards providing basic needs, and goods must be produced in a way that provides jobs and incomes to the poor.

The incomes will create demand which will bring new investment and production. But unless such demand can be adequately met, economic recovery will be aborted and sustained growth stifled. Any attempts to dictate to the market must hamper supply.

Mayibuye argues that because the economy relies heavily on imported machinery, government must promote certain targeted industries. Shades of Fred du Plessis and the National Party! Government has already travelled that route, establishing or promoting a host of white elephants like Atlantis Diesel, Armscor, the Saldanha Bay harbour and the struggling textile industry.

Underlying the ANC's economic policy is a conviction that unless the economy is forced to redistribute, it won't. Nothing can be further from the truth. Colonial businessmen profited from poverty wages which kept down costs, but this benefit lasted only as long they could sell their products elsewhere.

Those days are gone and a structural change in commodity markets is pointing SA in other directions. Manufacturers rely heavily on domestic markets and their markets are also their labour force. So an increase in the real income of workers benefits everyone.

The catch is that little word *real.* If productivity does not rise with remuneration, inflation will eliminate the benefits.

Editor Peter Mayibuye says this argument fails to take into account the plight of the many unemployed who are without hope of a job; they cannot be provided for if the economy is not fundamentally restructured.

He argues also that in SA, markets are unlikely ever to be free, if for no other reason than the way control is concentrated in a few hands. In the short term, this is correct, but in the long term, an open economy is the most effective way to reduce that control. ■

FACING ECONOMIC BLIGHT

49 FM 3/5/91

CHOOSING THE RIGHT TARGETS

As the gold price continues to fall, ANC deputy president Nelson Mandela's recognition that the industry is in crisis, and that mining towns and rural communities could face destitution, is at least salutary. But that is not going to solve a pressing problem.

Nor are jobs going to be saved now by grand expressions from the National Union of Mineworkers about the restructuring of the industry to reduce redundancies or encourage greater beneficiation to sweeten earnings.

The gap between black and white mine wages is also something of a diversion. Today this is a skills gap, not necessarily a racial one — whatever may have been the case in the past. To reduce it would simply drain the industry of the very skills it needs to survive.

For the union to demand a 20% wage increase in the face of this crisis and to echo the ANC's call for continued sanctions suggest at best a reluctance to face reality. What is the point of beneficiating raw materials when the beneficiated products will lose their strategic status and become subject to sanctions? Indeed, what is the point of a restructuring to save jobs and improve wages when the workers themselves desire economic immolation through sanctions?

The union would do better to seek greater clarity on managerial fees imposed on individual mines. These are generally masked in financial statements and threatened exposure could be a lever for more thorough economies within mining finance houses.

Moreover, as the ANC has successfully persuaded government to suspend its privatisation plans, it could try the same for gold mining taxes.

But even that would not be enough to reverse a morbid situation. The industry still requires large amounts of capital for prospecting, restructuring and to retrain redundant workers. While violence continues, it isn't available.

That is something, moreover, that needs also to be brought home to the SA Police. This weekend in Soweto, having been warned of the likelihood of violence, policemen were deployed, suitably armed, in adequate number. Yet they failed to disarm patently threatening thugs. And had the audacity to escort them from the scene of 22 murders saying they could not arrest them until their actions had been thoroughly investigated.

Tell that to Cape Town and Wits students who have so often been assaulted by policemen for no greater crime than standing in peaceful protest. The SAP is either not up to its task, or is no more logical than the NUM or ANC. ■

R2-bn from

Star 3/5/91

US investors

(49)

An amount of R2 billion from America would be invested in South Africa this year, President de Klerk said yesterday.

Replying to CP speakers in debate on his budget vote, he said nearly R1 billion in additional capital had already entered the country.

"Therefore there is no question of prophecies of doom over our economy. It's rosier than (in) years."

All indicators showed that the country was ready to resume its economic growth.

The amounts being invested showed that the country did not have empty hands.

Violence was the only factor that scared off investors.

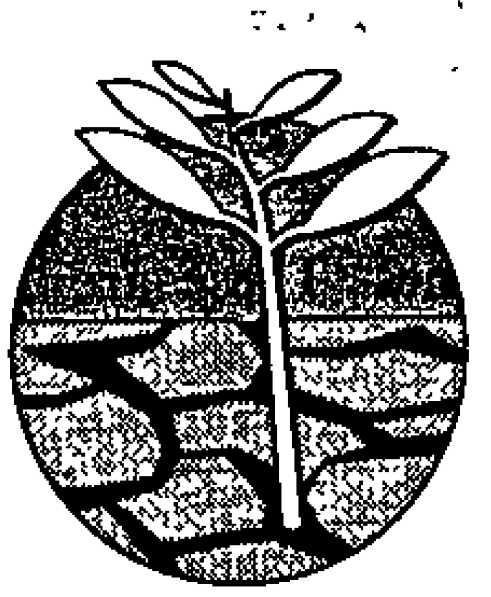
"If you and other people who further violence get your way, we will have trouble," he said to CP members. "But you will not get your way."

The moderates would all stand together to make the country stable. — Sapa.

THE POST-SANCTIONS ECONOMY (49) FM 3/5/91

A BETTER FRAME OF MIND

BENEFITS WILL DEPEND LARGELY ON SUSTAINING AN OPEN ECONOMY



As sanctions recede, hopes for substantial, sustained economic growth are reviving. But they are tentative at best. So many structural problems — some created by apartheid and sanctions, others inherent in a developing economy — will remain that any forecasts on growth must be heavily qualified.

The cost of economic sanctions, imposed since the Sixties and intensified after 1985, can never be accurately quantified. Not least because much of the cost was in opportunities forgone when the economy turned inward — focusing, for instance, on import replacement for more than two decades.

Washington-based Investor Responsibility Research Centre has estimated that growth sacrificed in the Seventies and Eighties — as a result of economic policies designed to counter sanctions — was equivalent to 20%-35% of GDP. Though it didn't make the further calculation, this would equate to about a 1%-1,5% reduction in the annual growth rate. Research by the centre established that the long period over which the full-scale application of sanctions was threatened allowed the economy to minimise its vulnerability when they arrived.

Ironically, this was perhaps the most damaging aspect of trade sanctions. Over more than 20 years, as policy-makers built protective devices into the fabric of the economy, they systematically reduced it to a state of technological near-stagnation, constrained its flexibility and consequently eroded exporters' ability to compete on international markets. Domestic suppliers were subject to the same constraints as import tariffs and surcharges pushed up the cost of crucial capital inputs.

In the light of the changes in the political policies of the ruling NP, this legacy is now as helpful as a stegosaurus's armour plating. And there will be costs involved in dismantling it. Nor is it only the cost of sanctions that must be counted — but also the purely economic cost of apartheid. Aside from the wasted potential of generations of blacks subjected to job reservation and Bantu education, there are areas where the waste can actually be calculated.

Says Econometrix's Azar Jammine: "Government spending has been rising as a percentage of GDP for the past two decades, as funds were poured into the duplication of functions and the creation of a multiplicity of bureaucracies both in central government and in the newly created homelands. This drove taxes ever higher, eroding disposable income, leaving ever less savings for investment and growth. A reversal of this trend is the primary prerequisite for the generation of internally based growth."

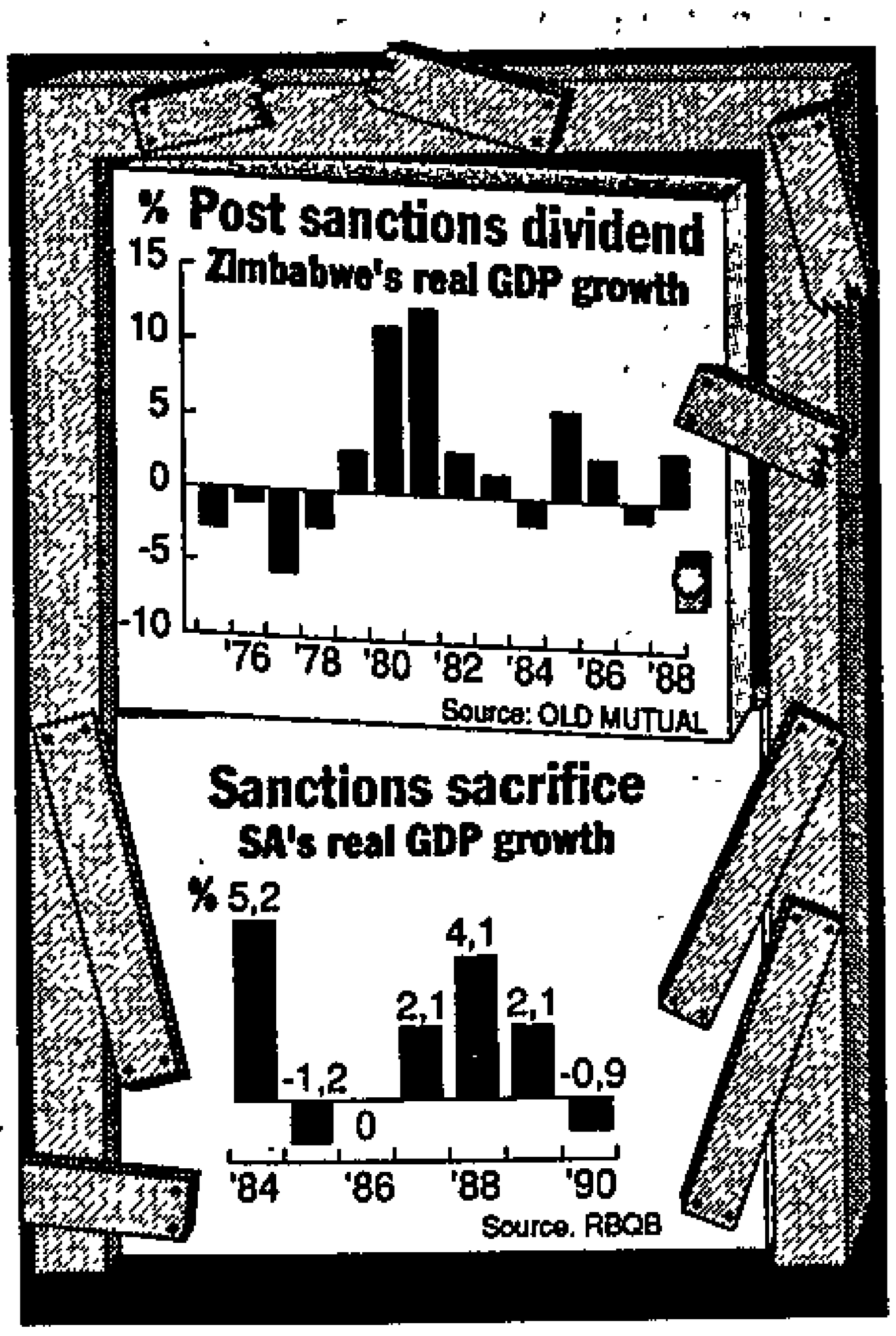
Nedbank chief economist Edward Osborn points out another consequence of disinvestment: "The severance from parent company R&D and ready access to technology — factors for which local subsidiaries rarely have the financial resources." Nor were foreigners the only ones to leave. The loss of South Africans, their skills and ideas may have been even more damaging.

While these developments systematically eroded our ability to grow, the most dramatic constraint came from financial sanctions over the past five years.

Some indication came in a document, presented in 1988 by the Reserve Bank's late governor, Gerhard de Kock, on a "growth-orientated balance-of-payments adjustment." He estimated a capital outflow between 1985-1988 of US$11bn — equal to 4% of GDP that year.

To provide for this, it became imperative to eliminate the deficit on the current account (R2,6bn in 1984) and build and maintain a surplus. The adjustment was "effected mainly via exchange rate depreciation and price inflation."

In other words, the authorities let the rand absorb the impact of capital outflows. Its value tumbled from US50c in July 1985 to US36c-38c only a few months later. Despite a temporary recovery in 1987, it is little higher today. Inflation accelerated sharply on the back of a falling rand (a move sustained by negative real interest rates) from 11,7% in 1984 to 18,6% in 1986. The adjustment could have been made with less exchange rate depreciation and therefore lower price increases, said De Kock. But that would have required "Draconian deflationary fiscal and monetary measures."



Given the path chosen, the costs of the transformation from capital importer to capital exporter were high and rising inflation, to rates approaching 20% in 1986, and a consequent decline in the standard of living as real income was eroded. Though remedial monetary and fiscal policy later reduced the rate of inflation, the legacy of inflationary expectations remains — and double-digit inflation is still firmly entrenched.

The perceived need to preserve a current account surplus and counter inflation ensured that no economic recovery could be sustained (see graph). The authorities were obliged — as in 1989 — to abort it.

A particularly debilitating aspect of depreciation was that it further deterred already reluctant investors from initiating much-needed capital expenditure. The result was to reinforce a declining trend in real domestic fixed investment, which started early in the Eighties. Fixed investment in constant 1985 prices fell from R30,9bn in 1984 to R22,9bn in 1987. After recovering in 1988 and 1989, it fell once again in 1990 to just under R26bn.

As SA moves into a post-apartheid, post-sanctions era, low capital stock, much of it ageing, is another barrier to growth. What can we then expect, in terms of immediate benefits, after sanctions?

Any assessment has to take into account the fact that trade sanctions had a comparatively muted impact. Unlike Rhodesia, which was almost isolated by international sanctions, SA was able to keep open important trade links.

The latest Reserve Bank *Quarterly Bulletin* records that: "In the seven-year period 1984-1990 the volume of merchandise exports grew impressively at an average annual rate of slightly more than 10% ... This was well in excess of the average rate of growth in total world trade and also somewhat higher than the average annual rate of increase (of about 9%) in total imports by volume of SA's principal international trading partners."

No vast unexploited markets are waiting. In fact, Old Mutual economist Rian le Roux points out, SA's comparative cost advantage lies in markets which are growing more slowly than that for manufactured goods.

Moreover, the international economy is in recession, trade is falling and the prices of commodities, SA's main exports, peaked in

Continue ->

1988-1989 and have been in sharp decline since the fourth quarter of 1990. Not only will it take time and effort to recapture lost markets, they will be less profitable ones.

The EC decision to lift the ban on imports of SA iron ore, steel and Krugerrands, though an important step back into the international community, has more psychological than actual value. What is expected in concrete terms is a reduction in costs — goods will no longer have to be routed circuitously via countries such as Turkey, Israel and some in south-east Asia — to their former markets. It will also eliminate the political leverage which allowed buyers of SA goods to negotiate a discount.

This reduction in exporters' costs will mean an increase in what are now thin margins. This should apply particularly to steel, which is sold on an efficient and highly competitive market. But the gain will be cushioned by a variety of factors, including low demand. "Europe has a surplus of steel," says an analyst, "and the price, which peaked in 1988-1989, is weak."

The EC decision could make even less difference to iron ore exports. Demand for premium-quality ore remained high despite sanctions.

Trade in gold coins should improve. Unlike steel, which managed to circumvent sanctions, Krugerrands were readily identifiable and trade in them came to a standstill. But, says Simpson McKie research director Rodney Yaldwyn: "Krugerrands will have to re-establish themselves in a far more competitive and weaker market than when they were banned."

R/$

US 50c	US 36c
July 1985	Sep 1985

Osborn says sanctions on Krugerrands were irrelevant: "Their function as a means of promoting small investor involvement was picked up by other gold coins, like the Canadian Maple Leaf and American Eagle."

Though coal was not part of the EC package, these sanctions have also been falling away. Coal exports have been among those that have been inhibited, but not halted, by sanctions. "So the immediate benefit," says Fergusson Bros' Derek Ritchie, "will be that we will no longer bear a US$2/t discount."

Inflation

11,7%	18,6%
1984	1986

Osborn, however, suggests the discount could already have been dissipated by now.

There will be no other immediate spin-off because SA has been exporting at maximum capacity. Says Ritchie: "What inhibited exports throughout was capacity at the Richards Bay coal terminal, not sanctions. "We can't push coal exports until capacity is increased from 44M Mt to 53 Mt a year. Though the terminal will reach this capacity by year-end, exports will be constrained for a further two years by rail limitations."

What is important, says Osborn, is "the accompanying lifting of the opprobrium" in dealing with SA. "Boycotts should fall away and open trading be restored. For example, the Cape agricultural and wine industries and clothing should benefit markedly."

So direct and tangible effects will be limited and an end to sanctions may not produce the sudden surge in growth seen in Zimbabwe in 1981 (see graph).

The most substantial short-term benefit will come if inflows on capital account allow consumer-driven recovery to be sustained for a much longer period. Firstly, because it will be possible to contemplate a smaller surplus — even a deficit — on current account. And, secondly, because the value of the rand will be maintained by capital inflows. If such capital is productively used, the returns that flow will generate further growth.

"If," of course, is the pivotal word. There is the danger that, like the gold boom dividends of earlier years, the funds will simply flow into consumption rather than into improving supply, which means the economic recovery will self-destruct.

The swing factor will be whether investors in the real economy believe political and social stability are probable. Opening up the economy will be a painstaking business, involving a change in a once-cherished mindset, the reversal of the long drawn-out process which created the siege economy, the absorption of people previously excluded from the mainstream of the economy — and a climate of political confidence. But a return to the world community will provide a window of opportunity of the sort we haven't seen since the gold price booms. However modest the initial effect of the phasing-out, it will be welcome. Certainly there is no scope left for import substitution, which ran its course by 1978.

Research by Wits economist Harry Zarenda shows that imports as a percentage of total supply fell from 12,1% in 1967 to 7,7% in 1978, 7,4% in 1985 and remained there in 1988. A Bank of Lisbon *Economic Focus* that year concluded: "Further (import substitution) would entail producing intermediate and capital goods." Factors which make this impracticable include the lack of economies of scale; high capital costs; and shortage of skilled labour.

If the end of sanctions is to have any real meaning, the government which comes to power after a negotiated settlement will have to create an environment that attracts investment capital.

Says Osborn: "The new SA must commit itself to a statutory investment code that guarantees the right of withdrawal of capital or disinvestment and does not prohibit nor encumber dividend and profit remittance, other than by normal, reasonable taxes."

Government must enhance the spontaneous opening of the economy by progressively removing tariffs, removing barriers to competition and trade, stabilising prices and encouraging exports. Only then will the benefits of the post-sanctions era be both tangible and sustainable. ■

Economy sinks to lowest since war

ARGUS 16/5/91 (49)

From SVEN LUNSCHE

JOHNNESBURG. — The economy has entered its longest recession since World War 11.

Central Statistical Services reported yesterday that real Gross Domestic Product (GDP) declined by 0,9 percent in the first quarter this year, the sixth consecutive quarterly decline.

And there is worse to come. Bankorp chief economist Mr Nick Barnardt said yesterday he expected two further quarterly declines before growth started to level off.

Mr Barnardt said a combination of economic developments would prevent growth from picking up substantially before mid-1992.

These included a maize crop expected to be the worst in 40 years, the continuing effect of relatively high interest rates on consumer expenditure, substantially reduced investment spending and the depressed gold price.

Mr Barnardt said any previous upswing over the past 20 years was preceded and accompanied by a higher gold price.

"The next upswing is expected to take place without a strong gold price, which will place enormous constraints on the extent of the recovery," Mr Barnardt said.

The CSS figures show that seasonally adjusted real GDP for the non-agricultural sector declined by 1,3 percent in the first quarter of 1991 after increasing slightly by 0,2 percent in both the preceding two quarters.

The sectors mainly responsible for the decrease were mining (-4,3 percent) and manufacturing (-3 percent).

Mr Barnardt said the decline in the manufacturing sector was an indication that de-stocking was still taking place among companies.

The contribution of secondary industries fell 3,1 percent in total in the first quarter of 1991, compared with the fourth quarter of 1990. The contribution of tertiary industries increased by 0,7 percent.

Cape Times 4/5/91 49

Kick-starting economy with R100

The way to encourage spending is to give all SA residents over the age of 16, regardless of race, sex or income, a subsidy of R100, says Aart Roukens de Lange, a senior researcher at the Institute for Futures Research at the University of Stellenbosch.

Business Editor

HIGH interest rates and tight control of the money supply have not succeeded in bringing down the inflation rate — but they have caused rising unemployment, impoverishment, political instability and violence, says Aart Roukens de Lange, a senior researcher at the Institute for Futures Research at the University of Stellenbosch.

He considers that the SA economy should be kick-started by encouraging consumer spending which, he says, would not cause inflation since industry is currently working at below capacity.

The way to encourage spending, he suggests, is to give all SA residents over the age of 16, regardless of race, sex or income, a subsidy of R100.

"Spending power would immediately be increased by about R25bn, representing about 30% of the current Budget.

"This would stimulate demand not only in the formal economy but also within the informal sector operating in the poor communities."

But where is the money for this national spending spree to come from? Not from taxes, De Lange explained soothingly in a telephone interview, but by deficit financing.

Agreeing that deficit financing is "not normally a good thing" if done in dribs and drabs, De Lange said a once-off very dramatic effort, which would throw SA into a higher economic gear, would be a different thing entirely.

"The normal argument against such a leap in deficit financing would be that this would only result in inflation and not in increased demand and economic growth," he explains in a paper he has prepared.

"However, several factors must be taken into consideration in the unique circumstances in which SA presently finds itself.

"In the first place there is the fact that, because of declining consumer demand in recent years, the industrial capacity exists in the SA economy to increase supply without further capital investment.

"In the second place, most of the increase in consumer spending would be by the very poor whose needs are mainly of a very simple nature with very little demand for imported goods.

"In the third place a considerable proportion of the government subsidy would be recovered as a result of the multiplier effects of the growth stimulus injected into the economy.

"Calculations carried out on a model of the economy based on a so-called Social Accounting Matrix indicate that a feedback into the exchequer as a result of increased tax income related to the expanded output of the economy might be as much as 75% of the total subsidy."

The increased economic activity would lift morale, encourage new economic ventures and attract foreign investment, De Lange suggests.

"A final and perhaps most important consideration would be that the proposed scheme could be a giant step towards meeting the ANC's concern regarding the need for redistributing wealth and income in SA.

"The probable impact of the scheme would not be that of a zero sum income redistribution but rather one of providing an expanded economic base.

"This is much more attractive to the current holders of economic power than simply forfeiting wealth and income for a cause of doubtful merit."

De Lange, whose field is economic structure studies, said yesterday that colleagues who had read his paper were mostly in favour of it — except for the economists. "They say it goes radically against current economic thinking."

But he considers "economic thinking has no vision in it".

a person

The MINISTER OF EDUCATION AND CULTURE:

(1) Yes, barring certain exemptions

(a) the provisions of section 14, read with items 2 and 14 of Schedule 1 to the Constitution that education is an own affair, also the stipulations of the National Education Policy Act and the Education Affairs Act,

(b) with the promulgation of the legislation;

(2) yes, while the present Constitution remains in force;

(3) no.

†Mr H D K VAN DER MERWE: Mr Speaker, arising from the hon the Minister's reply, I would like to know how he is going to tell Steynsrus tomorrow evening that a school may not be constituted on the basis of race or population group.

†The MINISTER: Mr Speaker, I shall tell the truth to Steynsrus as I have always done in this House. [Interjections.]

Mr R V CARLISLE: Mr Speaker, arising out of the hon the Minister's reply to the second part of the question, could I ask whether this would also apply to new applicants, in other words children born after the date of the repeal of the Act, and whether they, when they are old enough, would be entitled to go to any institution under control of that hon Minister from the date of the repeal.

†The MINISTER: Mr Speaker, it applies for as long as the present Constitution is in force. The hon member is speaking now of six or seven years hence and I have an idea that we will by then most probably have a new constitution and a new dispensation. Regulations will then apply in terms of the new constitution.

†Mr P C CRONJÉ: Mr Speaker, further arising from the hon the Minister's reply, what would the situation be in respect of many people returning here whose children were not classified in other countries?

†The MINISTER: Mr Speaker, the Acts on education are based on the Constitution. They are not based on the powers of the Population Registration Act, the Group Areas Act or whatever other Act. For that reason it has no direct effect. Therefore my reasoning is that a change in respect of education could come about only when the Constitution is changed.

Hansard 7/5/91

†Mr H D K VAN DER MERWE: Mr Speaker, further arising from the reply of the hon the Minister, I would like to ask him whether a school, in the light of NP policy, may consist of only White children.

†The MINISTER: Mr Speaker, as I said in my reply, the Constitution provides that State schools under my Department are primarily for Whites. The Acts on education confirm it. The National Education Policy Act, as well as other Acts that have to do with education, provides that it is for Whites. But then the regulation, arising from these Acts, stipulates that the Minister has a certain discretion in respect of exceptions. That has been so for years.

In this way for instance diplomats' children who are not White have been allowed in State schools for years now. It also applies to the future, except of course where a certain school has decided to adopt one of the three models. If it has selected an option, it would be able to render service according to paragraph 14 of Schedule I to the Constitution where the service principle is confirmed in the Constitution. [Interjections.]

†Mr P C CRONJÉ: Mr Speaker, further arising from the reply of the hon the Minister, I do not think he has fully understood. [Interjections.] What happens in the case of children of exiles who were born outside the Republic and are not classified?

†The MINISTER: Mr Speaker, by virtue of the Minister's discretionary powers, he could examine the case and grant admission for such children to an ordinary State school, but then it would be by virtue of his discretionary powers. [Interjections.]

Hiring out of school facilities: moneys raised

*2. Mr R M BURROWS asked the Minister of Education and Culture:

(1) Whether moneys raised by schools hiring out their facilities are transmitted to the State Revenue Account; if not, what procedure is followed in this regard; if so,

(2) whether he has drawn up a new policy in regard to stopping the transmission of moneys so raised to the said account; if not, why not; if so, (a) what is the new policy and (b) from what date will it be implemented;

(3) whether any statutory bodies have been consulted on this matter; if so, (a) what statutory bodies, and (b) what was their reaction, in each case? B902E

†The MINISTER OF EDUCATION AND CULTURE:

(1) Yes;

(2) no, the retention of funds generated by schools is currently being investigated;

(3) no.

Mr P G SOAL: Mr Speaker, if the hon the Minister gives an undertaking not to accept speaking engagements in the Transvaal on a Tuesday, I shall attempt to ensure that the hon member for Pinetown is present on question day. [Interjections.]

For written reply:

General Affairs:

Growth in money supply

54. Dr W J BOTHA asked the Minister of Finance:† 49

(a) What was the (i) estimated and (ii) real growth in the money supply for each financial year since 1980-81 and (b) what was the (i) rate of inflation and (ii) real growth rate of the economy for each of these financial years?
Hansard 7/5/91 B77E

The MINISTER OF FINANCE:

(a) (i) No official estimates exist for the growth in the money supply. Since 1986, however, the following guidelines were set for growth in the broadly defined money concept M3:

1985/86	16% to 20%
1986/87	14% to 18%
1987/88	12% to 16%
1988/89	14% to 18%
1989/90	11% to 15%
1990/91	8% to 12%

A "guideline year" extends from the fourth quarter of a year to the fourth quarter of the following year.

(ii)

1980/81	24,8%
1981/82	15,1%
1982/83	18,1%
1983/84	14,4%
1984/85	16,5%
1985/86	11,1%
1986/87	10,6%
1987/88	21,8%
1988/89	26,2%
1989/90	20,0%
1990/91	12,0%

49

(b) (i) and (ii)

Fiscal year	*Real growth rate*	*Rate of inflation*
1980/81	6,6%	14,4%
1981/82	4,8%	14,8%
1982/83	(−) 2,2%	14,7%
1983/84	0,7%	11,3%
1984/85	3,4%	12,9%
1985/86	(−) 2,4%	17,3%
1986/87	1,8%	17,9%
1987/88	2,4%	15,5%
1988/89	4,0%	12,8%
1989/90	1,3%	15,0%
1990/91	(not available yet)	14,2%

Government Service Pension Fund: bonds

193. Mr L F STOFBERG asked the Minister of Finance:† Hansard 7/5/91

(1) (a) What is the size of the assets of the Government Service Pension Fund invested at market value in bonds other than Government bonds, (b) what amount is invested in Government bonds, (c) what is the size of the assets invested in other ways and (d) what is the cash balance of the fund;

(2) what, in each of the latest five years for which information is available, was the size of the (a) pension contribution receipts of the fund, (b) contributions by the State to the fund and (c) receipts of the fund from investments;

(3) what, in each of the above-mentioned years, was the total amount (a) incurred in direct costs for the administration and maintenance of the fund and (b) paid out in (i) pensions and (ii) retirement bonuses;

(4) in respect of what date is this information furnished? B545E

Slovo spells out SACP policy to businessmen

Star 8/5/91.

49

By Abel Mushi

The country did not only need a democratic political process but also an economic policy that would make the average man in Soweto happy, South African Communist Party leader Joe Slovo told Indian businessmen last night.

The SACP general secretary and ANC executive member told the 200-strong audience at the Islamic Bank in Fordsburg that he would try to explain to them the "flavour" of SACP/ANC thinking, acknowledging that they might not "like the taste".

Mr Slovo emphasised he stood for a "socialist South Africa".

The workforce needed to feel they had a stake in the country's economy. This would also bring about a more equitable economic order, he told the crowd.

Poverty

Mr Slovo said even countries regarded as "shining examples of prosperity" such as Korea, Japan and Taiwan had resorted to State intervention to redress the problems of poverty.

Asked by a member of the audience as to how socialism could succeed in South Africa when it had failed elsewhere, Mr Slovo replied: "In our country it is not socialism that has failed but capitalism."

Mr Slovo said that in the new South Africa as envisaged by his organisation, "accross-the-board nationalisation" was not the answer.

He added that the private sector would also play a significant role in the new South Africa.

Kaizer Nyatsumba examines Thabo Mbeki's views on future foreign policy

New SA must achieve fine balance

Star 9/5/91.

THE new South Africa would have to maintain cordial relations with its African neighbours and all other countries and desist from considering itself a regional power in southern Africa, says ANC international affairs director Thabo Mbeki.

In a paper on "South Africa's International Relations — Today and Tomorrow", published in the latest issue of South Africa International, Mr Mbeki says a democratic South Africa would have to deal with the consequences of 30 years of various punitive measures taken by the international community to isolate the country.

That process, Mr Mbeki says, would have to "begin during the transitional period".

He says the international community is obliged to assist South Africans to effect transformations which would arrest apartheid and institute a social order which would uphold the objectives contained in the Universal Declaration of Human Rights and the Charter of the United Nations.

Mr Mbeki placed emphasis on the need for South Africa's involvement in the world's economic structure, and for ties with the economies of southern African countries.

He says the South African economy's growth has depended, to a certain extent, on its ability to export capital, manufactured goods, food and services to southern African countries, to maintain communication and transport links with them and import labour.

Mr Mbeki warns, however, that South Africa will have to stop being a military and economic threat to its regional neighbours.

To this end he advocates the reduction of the size of the new South African Defence Force "so it ceases to constitute a threat to any other country" and the maintenance of an open society economy which can grow and develop in a situation of contact with the world economy in all spheres, including access to world capital as well as financial and trade markets.

"At the end of the day," says Mr Mbeki, "the basic task of South African foreign policy would be to ensure that our country and its people live with the rest of the world in conditions of peace, friendship and co-operation.

"During the course of the world struggle against apartheid, millions of people were mobilised into what was in fact an international movement of friends of the people of South Africa.

"These millions must remain mobilised as part of the process of establishing relations from people to people and as a resource that will help us to generate the resources we need for reconstruction and for ending the pariah status of South Africa."

The New South Africa, says Mr Mbeki, would have to establish relations with all countries and join organisations like the Organisation for African Unity, the Non-Aligned Movement, the United Nations, the Lomé Convention and the African Development Bank in addition to remaining a member of the International Monetary Fund and the World Bank.

The new country would also promote the objective of having Africa and the Indian Ocean as nuclear-free zones which would be free of foreign military forces and bases. □

Mark Suzman talks to scenario planner Clem Sunter about the future

Growth, order must interlock

Star 10/5/91.

(49)

NEARLY five years ago Anglo American's chief scenario planner, Clem Sunter, launched a book, video and series of speeches on South Africa's future which brought a new vocabulary into domestic political discourse.

Setting out an analysis of possible and probable trends in South Africa and the wider world, Mr Sunter drew a distinction between a "high road" of reform and economic growth and a "low road" of co-option, repression and a declining economy — terms which have become almost obligatory in assessing broader developments today.

In recent years, however, political changes have left the dichotomy between prosperous democracy and an authoritarian "wasteland" rather less clear-cut.

In a climate of increasing violence and a weak economy, uncertainty rather than success or failure seems to be the order of the day.

Acknowledging these shifts, Mr Sunter, now chairman of Anglo's gold and uranium division, agrees that his scenario requires some updating, although he insists that its central insights remain valid.

In particular he observes that the "rules of the game" — the guiding parameters within which all political and economic development within South Africa must take place — have remained essentially unchanged. These comprise:

- The imbalance of military power prevents the possibility of revolution by force of arms.
- With no negotiated settlement, violence will rise in South Africa.
- South Africa is an industrialised society whose economy, together with the jobs it supports, act as a counterbalance to revolutionary scenarios.
- South Africa cannot fully satisfy the world agenda.
- Statutory apartheid will go.

Given this framework, Mr Sunter observes that at the moment we are tentatively heading in the right direction for a successful outcome.

"There are signs of both roads in today's South Africa. Negotiations are certainly the key to unlocking the door to the high road of growth and democracy, but there are still many difficulties ahead," he observes.

In particular, Mr Sunter cautions that the major partners in the negotiations process are not yet ready to enter a genuine process of give and take.

"I am not convinced that all parties realise that negotiations are a sharing process that requires real concessions, and until that happens genuine progress will not be made," he warns.

And despite the fact that South Africa remains far from the 5-10 percent growth rates that Mr Sunter said would be necessary to pull the country into "high growth mode", he now feels that the current economic downturn has a very substantial silver lining.

"Tough times are no bad thing because they have brought expectations down," he asserts. "There is now a much more realistic philosophy among the trade unions and the left wing about the economy."

In addition, he feels that this greater realism will provide an excellent springboard for a huge expansion in entrepreneurship in the future as the recession ends — somewhat analogous to the situation in Germany and Japan after the war.

"If we can reach a growth level above 5 percent now, it will be seen as a reward for negotiations, helping the whole process along."

Nevertheless, Mr Sunter hastens to stress that this attitude should not be interpreted as support for sanctions, which he continues to oppose.

"The trigger is crucially important: sanctions are divisive and prompt a divisive reaction within the population while a recession, which affects everybody, can bring people together in adversity," he says.

As before, he feels that a massive economic upswing depends primarily on unlocking the entrepreneurship contained in the informal sector and concentrating on a move towards an export-led economy that is centred on manufactured goods. Given the current crisis in the gold industry, moreover, he asserts that such a shift in industrial priorities has become particularly important.

But to ensure the long-term success of such an endeavour, Mr Sunter now feels that the inculcation of a new value system among South Africans is crucial. While this would incorporate the "work ethic" originally propounded in his book, it would also encompass certain social and political norms to ensure democratic stability.

In conjunction with this he emphasises that one key issue he neglected in his earlier scenario was the environment. Expanding in a second book on ideas he set out, Mr Sunter now insists that a sound environmental policy is essential to a successful long-term future — and the only way of securing that is the creation of an "environmental ethic" within society.

In addition he notes that prosperity and environmentalism are dependent on one another. Rather than destroying the environment, industrialisation (if properly managed) is necessary to generate sufficient wealth to prevent the indiscriminate exploitation of natural resources.

Mr Sunter also points to a second modification he would now make to his original scenario with regard to the concept of leadership. While the original scenario stressed the need for strong leaders able to formulate a vision and carry it out, Mr Sunter now gives equal emphasis to the importance of leaders who act as facilitators rather than despots.

"The real leadership we need is the ability to turn ordinary people into champions — to liberate their spirit rather than control them," he asserts, citing Switzerland and Japan as countries which have successfully done this.

However, although he still sees the high road on the horizon, Mr Sunter remains wary of potential pitfalls along the way. Describing the current violence and complications in the negotiations process as to some extent inevitable in a society undergoing radical transition, he admits that these two factors could potentially lead the country down some variant of the low road.

"An emphasis on jobs, law and order, and economic growth is the only solution," he asserts, highlighting the interdependence of the issues: growth will ensure stability while stablility will accelerate growth.

And in another new insight, he now worries about the dangers of nationalism. Noting the example of Eastern Europe, another area undergoing transition, he warns that nationalism, aggravated by ethnicity, could become a major catalyst for instability.

"What is needed is a broader national sentiment. People must learn to feel good about being South African," he says.

Nevertheless, he notes that such a broader loyalty cannot be forced on people.

"It grows with rising living standards, economic interdependence and national success in pastimes such as sport," he observes.

And while he admits we are not there yet, Mr Sunter continues to feel optimistic that the high road is still well within South Africa's grasp.

But as he warned in his book, to get there we have to walk through a "vale of tears" first, and if the vale is too long it may yet end in permanent misery. □

Blacks optimistic about economic future — survey

LINDA ENSOR (49)

CAPE TOWN — Township violence is not creating as much pessimism among blacks as it is among whites about the short-term future of the economy, a survey by Stellenbosch University's Bureau for Economic Research (BER) has found.

It found that metropolitan black consumers were relatively optimistic about the short-term economic future, with about 57% of those interviewed foreseeing an improvement in the economy during the next 12 months, against 37% who expected a deterioration in conditions.

The relative optimism was most pronounced among respondents in the 16-24 year age group, where 73% expected the economy to improve in the next year while 27% felt there would be a deterioration.

"The index figure now stands at 108, compared to 100 in the first quarter of 1990 and compares favourably with the low index figure of 86 for whites during the first quarter of 1991." BDay 10/5/91

Higher optimism was also evident in black consumers' expectations for their personal financial position. At 112 the index is at its highest since the 1989 fourth quarter.

Economic prospect not rosy, says expert

Sowetan 10/5/91

49

By JOSHUA RABORQKO

THE gold price is likely to remain under pressure in the short to medium term, Old Mutual's latest *Economic Monitor* indicates.

Chief economist Mr Dave Mohr says factors adversely affecting the metal include a slowing world economy, easing world inflation, the dollar's potential to remain around present levels or even rebound further and continued positive real returns available on interest-bearing investment.

"Over the long term we adhere to our view that the unlikelihood of any significant rise in world inflation and the rapid growth in the availability to investors of alternative hedging instruments probaly rule out the development of a major bull market in gold."

This view is supported by the Stellenbosch University Bureau of Economic Research.

Cutback

It says gold mines are anticipated to cut back on their production during 1991 and the price of gold is unlikely to recover during the forecast period.

Two factors - large increases in food prices and high pay increases last year - probably played a major role in preventing a stronger downturn in inflation.

Over the past four years, food price increases averaged 16,3 percent a year compared with 13,9 percent in the rest of the Consumer Price Index.

Prospects for the real economy this year do not appear very rosy and the financial position is likely to remain under pressure, he says.

(1) What total amount is it estimated will his Department save in (a) operating costs and (b) salaries during the first 12-month period following the closure of the St Patrick's Primary School (Kokstad), Eston Primary School and Bulwer Primary School;

(2) whether he will make a statement on the matter?

B922E

The MINISTER OF EDUCATION AND CULTURE:

No final decision has been taken on the closure of the schools. If the schools mentioned should be closed, the saving for the period mentioned will be the following:

(1) (a) R45 894,00

(b) R477 000,00

However, when the closure of a school is being considered a decision is taken not only on the grounds of possible savings which could be effected, but other factors such as the wishes of the community, educationally accountable provision of education, provision of extra-curricular activities, etc are thoroughly taken into account;

(2) no.

Business interrupted in accordance with Rule 180C (3) of the Standing Rules of Parliament.

Deaths by intravenous drips: investigation

*4. Mr A E DE WET asked the Minister of Health Services:

(1) Whether she or her Department has been informed of the deaths of approximately 27 persons that were allegedly caused by intravenous drips; if so,

(2) whether an investigation is being made into these deaths; if not, why not; if so, what progress has been made;

(3) whether any action is being taken against the company responsible for the manufacturing of these drips; if not, why not; if so, what action?

B978E

The MINISTER OF HEALTH SERVICES:

(1) The Department of Health Services and Welfare: House of Assembly, became aware of the outbreak of a neonatal infection and death of seven babies on 28 August 1990 at the following private hospitals: Park Lane Clinic, Morningside Clinic and Garden City Clinic.

(2) The Department of Health Services and Welfare: House of Assembly investigated the deaths and all relative documents were forwarded to the Attorney-General, Witwatersrand Local Division. The Attorney-General submitted all the clinical information submitted to him to a panel of experts which, at his request was organised by the Department of Health Services and Welfare, Administration: House of Assembly, to decide if the babies in fact died from unnatural causes. The Attorney-General will make a decision as soon as all the reports have been received and studied and the police investigation has been finalised.

(3) The company responsible for the manufacturing of these drips, voluntarily closed the production facility concerned. The Attorney-General is considering amongst others, the question whether any penal responsibility exists in respect of any medical practitioner, institution or any other party because of the death of the persons.

For written reply:

General Affairs:

Customs Union Agreement: amounts paid over

330. Mr K M ANDREW asked the Minister of Finance: 49

(1) What amounts were paid over to (a) each of the independent Black states and (b) (i) Botswana, (ii) Lesotho and (iii) Swaziland in terms of the Customs Union Agreement in the 1990-91 financial year;

(2) what was the balance that accrued to the Republic of South Africa?

B858E

The MINISTER OF FINANCE:

(1) (a)	Transkei	R502 084 000
	Bophuthatswana	R698 418 000
	Venda	R 99 580 000
	Ciskei	R265 989 000

49

(b)	(i) Botswana	R661 046 000
	(ii) Lesotho	R354 658 000
	(iii) Swaziland	R338 040 000

(2) After provision was made from total customs and excise receipts for an amount of R657 633 000 in respect of Namibia, the balance, that accrued to the Republic of South Africa, amounted to R4 462 508 724.

Own Affairs:

Cape Province: 1990 matriculation results

71. Mr J H MOMBERG asked the Minister of Education and Culture:

(1) How many pupils at schools falling under the control of his Department (a) (i) passed, (ii) failed, and (iii) obtained matriculation exemption in, and (b) wrote, the matriculation examinations in respect of the Cape Province at the end of 1990;

(2) how many of these pupils obtained (a) A, (b) B, (c) C, (d) D, (e) E, (f) F and (g) other aggregate symbols in the 1990 matriculation examinations;

(3) how many of these pupils passed in (a) Mathematics and (b) Physical Science in the above-mentioned year?

B887E

The MINISTER OF EDUCATION AND CULTURE:

(1) (a) (i) 16 261

(ii) 942

(iii) 7 343

(b) 17 203

(2)* (a) 650

(b) 1 379

(c) 2 680

(d) 2 278

(e) 356

(f) 0

(g) 0

(3)**(a) 9 335

(b) 5 858

*Only candidates entered for matriculation exemption.

**Higher, standard and lower grade candidates included.

Economic growth, not taxes, must be used to fund parity (49) Barend

Bday 14/5/91

LESLEY LAMBERT

CAPE TOWN — The continuation of violence and sanctions would limit economic growth and restrict government's ability to equalise pensions, Finance Minister Barend du Plessis said yesterday.

In a keynote address to the Pensions Institute of Southern Africa's annual congress, Du Plessis said the funds needed to close the gap between black and white pensions would have to come from economic growth rather than additional tax revenue.

People who stood in the way of economic growth — "those who supported violence and sanctions" — would be responsible if the state was unable to achieve parity, he told delegates.

He undertook to introduce sound management principles in all state pension funds.

Du Plessis said government had appointed a private sector financier to investigate ways of managing all state pension funds on the same basis as private funds.

"State funds are rapidly moving towards sound management," he said.

Government also intended removing the disparity between male and female pensions and would consider the Mouton Committee's recommendations on means tests, Du Plessis said.

It was imperative that government help people who could not provide for their old age by equipping them with work skills and encouraging them to save.

But pension funds would also have to contribute to the process of economic growth and job creation by investing larger proportions of the funds they managed in productive development projects, Du Plessis said.

He urged the industry to find innovative ways to employ their funds productively without undermining their fiduciary responsiblities.

The pensions industry, estimated to be worth R130bn, has been under considerable pressure from various quarters to invest its massive funds more productively, paricularly in areas such as housing, health and education.

Numerous programmes are under consideration by the Life Offices Association and the life and pensions industry in collaboration with the Development Bank of Southern Africa.

☐ Delegates at the congress decided yesterday to change the name of the Pensions Institute of Southern Africa to the Institute of Retirement Funds of Southern Africa.

'Entrepreneurs can bridge conflict'

B/Day 16/5/91.

49

THEO RAWANA

ONLY entrepreneurs, who had hands-on experience of a free market at work, could act as a bridge between conflicting views on SA's future economic policy, Small Business Development Corporation (SBDC) MD Ben Vosloo said in Pretoria yesterday.

Addressing the national congress of the Public Relations Institute of Southern Africa (Prisa), Vosloo said SA should expect a battle for the minds of the people between the forces of individual freedom and enterprise, and central economic planning.

"We at the SBDC believe that the natural mediators between these conflicting world views are SA's entrepreneurs. Particularly those men and women who are engaged in the small business sector of the economy tend to be true free marketeers, although few would actually give themselves that label," Vosloo added.

Vosloo said for the average entrepreneur the critical question was not whether a concept was ideologically acceptable, but whether and how it worked in practise.

Without job-creating, economic growth and a prosperous economy, society would be condemned to impoverishment and all basics such as housing, education and health would fade out of reach. Vosloo said socialist rhetoric had lost much of its appeal and political momentum. "Socialism did not live up to its promises. Marxism/Leninism and Third World socialism invariably lead to authoritarian one-party rule or even one-man dictatorship and the violation of human rights.

"... In the final analysis it should be clear that our hope for the future does not lie in simplistic ideological rhetoric. It lies in a refocusing on the true nature of development at the grassroots level in towns, cities and regions," Vosloo said.

'Relevance' of education is a priority

PRETORIA — There was no doubt education was the key to a better future, but it had to provide relevant skills and expertise, Small Business Development Corporation MD W B Vosloo said. B/Day 16/5/91.

Addressing a diploma ceremony at the Pretoria Technikon's Faculty of Economic Sciences yesterday, he said that should this test not be passed, there would be no future as nobody could doubt there was a crisis in the educational system.

Employers were also dissatisfied by the products of education.

"Their standpoint comes down to the fact that scholars and students are not being sufficiently prepared for industrial life," he said.

"Although unemployment in SA today is caused mainly by the stagnant economy, it is undoubtedly related to education." — Sapa.

Violence stands in the way of SA's immense potential

BDay 16/5/91.

RAYMOND PARSONS

49

IF THE "new South Africa" is to succeed, it will need to be underpinned by a strong economy and high rates of economic growth. Groups and organisations of very different political persuasions agree on the need for economic growth, although there may be divergent perceptions of how this can best be achieved.

Of the several factors which will decide the economic performance of the "new South Africa", I would single out two immediate and crucial ones — the international competitive position of SA and the need for confidence and political stability.

These twin elements will play a vital role in influencing SA's ability to achieve high economic growth rates. Both relate to our participation in the global economy.

SA's share of world trade has been declining; on the other hand the dismantling of sanctions and disinvestment measures is rapidly normalising our external economic relations.

As a developing country, SA needs wide-ranging access to international markets. There is no way in which we can maximise our economic growth in the years ahead unless SA participates fully in the world economy. To do so successfully, SA must be able to compete internationally.

This is, in part, reflected in the need to lessen our dependence on primary industries and to encourage the development of other sectors such as the manufacturing industry.

The gold mining industry is developing new strategies for growth and survival. But we also need to look at other options; whether it is tourism or manufacturing industry, the SA economy needs to diversify.

Manufacturing industry in particular has a very important role to play. It is therefore necessary to create an environment favourable to entrepreneurship, innovation and the development of internationally competitive industries.

Sacob has been investigating the cost competitiveness of SA manufacturing industry. It has also been engaged in discussions with the Department of Trade and Industry. The soundest way for SA to develop a new industrial policy is to base it firmly on the best information on the competitive position of local industry in relation to its major competitors on international markets.

But the need for manufacturing industry to compete on world markets is only part of the story. We also need to create conditions which encourage investment, especially foreign investment.

Whether or not investments are made depends on investors' perceptions of risks and expectations of returns after inflation and after tax. These include political risks.

Bankers and business like stability — real stability — because it gives them confidence and enchances predictability. It encourages them to commit themselves to the future on a large scale.

The more uncertainty there is about conditions in the future, the higher the perceived risk in any country, the higher the rate of return expected by investors and the fewer the projects that make the grade. Investors then transfer their attention to share dealing, takeovers and the short-term money market.

In the past year or so SA has been steadily normalising its external economic relations. Sanctions and disinvestment measures have been crumbling, and SA is gradually finding its way back to the global economy.

It will now be essential for SA to acknowledge the imperatives of the global economy. The new SA will have to survive and grow in a rapidly changing world. The global march of freedom is creating vast opportunities, all of which require a competitive economy.

International trade and investment flows will gravitate on a large scale to countries and regions which are profitable and which inspire confidence. At the end of the day what counts is confidence — both external and internal.

So although it was possible in the past to have laws passed overseas prohibiting foreign businessmen from participating in the SA economy, we will not now have laws compelling them to invest here. That will depend upon their view of how we run our affairs and upon perceptions of stability.

There is an obvious desire by many overseas interests to welcome SA back into the international fold. But this can only materialise on a sufficient scale if SA meets stringent economic and political criteria.

Even if we accept a degree of uncertainty and upheaval as necessary when rapid change is taking place, it does not mean complacency about the current level of violence. Although confined to certain areas, the violence has national and international implications.

The violence is unacceptably high in terms of human costs, as well as having a damaging impact on investor confidence both here and abroad. Endemic violence is undermining confidence in the prospects for peaceful change. It can eventually lead SA on a downward path to poverty and despair.

Without an inflow of long-term capital, the ceiling on SA's economic growth rate on the most favourable assumptions is likely to be about 2% — far too low to meet the needs of our total population.

If the current level of violence is not reduced soon, there is a serious risk that the economic upturn we are all hoping for next year will be delayed. The perception of violence is not only affecting investment decisions, but also consumer spending.

What SA must guard against is to replace external sanctions with an internal sanction — violence. This would equally place a ceiling on our economic performance.

All South Africans should therefore be concerned with the elimination of violence and its multifaceted causes, which must be addressed by means of a total strategy enjoying wide support.

The ANC's national executive committee meets tomorrow to decide on its future attitude towards political negotiation and on whether the ANC will participate in the proposed summit meeting on violence scheduled for May 24 and 25.

These are decisions the ANC and other key organisations are entitled to make as they see the situation. But we must understand that SA is now, for good or ill, in a phase of political brinkmanship of a dangerous kind, because it could so easily go wrong. The margin for error is small!

Whatever the ANC decisions tomorrow, it seems likely that the relationships between the main participants in the political process will remain fragile. We must hope compromises are still possible.

The role of facilitators — such as the churches and business — could make the difference between success and failure. This enhances the part business can play in helping to create a favourable climate for reconciliation and negotiation.

The SA economy has enormous potential, which could make possible economic growth rates of 6% to 7% — and job creation on a large scale. But we can only unlock that potential if political negotiations are back on track and violence is eliminated.

Whatever other steps the authorities feel must be taken to enforce law and order must not detract from the important summit meeting scheduled for later this month. There should be national support for the conference on violence to be held on May 24 and 25, from which a widespread and new commitment to peaceful solutions can emerge.

Violence — and the potential for violence — remains the biggest single obstacle to peace and prosperity in SA.

☐ **Parsons is director-general of the SA Chamber of Business. This is an excerpt from an address in Welkom last night.**

SOWETAN BU

Blacks optimistic about economy

Sowetan 16/5/91

(49)

By ALI MPHAKI

BLACKS are relatively optimistic about the short-term economic future of South Africa, according to a survey by the Bureau for Economic Research.

About 57 percent of respondents foresaw an improvement in the economy during the next year, against 37 percent who foresaw a deterioration.

A possible explanation for this optimism is the feeling of hope derived from negotiations between the Government and the African National Congress.

The bureau says it is evident that township violence is not causing the same degree of economic pessimism among blacks as among whites.

It is noteworthy that optimism was most pronounced among respondents aged 16 to 24, of whom 73 percent expected an economic improvement of some kind during the next year.

Only 27 percent of the respondents in this age group anticipated a deterioration in the same period.

In the 50-and-above age group, only 54 percent of respondents expected an improvement, while 40 percent expected a deterioration in economic conditions.

With regard to their personal finances over the next 12 months, black consumers appear to be much more optimistic than in the same quarter of 1990.

Hopes

There seems to be a great deal of expectation among younger consumers in the power of labour unions to successfully negotiate for wage settlements above the anticipated inflation rate of 13,7 percent for 1991.

Nonetheless, most black consumers still regarded the present day as an inappropriate time to purchase durable household appliances.

Of all the respondents, 21 percent thought it was "the right time", compared to 40 percent who thought it was not.

The survey consisted of personal at-home interviews.

They were conducted in black households in April. Surveyors used the preferred language of the respondent.

The survey covered black adults aged 16 and older living in the major metropolitan areas of South Africa and is said to be representative of 90 percent of all metropolitan blacks.

GDP keeps falling as recession bites deep

CT 16/5/91

By ARI JACOBSON

THE recession continues unabated with the real Gross Domestic Product (GDP) for the first quarter of 1991 perpetuating the negative trend by falling 0,9%, according to the Central Statistical Service (CSS).

This declining pattern has occurred over the last six consecutive quarters with economists predicting a full two years of recession, before an eventual kick-start by year end.

Frankel Kruger's Mike Brown said a bottoming of the recession would be depicted by a growth in export volumes and the easing of monetary policy — none of which have occurred.

On a positive note Brown pointed out that capital inflows of R1,5bn for the first quarter were the best since the moratorium was declared in 1985.

Old Mutual's Ursula Maritz said the deterioration in the production performance across all sectors was symptomatic of 1990.

First National Bank's (FNB) Simon Law said that forecasts of a 1,2% to 1,6% growth in the GDP for 1991 meant the economy was underperforming and required a severe turnaround to meet projections.

Law was not optimistic this would be achieved with the tight credit stance aimed at bringing down inflation.

The seasonally-adjusted real GDP for the non-agricultural sector declined by 1,3% in the first quarter of 1991 after a slight increase of 0,2% in the preceding two quarters.

The sectors largely responsible for dwindling GDP were mining at -4,3% and manufacturing, which fell 3%.

Law said the poor manufacturing performance was of a cyclical nature while the negative mining output was in line with expectations.

"The government's budgeted revenue from the mining arena has dropped sharply, providing a sound indication of the likely effect on GDP and underlines the problems inherent in this industry."

The contribution of the secondary industries decreased by 3,1% in the first quarter of 1991 against the fourth quarter of 1990 — while the tertiary industries added a mere 0,7%.

DEBATE: *Should South Africa retreat from the world economy or should we increase our trade and financial links?*

The path to post-apartheid growth

PATRICK BOND puts the case for delinking from the world economy

PICKING through the recent business press one encounters a fascination with South Africa's reputation among foreign bankers — and also with South Africa's chances, in the coming post-sanctions years, of successfully competing in international manufacturing markets.

"US to block SA access to IMF aid," wailed *Business Day* last week, as *The Financial Mail* said: "Without an end to township violence, we cannot expect enough new foreign finance or roll-overs to let the debt moratorium expire at the end of the present standstill agreement."

Notwithstanding a much-hyped R135-million deal with European banks following President FW de Klerk's April trip, Reserve Bank Governor Chris Stals can only dream of the R15-billion International Monetary Fund loan he desperately needs to phase out the financial rand. Everyone from the African National Congress to George Bush publicly recognises the importance of retaining IMF sanctions to ensure apartheid's demise. (49)

Yet simultaneously, the World Bank is in Johannesburg and Pretoria with exploratory missions and talk of "social contracts".

Stals reportedly proposed to the Bank's urban team (led by ex-South African Jeff Racki) that it grant South Africa several billion dollars in new loans for housing. The point of this would be to address South Africa's anticipated balance of payments problems, although a huge infusion of foreign debt is a profoundly silly way to finance *locally-built* housing (whose foreign input costs are near zero).

There is, clearly, a lot at stake, and so all the mixed signals may seem terribly confusing. Is the South African economy on the way out of, or into, another no-win encounter with international finance, one which would make Chase Manhattan's crushing 1985 bearhug look like a friendly peck on the cheek?

Add to this uncertainty the cacophony of voices on the trade front. "The best route," says *The Weekly Mail's* Reg Rumney, "would be a labour-intensive export-oriented economy, but this is easier said than done."

Quite. The World Bank's secret new report — "South Africa: Economic Policy Options after Apartheid" — blasts South Africa for an "unusually capital-intensive" production system. This is from an historic overreliance on imported capital goods rather than the development of appropriate local technology. The dye was cast in the 1960s, by way of an overvalued rand, too many multinational corporations producing for rich whites, and excessive protectionism.

What's the answer — a classic dose of IMF free-marketry? Consider the consequences. *Finance Week* frets about an end to tariffs in industries such as automobiles: "It is doubtful if a single existing assembly plant in South Africa could survive, except perhaps as a branch operation of a foreign parent."

Or, writes a worried Nicola Magni, managing director of a mid-sized textile firm, the logical outcome of a fully open economy is that "most of South Africa's manufacturing industry must be shut down, simply because everything from a box of matches to a motor car can be imported at a cheaper price." The South African Production and Inventory Control Society adds that "the quality of South African products and services is among the worst in the world".

In any case, "quality", as Karl Marx was quick to point out, means essentially one thing: production for the bourgeoisie.

We have, then, a maelstrom of opinion and fact, some naive to the point of idealism, others cynical to the point of debilitation.

Perhaps it's time to ask ordinary people what they want, rather than falling quickly under IMF and World Bank domination in classic African tradition. Much more than other forces in South African society, the ANC and Cosatu are beginning to do this, through branch meetings and educationals. The SACP will soon pronounce on economic issues, and with Jeremy Cronin now highlighting retrenchments and other excesses of a degenerate, parasitical South African capitalism, the Party may reintroduce working class interests to the debate.

In fact, it doesn't take much common sense to figure out what sort of growth path serves the immediate interests of the vast majority.

Protected, *low-tech*, labour-intensive production, in this hostile global system of superautomation and supercompetition, is as necessary for peripheral economies as ever.

And as for consumption, the search for "quality" so as to penetrate faddish foreign markets is probably not such a big issue when it comes to the more important basic goods currently denied two thirds of South Africa's population.

WMail 17/5 - 23/5/91

But it seems Rumney's dogmatic scepticism towards self-reliant economics (review of *Commanding Heights and Community Control*, in *The Weekly Mail*, April 26 to May 5) is much more in vogue, though graciously tempered by an offer to concoct this rebuttal. What my recent book on the topic sets out are the historical parallels, for example the 1930s crisis in high finance and its opportunities for South Africa to limit dependence and broaden the economy — and the present-day struggles which aim, not for an "Albanian solution", but for the ascendance of democratic controls over the machinations of export-oriented financiers.

For confirmation of the urgency of this distinction, one need only venture with the seductive foreign bankers, into international finance, which *The Economist* this week calls "a den of greed and chance in which the only way to win is to fix the roulette wheel".

Or, as the Bank report concluded, "it is unclear whether South Africa runs a greater risk of looking like Zimbabwe or a Latin American country". Will such prospects be debated openly, or, using the Stals/IMF methodology, be imposed anonymously from above?

● **Patrick Bond is a development consultant and journalist based in Johannesburg.**

REG RUMNEY takes an opposing view (49)

TAINTED though it is by discredited ideology, Patrick Bond's book, the *Commanding Heights and Community Control*, raises important issues.

One is that South Africa can rely for economic growth mainly on domestic industries supplying basic goods to the poor. This crucial idea pops up in the African National Congress discussion document, and the Congress of South African Trade Unions' blueprint for the economy. But while both organisations give at least a nod towards trade, Bond goes a bit further than others on the Left to suggest that exports do not matter, and that we should delink from the world economy.

Bond suggests that when South Africa was relatively delinked, in the 1930s and 1940s, manufacturing expansion, black employment and wages, and growth all surged. But this was the period of World War II, when disruption of shipping forced South Africa to engage quickly and widely in import replacement. Also, a war always brings a surge in activity. Moreover, like losing one's virginity, one can only move from full colonial dependence once. Depression also reigned then, because in part of a rise in protectionism. Much has changed since then, including technology. WMail 17/5 - 23/5/91

The October 1990 International Monetary Fund Survey shows quite conclusively an inward-looking economy cannot grow as fast as an outward-looking one. Strongly outward-oriented countries showed growth in potential gross domestic product of 8,4 percent a year between 1975 and 1982, and 7,7 percent between 1983 and 1989; strongly inward-oriented countries showed growth of 2,3 and 2,2 percent for those two periods.

For Bond, tied in with the notion we should go it alone is the belief that we must resist the machinations of international finance, including the World Bank and the IMF.

Bond is not alone in taking a jaundiced view of development agencies and the IMF. *But had we not squandered the windfall of high gold revenues through the Sixties, Seventies and Eighties we would not now need to enlist the aid of the IMF.* We would also not have to listen to a word of its advice.

The money was squandered on, among other things, the expense of apartheid; when we could arguably have spent the money on building up industry to produce needed consumer goods, we were wasting it on misguided strategic import-replacement projects like Mossgas, in a vain attempt at self-sufficiency.

Bond is wrong to say South Africa's low capital productivity is due to machinery being imported to sate the desire of whites for luxury goods (the moral opprobrium he attaches to "luxury goods for whites" is cheap rhetoric).

The alacrity with which machinery was imported is due to a number of factors. Firstly, low interest rates made it more attractive to replace labour with machinery. It is common wisdom too that employers felt it advisable to reduce their dependency on a restive labour force which they probably felt was making unreasonable wage demands.

Secondly, just as cogent a reason is the technological imperative. Nowhere in Bond's book is the demand of technological advance brought into account. His argument is that "essentially all of the materials and machinery needed to produce these basic commodities are available within South Africa. Thus 'self-reliance' is no pipe-dream."

But machinery must be replaced because of wear and tear, and this will use foreign exchange since we do not and cannot produce all the machinery we need in South Africa.

It also ignores the necessity of keeping up with world technology.

Underlying Bond's argument is the fatal assumption that because the goods produced are low-tech the machinery too is low tech.

We have replaced imported products with local ones almost as much as we profitably can. In some cases, we have gone too far, as some will argue about Atlantis Diesel Engines, another strategic project. To continue to benefit from technology we have to concentrate on areas where we have a competitive advantage, ie the beneficiation of our primary products, and import those goods which we can't profitably make here. An example is the local manufacture of autocatalysts, using our precious platinum.

There is no question that we can neglect exports. South Africa has an open economy, with up to 60 percent of the gross domestic product accounted for by trade.

Mining accounted for 66 percent of total exports in 1989, down from 77 percent in 1980, but still high. Agriculture and fishing were a more or less stable five percent. Product manufacture rose from 13 percent to 24 percent of total exports. A decline in exports would cause — and because of the low gold price now is causing — massive job losses. *What should be exercising our minds now is how to change the nature of exports. We have to switch from gradually depleting commodities, whose pricing is beyond our control and which have been depressed for far too long, to value-added goods for which we can demand far more money and use marketing skills to sell.*

Finally, and most damningly, nowhere in any of the economic frameworks including Bond's book is the consumer mentioned. Communities, workers, the poor — but no consumers. Consumers have not only needs, but wants. Surely the lesson of the failure of centrally planned communist economies is that it is folly to produce what is not wanted?

Instead of planning the production of basic goods, we should aim for growth to give the poor more money to buy what they want, and allow them to be supplied in the cheapest way possible. This is far better than trying to emulate those mythical inhabitants of that paradoxical island who made a living by taking in each other's washing.

Libertarians, too, risk imprisonment in dogma's dungeon

BDay 17/5/91. 49

It is not only the extreme left and right that are prone to political intolerance. LIBBY HUSEMEYER examines similar problems in the ranks of free marketeers.

THE great debate over SA's future is stirring up a host of mini-debates, dissension and outright schisms in every major political group and ideological movement.

Rifts within the black left and the white right have featured prominently in the media, but similar upheavals are occurring in smaller, less high-profile groups. This is true even of the libertarian/free market movement, which has traditionally accommodated and welcomed internal differences of opinion.

All libertarians subscribe to a number of general principles, including the right of every individual to be free from coercion (whether by other persons or by government), the inviolability of personal and property rights, freedom of association, contract, speech and movement. But they strongly reject any form of dogmatism, and there have always been numerous issues that are guaranteed to provoke vigorous debate within libertarian ranks.

For example, libertarians may be found on both sides of the abortion and capital punishment debates. Opinion on political issues is also divided: while some libertarians espouse anarchism, others advocate limited government.

Among the latter, there is disagreement over the extent to which it should be limited, and by what means. Some believe in restricting government powers through a rigid constitution strictly applied. Others believe government power is best limited by devolving power to numerous centres and encouraging maximum public participation in decision-making.

Another contentious subject is that of strategy. Some libertarians refuse to become involved in any form of activism and focus on attaining freedom in their personal lives.

Then there are the "ivory tower" libertarians who limit themselves to debating esoteric questions that are of little interest to the general public. Some of these adopt a purist, all-or-nothing approach that makes no concessions to political realities. Whereas many libertarians would favour a state-financed but privately run education system, at least as a first step to a totally private system, the purists would regard this as an unacceptable compromise of libertarian principles.

Others concentrate on disseminating and promoting free market ideas in the broad community in order to create a groundswell of support for political and economic freedom. Still others try to influence policy by lobbying governments directly to deregulate and to adopt market-oriented programmes.

In the US and some European countries such as Norway, libertarians have formed political parties and put up candidates for election. In these groups there is widespread acceptance that movement toward the libertarian ideal will be incremental and that it will involve some compromises along the way.

Although these different strategies are hotly debated in libertarian circles, most free marketeers accept that they all play an important and valuable role in furthering the creation of a free society.

In SA, as a consequence, each individual has tended to adopt the approach that is best suited to his or her temperament, and there have been no rifts within the movement — until recently.

The discussion in the letters column of Business Day regarding an article by Frances Kendall which proposes the use of smart cards for the provision of welfare belongs to this perennial strategy debate. However, there was a new element of animosity in some of the letters, which attacked not only the proposal but also the libertarian credentials of the author.

In her article Kendall was developing an idea first advocated by Milton Friedman. He argued that since some government involvement in social programmes is virtually inevitable, free marketeers should urge governments to restrict their involvement to financing these programmes, while leaving the provision of welfare services to the private sector.

Friedman's reasoning was that this would minimise the negative consequences of government intervention. In other words, it would reduce costs, improve efficiency, and minimise opportunities for fraud and abuse.

However, one of the letter writers (a fellow libertarian) argued that Kendall, by advocating the use of smart cards and thus accepting a degree of government involvement in welfare, could no longer be considered a free marketeer.

This is not the first time a pragmatic approach has elicited accusations of ideological unsoundness from within the movement: there have been several similar episodes in internal debates in recent months.

This is a disturbing development which shows how easily even libertarians, who place a high value on independent thought, may fall into the trap of dogmatism.

Although it is a new phenomenon in SA free market circles, there have been precedents overseas, the most famous example being the late Ayn Rand, founder of the free-market Objectivist movement in the US, who regularly "excommunicated" followers for merely questioning any of her pronouncements.

In his autobiography, The Invisible Writing, Arthur Koestler described the deadly effects of ideological dogmatism. Koestler, who was a member of the Communist Party during the thirties and later become a committed libertarian, explained how Marxism locked its adherents into a "closed system" which "reconditioned" all feelings and attitudes and rejected all individual forms of expression:

Language, and with it thought, underwent a process of dehydration, and crystallised in the ready-made schemata of Marxist jargon.

There were perhaps a dozen or two adjectives whose use was both safe and mandatory, such as: decadent, hypocritical, morbid (for the capitalist bourgeoisie); heroic, disciplined, class-conscious (for the revolutionary proletariat); petit-bourgeois, romantic, sentimental (for humanitarian scruples); mechanistic, metaphysical, mystical (for the wrong intellectual approach); and dialectical, concrete (for the right approach).

While Marxism and a number of other philosophies espouse a rigid body of thought and regard any deviations as heretical, this is diametrically opposed to the libertarian tradition of openness and free inquiry.

The libertarian movement can make a valuable contribution to solving SA's problems. It would be a pity if, at a time when open debate and open minds are more important than ever before, some libertarians should become trapped in a closed system of their own making.

□ **Husemeyer is Consulting Editor for the Free Market Foundation.**

Moderates on the road to victory

49

S I Times (Bus Times) 19/5/91.

By DAVID CARTE

THE "ESTABLISHMENT" — the new-look National Party, big business and a growing number of moderate blacks — is most likely to prevail in shaping the economy of tomorrow.

This is the conclusion of Nico Czypionka, group economist of Standard Bank. His views were given to foreign bankers and domestic organisations in a presentation about economic scenarios during the negotiation process.

Mr Czypionka concludes that in spite of grassroots disaffection, the left and right will be obliged to enter negotiations.

Anarchy

He identifies three basic possibilities for the economy in the transition period:

- The present Establishment blacks will maintain the initiative;
- The black political opposition — the ANC and PAC — will prevail, or
- Left- and right-wing extremists will cause a decline into anarchy and a retreat into a siege society — "an improbable outcome".

A key requirement for the Establishment to prevail is that it continues to empower the black majority, thus winning its support.

The establishment can mobilise power and broaden its support. In so far as opinion in SA and internationally goes, it is in control and has policies on which it can deliver.

"It has rubber on the road and is not in a wheelspin. It has superior negotiation skills. It is also fast usurping the moral high ground."

Mr Czypionka lists weaknesses of the black opposition.

"It seems unable to focus power. Its negotiating skills are concentrated in just a few areas. It lacks unity. It is losing the sanctions weapon. And an increasing number of its supporters, in the trade unions, for instance, have a vested interest in the Establishment prevailing."

He contends that a constitution embracing multi-party democracy, minority protection, an independent judiciary and a market-oriented economic system is likely to emerge.

Mr Czypionka says the Establishment and the ANC largely agree on the problems facing SA, but they differ on the solutions. He says the most essential point of departure in economic policy is between the "redistributive" and "efficiency" schools of thought.

The ANC and PAC represent the former. Inkatha and the National African Federation of Chambers of Commerce (Nafcoc) are in the middle, favouring redistribution linked to efficiency through market mechanisms. The NP, on the right, believes in the efficient market-dominated approach.

"The redistributive school subordinates growth to redistribution. Economic activity is State directed. Efficiency and growth aspects are ignored. Its policy elements are fiscal. It wants to mobilise resources by empowering workers.

"But it does not say how SA will reintegrate into the world economy.

"The ANC's fiscal policy is to change State spending priorities and to increase State spending, which will impact on tax policy and local government cross-subsidisation. It seeks to redeploy resources through nationalisation of key industries, land redistribution and to mobilise savings through institutional changes in the financial sector.

Liar

"The third element is worker empowerment, through affirmative employment, increased trade union power and stepped up education and training.

"A notorious liar in German fiction tells how he saved himself and his horse from drowning in a swamp by lifting himself and his horse up by his own hair. That reminds me of the ANC's 'virtuous cycle'.

"State-directed distribution and economic empowerment are supposed to stimulate demand for basic goods and services, stimulating output by the State and the private sector, increasing employment and income.

"But it ignores savings and capital formation, the balance of payments realities and inflationary consequences.

"The Establishment, on the other hand, wishes to promote growth through development and black empowerment and to redistribute through growth. The same things are achieved the other way round.

"With the Establishment, economic efficiency is a preoccupation, so market forces are harnessed. Part of the policy is black economic empowerment through equalising economic opportunities. The Establishment aims to strengthen the formal and the informal sectors.

"The policy is to stimulate growth in the modern sector, to restore foreign and local confidence, retain stability, to encourage savings with real interest rates and to improve the supply side through tax reform. The idea is to broaden the tax base, lower nominal corporate tax rates, reduce the public sector, privatise, deregulate and commercialise the parastatals.

"The second element is economic development, to integrate more of the population into the modern sector through urbanisation and rural development and informal sector development."

Some medium-term pointers are encouraging. For the first time in 10 years, the Reserve Bank has no outstanding short-term obligations. The reserves have improved by R3-billion this year. If access to foreign credit improves, this year will still be pedestrian, but next year could see growth of 2,7% and the year after that 3,5%, growing to 4,5% in 1994.

Inflation

For this scenario Mr Czypionka assumes reasonable growth and low inflation in the main industrial countries, as well as no collapse in the gold price.

"These specific figures are more indications than actual predictions. Things don't happen predictably. But they will either be too optimistic or too pessimistic. These numbers could actually turn out to be conservative. We could see growth of 5%."

NICO CZYPIONKA: Rubber on the road and no wheelspin

'Cutting tax will abolish poverty'

49

THEO RAWANA

THE most effective way to stamp out poverty was to go for economic growth by reducing taxes and government intervention, Free Market Foundation executive director Leon Louw told the Ground Swell conference in Johannesburg on Friday.

Louw said SA was already one of the highest taxed countries, with gross tax revenues at all levels the highest as a proportion of GDP.

Coercive redistribution of wealth sought by some would be administratively impossible and enormously conflict-provoking. BDay 20/5/91

Redistribution of wealth via a voluntary and free market would be achievable in practice, conflict-reducing, just, rapid, and accompanied by high economic growth.

"This would mean that not only would the victims of apartheid receive a rapidly growing proportion of the country's income and wealth, but the aggregate amount of wealth would itself be increasing in such rate that the absolute condition of the poor would be improved substantially and rapidly even without a proportional redistribution in their favour."

He said the GNP of the world's highest growth economy, Taiwan, increased 12-fold between 1952 and 1982. While the wealthy became richer despite the fact that their share of national income declined from 62% to 38%, the share of the poorest 20% trebled. This was achieved with low personal taxes.

Idea of broad, quick rise in wealth is shot down

49

B Day 20/5/91

THEO RAWANA

SOUTH Africans needed to be told that there would be no dramatic improvement in prosperity soon, Wits University Centre for Policy Studies director Lawrence Schlemmer told a conference on redistribution of wealth on Friday.

The two-day conference, with the theme "Redistribution of wealth, not poverty", was hosted in Johannesburg by constitutional options education organisation Ground Swell.

Speaking on the theme "The psychology of redistribution", he said: "There are very high expectations for improvement and prosperity among new voters in SA. One finding is that six out of 10 people expect a very dramatic improvement in spending within the next five years."

Schlemmer said there was a debate between those who believed that there should be redistribution through economic growth and those who said there should be redistribution at the same time as economic growth.

"We already have relatively high tax rates — there are limits to what central government can do to distribute without starving the economy."

What was needed was a trade-off, a compromise, between redistribution and growth.

Saying compromise policies were sometimes ineffectual because there might be neither growth nor significant redistribution, Schlemmer said there was a need to convince the majority of South Africans that there should be national co-operation around which the economy could be stimulated and jobs created.

"We can"t expect to have dramatic improvement soon because programmes take time."

Author Don Caldwell said politicians always announced grand programmes for the people, not telling them that the money would be coming from the taxpayer.

Dangerous

Caldwell, author of the book SA; A New Solution, warned that whenever a politician announced a programme to provide clinics, recreational centres or crèches, the chances were that there would be an increase in taxes.

"I am astounded at the people who talk of distribution of wealth, without putting a price on their promises they make, not stating who is going to pay for such programmes.

"It is a dangerous notion to think you can wave a magic wand and have billions to spend."

He said politicians should come out and say the programmes entailed pushing up GST from 13% to 16%.

"If I say R4bn is to be set aside for the renovation of hostels, I should say I am pushing up GST to 16% for the renovation of hostels."

R1bn windfall in oil awaits Reserve Bank

(49) SHARON WOOD

THE current account surplus could be boosted by up to R1bn this year if government implemented its plan to sell SA's strategic oil pile to local refineries, economists said on Friday.

A recent Petroleum Intelligence Weekly report said that government would sell oil hoarded in disused coal mines to local refineries, resulting in a three-month halt in crude oil imports from June.

Some economists expressed doubt that oil imports would be completely halted for three months. But if they were, the savings of R1bn on oil imports, an estimated quarter of SA's annual oil import bill, would boost the current account surplus by the same amount. BDay 20/5/91

First National Bank international economist Simon Willson said halting oil imports for three months was possible and he had had "independent, semi-official corroboration" that this would take place.

The sale of oil stockpiles locally would help meet two objectives, he said. It would generate funds for socio-economic development and it would help the Reserve Bank achieve its target of building up three-months import cover.

"The suspension of oil imports would conveniently reverse out the sudden rush of unclassified imports in January. It would also be conveniently placed to help over the next bulk debt repayments in August," said Willson.

Safto CE Wim Holtes said it would be a good idea to sell strategic oil stockpiles. "At current interest rates the stockpiles are very expensive to keep and the money should be used now," he said.

"The stockpiles are keeping money out of the economy and they should be sold to put in a bit more liquidity while interest rates are kept high," he said.

Nedbank chief economist Edward Osborn said: "If this (the sale of stockpiles) is true it will have a significant effect. But it would be extraordinary to cut off supplies totally and then hope to resume them again after three months."

"We are looking at a current account surplus of R2,7bn and if oil imports are halted for three months this would be boosted to about R4bn," he said.

☐ To Page 2

Windfall

BDay 20/5/91.

(49) ☐ From Page 1

He said a higher current account surplus on the BoP would ease the burden of a debt redemption of about R5,5bn this year.

With a current account surplus of R4bn, SA would have to roll over about 30% of its debt this year — as opposed to 50% with a R2,7bn surplus.

Bankorp chief economist Nick Barnardt said that the sale of oil reserves would raise liquidity in the money market, which would make liquidity management more difficult for the Reserve Bank.

The money raised from the sale of oil stockpiles would be used to finance development.

This would eventually have a negative effect on the BoP by raising imports, although this effect was difficult to quantify.

Government authorities have refused to confirm or deny that they intend selling strategic oil stockpiles, because this is considered classified information.

One man, one share – Wits prof

244

49

By Thabo Leshilo

Star 20/5/91

Experts at a conference in Johannesburg at the weekend agreed that the huge challenge of bridging the gap between rich and poor and ensuring food, shelter and jobs for all in South Africa requires much more than slogans, wild promises and unrealistic expectations.

The two-day meeting in Joubert Park, which had the theme "Redistributing wealth, not poverty", attracted top academics, writers and activists.

Speaking on the political psychology of redistribution, University of the Witwatersrand Centre for Policy Studies director Professor Lawrence Schlemmer said expectations for wealth improvement were unrealistically high among black people.

The State, he said, was under immense pressure to provide work, housing, free medical care, jobs, official minimum wages and price controls, and to heavily tax the rich.

Given the expectations, it was unreasonable to expect the ANC to scale down demands for more State welfare. However, it was difficult to expect business to deviate from its logic.

Professor Schlemmer urged leaders to help to moderate their followers' expectations and encourage self-reliance.

The dean of the Wits faculty of economics, Professor Duncan Reekie, said nationalisation and traditional privatisation were not appropriate solutions to the problem of social inequality.

The absence of incentives in nationalised economies led to economic decline and "greater equality of poverty, not of wealth" while "traditional privatisation increases the cake but redistributes inequality".

The solution, he argued, lay in the State giving away equal shares to all. Such shares could be put in a huge unit trust which would efficiently invest the units to create more wealth.

Economic and political author Don Caldwell suggested that a price tag be put on any redistribution policy, referenda be held on tax increases and that all Government spending, taxation and public spending be decentralised.

South Africans must formulate shared goals to resolve conflict, says **Hermann Giliomee**

Important truths to learn

Star 20/5/91

(49)

'THE person who does not believe in the impossible is no realist.' Israel's founding father, David Ben Gurion, was fond of quoting these words whenever the ideal of a Jewish homeland in Palestine looked all but unattainable. South Africans would do well to remember these words if they feel overcome by despair in view of horrific violence and a faltering negotiating process.

For a brief period last year normally sensible people believed that there would be a bumpy but straight road to a settlement which would be underpinned by a remarkable accommodation between the leadership of the ANC and the NP. Negotiations would work out a modification of the social contract in terms of which South Africa has been ruled since 1948: Blacks would take over from the Afrikaners in running the state while a white-run private sector would be the engine of growth and prosperity.

Non-racialism would be the creed binding all South Africans together. What this creed meant in concrete terms nobody spelled out, but it was considered impolite to ask or to point to the possibility that deep-seated communal loyalties and resentments could wreck any leadership settlement which fundamentally restructured the socio-political order.

The burgeoning literature on transitions in southern and Eastern Europe and Latin America fuelled the unrealistc expectations. If Chile or Nicaragua or East Germany could transform into a democracy within a short period, why not South Africa, whose commercial and financial infrastructure is comparatively speaking much more sophisticated?

By now these perspectives on a smooth transition to a non-racial or non-ethnic form of rule should be recognised for what they are: dangerously inappropriate and misleading. There are at least three reasons why the negotiating process in South Africa is quite unlike that of any other country and infinitely more difficult to manage.

Firstly, South Africa, unlike any other country which has made the transition, is divided first of all by race, ethnic group or community and not by class or income group. Numerous studies conducted over the past 30 years point to this reality: A black businessman or teacher is more likely to side with blacks than with businessmen or teachers.

His perception of the violence on the Rand and Natal is likely to be shaped (not determined) by his ethnic background. To say that these ethnic perceptions are the product of apartheid is simply to turn a blind eye to what has happened in ethnically divided societies in the rest of Africa and south-eastern Europe.

The South Africa transition is also unique in the world in that the ruling party, the NP, insists on playing an important role in whatever new order is negotiated. In a recent interview, President de Klerk indicated in the clearest possible terms that he expects the NP, in alliance with other parties, to play a leading, if not dominating rule, in government and the state for a long time to come.

At the same time, the ANC as the dominant opposing force is expected to do what no other political movement ~~has~~ achieved in modern times: to make the transition from a liberation movement to a normal political party competing peacefully for power.

Thirdly, South Africa is making its transition at least 20 years too late. No political transition in the world has been successful unless it was accompanied economically by rising incomes per head for the entire population. Since 1974 the South African economy has been stagnating, and over the past 10 years there has been an annual decline of one percent in the per capita GDP.

Add to this a population growth much higher than other middle income countries, an unemployment rate of 25 to 40 percent of the total economically active urban black population and a too strong trade union movement — and one has virtually unshakeable arguments for the case that it is impossible for the transition to a functioning democracy to succeed. By this one means that parties would compete vigorously against each other but that all would accept the final result.

So on what grounds could realists accept that the impossible could happen and that South Africa could surmount its political problems and embark on sustained economic growth?

The answer is briefly this: The violence and the continuing economic stagnation help to confront South Africans with some truths which are very unpalatable but are nevertheless very important to learn. These truths have long been obscured by the State's false aura of invincibility and the hollow rhetoric of a non-racial liberation.

These truths are: The only workable government would be one in which all the major parties would feel themselves securely represented. The State would have to become much more representative than it presently is, but this will have to happen as a result of a gradual broadening rather than an abrupt take-over.

Competitive democratic elections which could augur a takeover can now be seen as the kind of cataclysmic event which could turn the entire society on its head. It is difficult to believe that it would offer anything but an open invitation for parties to settle old accounts brutally and decisively.

The biggest bond all South Africans have is that they are totally dependent on this State to protect them and this economy to feed them. The immediate task is to make both more responsive and inclusive.

John Burton, the most original thinker in the world on conflict resolution, has suggested that conflicts can be resolved once parties formulate shared goals and once they make the solving of a conflict the highest value, instead of allowing themselves to be driven apart by differences over the appropriate means of settling the conflict.

If the current spate of violence could hammer home this message there is no reason why South Africa should not attain the miracle of inter-ethnic accomodation and sustained economic growth.

● Professor Giliomee is head of the Department of Political Studies at the University of Cape Town. □

Business Report CT 20/5/91 (49)

'No improvement in prosperity soon'

Own Correspondent

JOHANNESBURG. — South Africans need to be told that there would be no dramatic improvement in prosperity soon, Wits University Centre for Policy Studies director Lawrence Schlemmer told a conference on redistribution of wealth on Friday.

The two-day conference, with the theme "Redistribution of wealth, not poverty", was hosted in Johannesburg by constitutional options education organisation Ground Swell.

Speaking on the theme "The psychology of redistribution", he said: "There are very high expectations for improvement and prosperity among new voters in SA. One finding is that six out of 10 people expect a very dramatic improvement in spending within the next five years."

"We already have relatively high tax rates — there are limits to what central government can do to distribute without starving the economy."

What was needed was a trade-off, a compromise, between redistribution and growth.

Author Don Caldwell said politicians always announced grand programmes for the people, not telling them that the money would be coming from the taxpayer.

Caldwell, author of the book SA; A New Solution, warned that whenever a politician announced a programme to provide clinics, recreational centres or crèches, the chances were that there would be an increase in taxes.

Growth hopes pinned on people's pockets

PATRICK BULGER 49

SA NEEDS a 9% growth rate every year for the next 20 years to provide jobs for all, says an ANC discussion paper on wages, employment and unemployment prepared for its national conference next month.

The paper will form the basis of delegates' discussions on a future economy and proposes a leading economic role for the state in a future society.

"All unemployed workers could be employed in viable enterprises within 20 years if the economy could be made to grow at 9% a year. An extra R19bn would have to be invested each year in the manufacturing industry alone to achieve growth of 9%."

It says this R19bn will have to come from people's pockets. B/Day 21/5/91

"It is also doubtful whether capitalists are willing to invest for the future. They have certainly failed to do so during the past 10 years. There is a very strong case for a democratic government taking over the job of investing in growth because there isn't anyone else who will do it," the paper says.

The ANC says company profits increased by 25% last year while unemployment rose to 40%. It calls for "sound economic planning and government intervention" to create jobs, increase wages, provide goods, housing, education, and health. It says life assurers like Old Mutual and Sanlam have large amounts of money that can be invested in productive enterprises.

It calls for an improved Unemployment Insurance Fund for the unemployed and for youths that have never had jobs. It says an ANC government will launch a mass literacy campaign and adult education programmes. Government action would be needed to protect low wage earners by law.

A second paper on human resource development and training proposes a unitary, national education system and mass training to address the racially based skills imbalance in SA.

Development aid has for too long been distorted by rivalry between two big power blocs, reports **The Economist**

How to sweep real-life disasters off the screens

Star 21/5/91 (49)

NATURE predetermined that, one day, a cyclone-driven flood and tidal surge would sweep over the silt islands of the delta that is Bangladesh. The country's rulers knew that, and awaited the inevitable. They could neither prevent poor people from squatting on that fertile soil, nor afford to ensure their safety there. This month the great waves came. Nobody yet knows how many people died; up to 200 000, some think. Disease and hunger ravage the survivors.

How can the compassionate respond? A few can do a great deal — doctors and bridge-builders and speakers of obscure languages, prepared to work for little credit and less cash, far from home in dangerous circumstances. But the world is not made of highly-qualified heroes; far from it. The rest must send cheques or run fund-raising rock concerts.

Floods and earthquakes are pure disasters. It seems that only nature is to blame. Yet competent governments, given foresight and funds, can build defences against them. In June 1990 an earthquake struck the sparse villages of northern Iran, killing more than 40 000 people. The previous year an equally fierce tremor, striking the packed city of San Francisco, killed fewer than 100 people.

Public investment and public compulsion saved the Californians. Taxpayers paid for their reinforced highways, regulators ordered that their highrise buildings might twist but would not collapse. Rich and powerful states can defend their people, in peace as in war.

But most disasters are no accident. They are made by misgovernment. Far more Africans have died from the hunger that follows avoidable civil war than by that which follows drought. In Zambia and Peru it is feckless misrule that causes needless deaths. Decades of it drove the people into cities without providing clean water there, so the cholera came. Private charity may alleviate the consequences of bad government. To eradicate its causes, public action is needed.

Development aid has for too long been distorted by rivalry between two big power blocks, which paid too little attention to the needs of the recipients or the use to which they put what they were given.

With the end of the Cold War, that distortion should end. Other preconditions for disaster are on their way out too. Those who advise dictators — even well-meaning ones — dare not tell them when their regimes are going wrong. Now many poor countries are abandoning autocracy. Poor Bangladesh's elected government (given a bit of help) is by its very nature better fitted to protect its people than its military precursor.

Political reform is often a forerunner of social and economic reforms. So are money and foreign skills. If people in rich countries want to sweep real-life disasters off their screens, they must vote for governments ready to back the emerging democracies with long-term aid for development. — The Economist. □

pollution control officers to monitor this matter properly. It is also important for me first to give hon members a survey of how many monitoring units there are and what the strategy of the department is, because the hon member made an allegation here that we had no plan or strategy to deal with this matter. That is not correct. At the moment an entire monitoring network has been deployed in the whole of the Eastern Transvaal to deal with this matter.

†I should like to respond to the hon member for Bryanston. I cannot argue the issue of the pollution. What we have to control is the effect that it has on the health of the people. I can give the hon member the information which the monitoring stations are giving me. They show clearly that levels are within acceptable limits.

*I cannot give hon members facts other than that the monitoring work which is being done shows us that levels are within . . . [Interjections.]

*The CHAIRMAN OF THE HOUSE: Order! The hon Minister may complete the sentence.

*The MINISTER: Levels are within acceptable limits. [Time expired.]

*Mr J CHIOLÉ: Mr Chairman, environment affairs throughout the world today revolve around the scientifically researched factual awareness that mankind is involved in one of the most deadly periods of survival in its history, that is to restore the dynamic chemical balance of the atmosphere which mankind itself has disturbed as a result of ignorance, lack of information and incompetence. Now, merely the fact that the hon the Minister of National Health is dealing with this interpellation is confirmation of the CP's criticism of the Government on the fragmentation of environmental conservation in South Africa.

Then she comes forward and plays down the true situation as it exists. Here we are saddled with one of the greatest atmospheric pollution problems in the world. Up to 57,5 tons of sulphur dioxide rain down annually on certain square kilometres in the Eastern Transvaal Highveld; almost twice as much as the 30 tons per square kilometre of East Germany. We have measured rain with a pH value of 4, which is almost a concentrated acid. Boundary fences on farms last for only two years, but this hon Minister's department deals with atmospheric pollution and then they withhold the full facts on what is taking place.

On the other hand we see that the hon the Minister of Environmental Affairs' Committee for Environmental Management is sitting there; the environmental watchdog of South Africa and they do not even function. I want to tell the hon the Minister that this problem is so serious because her Government is too incompetent to do anything about it.

*An HON MEMBER: Hear, hear!

*Mr J CHIOLÉ: She has only eight inspectors for atmospheric pollution in the Department of National Health; not even enough to look at Vanderbijlpark, but she has to control South Africa.

Now the hon the Minister wants to lead us to believe that there is no adverse impact. No annual reports are issued by her on this subject. Meanwhile disturbing fish deaths are already occurring in the Olifants River, which is one of the arteries to the Kruger National Park, as a result of acid water and water pollution. The maximum fine for that type of pollution of the atmosphere is still only R500.

I want to ask the hon the Minister, whose health services are collapsing in consequence of a shortage of money, how much more she has budgeted for research into atmospheric pollution this year. [Time expired.]

*Mr C B SCHOEMAN: Mr Chairman, I want to tell the hon the Minister that, if there was one prosecution after 2 000 permits had been issued in respect of toxic and offensive gases to firms who release them, this is very tragic. Then we are really living in a fool's paradise. Nowadays we are so obsessed with the idea of a new South Africa that the actual South Africa, which has to feed and carry us all, will already have been destroyed under this Government before that phantom of theirs is ultimately realised.

One point that emerged very clearly in this short debate today is the fact that South Africa can no longer afford a fragmented environmental management system. Not one of the various departments which have to deal with environmental management can manage its task thoroughly owing to a lack of either the necessary funds, expertise and the ability to monitor it effectively or the necessary control and law enforcement.

There is only one solution for South Africa and that is a national environmental management system with centralised management and responsibility. [Time expired.]

*The MINISTER OF NATIONAL HEALTH: Mr Chairman, I gain the impression that hon members of the CP would like to take the credit for the Government's introduction of one system for environmental management. [Interjections.] That is true. The Government has already had this investigation undertaken by the President's Council. The Department of National Health supports the principle of atmospheric pollution control and waste management being combined in a new plan. We are waiting, however, for the recommendations of the President's Council, after which we shall come forward with a clear, new system of management for environment affairs.

The hon member made out a case here for prosecutions. Nevertheless I think he knows that the department has the power to close a factory if it considers that to be in the interests of the health of the population of that area. We shall exercise this option. Surely one cannot institute a prosecution when one takes a measurement and the emissions of that factory comply with norms that are laid down. This is specifically one of the points of departure in pollution as a whole behind our monitoring. The hon member is working on assumptions which are not based on scientific research.

*Mr C B SCHOEMAN: It comes from this annual report!

*The MINISTER: Yes, show us the results that come from these gauging instruments. Show us what the monitoring stations have to say about atmospheric pollution. At this stage we have a comprehensive report. I want to mention only a few statistics. At the moment lead and sulphur dioxide monitors are operated at 150 sites by 37 local authorities.

The hon member wants to make the point that we have only eight atmospheric pollution control officers. He does not know how the system works. It is carried out by local authorities. Motor vehicle exhaust fumes are measured by five local authorities on 10 sites. [Time expired.]

Debate concluded.

Poverty, hunger and unemployment

2. Mr J J WALSH asked the Minister of Finance:

(1) Whether the Government intends taking immediate steps to combat poverty, hunger and unemployment; ~~if not~~, why ~~not~~; if so, what steps;

(2) whether he will make ~~a statement~~ on the matter?

(49) B1048E.INT

The MINISTER OF FINANCE: Mr Chairman, poverty and hardship in South Africa basically manifest themselves in the following two ways, firstly through insufficient income and, secondly, through insufficient access to certain basic services for which governments normally accept responsibility.

Although an element of cyclical unemployment may occur, unemployment, and therefore poverty, has largely embedded itself as a structural problem in the economy for which there is no short-term solution. A comprehensive multifaceted development approach has therefore been adopted to combat the problem of poverty.

Alleviation is dealt with at the following three levels—firstly, the restructuring of the economy to increase the growth, income-earning and employment potential; secondly, the addressing of urgent socio-economic development problems, including the human capital dimension, and thirdly, the implementation and extension of an appropriate safety net to assist vulnerable groups in society who do not benefit from the economic restructuring programme in the shorter term.

As far as the implementation of a safety net is concerned, the following measures have already been announced in the 1990-91 Budget. Firstly, there is a zero-rating of VAT on maize meal and brown bread. Secondly, the following amounts have also been voted for the improvement of old-age assistance allowances, namely R820 million, which represents an increase of R28 per month, for all population groups, from 1 April 1991; R155 million in order to remove the disparity between Blacks in the RSA and self-governing areas and R505 million to advance closer to the equalisation of old-age assistance allowances of all population groups—roughly 20%.

Thirdly, R220 million has been allocated for special assistance schemes to the acutely destitute, in respect of which I have already answered several questions in this House. The following measures will also, directly or indirectly, make a contribution towards the long-term alleviation of poverty: Firstly R75 million for the SBDC; secondly R1 billion that is to be invested by the IDC and the Development Bank of Southern Africa during the next two years; thirdly, a further amount of R269 million that was proposed in the supplementary budget for special socio-economic capital projects; fourthly, certain other VAT measures which will particularly benefit the lower income groups, such as the measures in respect of commuter services, welfare organisations, etc; fifthly, the amount of R1 billion that was announced by the hon the State President on 29 April, part of which will be allocated to special programmes and projects to improve adverse living conditions. This amount will be financed from a reduction in the levels of strategic oil supplies.

I do not intend making a further statement in this regard at this stage; I do not deem it necessary. As I have said in previous replies, we will keep hon members informed as progress is made by the Calitz Committee. [Time expired.]

Mr J J WALSH: Mr Chairman, may I just say at the outset that one of the problems I believe we do have is largely an administrative one, and that is that a lot of the assistance the hon the Minister has mentioned is either off-budget or on-budget or coming from various sources. I think it is very important that this must all be brought together, as I believe there is confusion.

49

I want to make a point about what immediate steps are being taken to alleviate the situation. Quite correctly, the hon the Minister has listed a number of projects involving heavy expenditure, and he has also referred to the longer-term requirement of economic growth to provide employment opportunities. South Africa appears at the moment to be heading for an economic disaster, and I just want to ask whether enough is being done in the short term to avoid the consequences of that economic disaster. [Interjections.]

Already we are experiencing that. I do not have to remind hon members of the situation pertaining to violence in our country and the deaths occurring through malnutrition.

What really seems to be required is an extra-special, short-term effort to help people on the ground, in our townships, who are being told of the new South Africa, but who have actually felt no benefit whatsoever. Something creative needs to be done to assist these people.

Our papers and journals are filled with advice about what could be done to meet that particular need. It is the Government that is able to take the necessary action. We can advise and criticise, as can other people, but it is the Government that is responsible for actually taking the action. We believe that not sufficient has happened so far. On the one hand, unrealistic, unachievable expectations are being stoked up, and these must be tempered with realism, or they can or will never be fulfilled.

On the other hand, those who have been deprived materially, those whose economic advancement has been deliberately retarded, must be shown that there is a Government that cares, that there is concern, sympathy and understanding. This requires immediate short-term actions—actions which create employment, actions which may not necessarily be economically viable, if measured in true economic terms, but which would have a social impact and meet the sort of needs that I have set out. This is beyond the realm of economic management and requires a co-ordinated, multidepartmental crisis action.

*Mr D P DU PLESSIS: Mr Chairman, on the one hand it is heartening to see that White women are now working as petrol pump attendants and domestic workers because they are too proud to beg. On the other hand, it is tragic that Whites who have been trained to do better work, are being forced to do this work simply because there is no better work available for them. [Interjections.] This state of affairs is attributable to the fact that South Africa's economic performance at the moment is poorer than any time since the Second World War.

According to the newsletter of the Chamber of Mines for April/May 1991 the labour intake in the formal sector for 1965-70 was 73,6%; for 1970-75, 62,7%; for 1985-90, 12,5%; and according to Sanlam's economic review for May 1991 it is at present 10%. The Government has therefore pre-eminently succeeded during the past number of years—this has, moreover, been its only success—in plunging the country into poverty. [Interjections.]

I am sure the Government has a standing committee which thinks up and implements failures, because this is the only way the Government could have succeeded in pauperising an economically prosperous country within the space of a few years. Increased training, education and home-ownership as a means towards social upliftment have never yet succeeded anywhere in the world. There is only one way the Government can make a contribution to social upliftment, and that is by way of a production-oriented budget in order to create jobs, and in this respect, too, the Government has failed dismally. [Time expired.]

The MINISTER OF FINANCE: Mr Chairman, I differ with very little as far as the general outlook of the hon member for Pinelands is concerned. However, we have this dual challenge in the Budget. On the one hand the tax load should really be lowered in order to generate economic growth. We have succeeded in maintaining the tax load at the previous GDP percentage level. On the other hand the demands for further State expenditure are by far exceeding our abilities.

The other day I mentioned in public that if it had not been for the capital outflow from South Africa over the past six years—even if we do a single calculation and not a compound one—this year we could have had a GDP of at least R20 billion more, and if we take 24,9% of that as the tax load, then we could have had at least R5 billion more to spend.

49

*This is, of course, arithmetic which those poor CP members will never in their lives be able to understand. [Interjections.]

The simple truth is that one cannot print dollars. One cannot print money for oneself on a printing machine. Economic growth is dependent on one's international position.

*Mr S C JACOBS: There the teacher is emerging, and presently the clergyman will take the floor.

The MINISTER: All I can say is that the hon member spoke about a multifaceted . . . [Interjections.]

*Oh, keep quiet, man! [Interjections.]

†That hon member spoke about a multifaceted approach, and in that respect I want to refer him to what I said earlier. We have, indeed, a multifaceted, multidepartmental approach, and it is our intention not only to combine the efforts of the Public Service as such, but also to combine with the private sector.

*With reference to the poor hon member who stood up and spoke such a lot of nonsense about the economy, I should just like to hear from the CP one day what would happen to an economy if it had a constant outflow of capital. [Interjections.] [Time expired.]

*Dr F HARTZENBERG: It is your politics that has done this! [Interjections.]

*The MINISTER OF FINANCE: It is your policy, you silly thing (*jou dom ding*)! [Interjections.]

*The CHAIRMAN OF THE HOUSE: Order!

*Mr S C JACOBS: Mr Chairman, on a point of order: I submit that the remark the hon the Minister has just made, referring to the hon member for Lichtenburg as "you silly thing", is not in order. [Interjections.]

*The CHAIRMAN OF THE HOUSE: Order! Could the hon member just inform me what the remark was?

*Mr S C JACOBS: Mr Chairman, the remark made by the hon the Minister of Finance, with reference to the hon member for Lichtenburg, was that he was a silly thing. [Interjections.]

*The CHAIRMAN OF THE HOUSE: Order! I do not think the general sense in which the hon the Minister made the remark was necessarily derogatory, but I nevertheless want to caution all hon members to moderate their language. [Interjections.]

Mr G C ENGEL: Mr Chairman, in this year's Budget the hon the Minister of Finance provided R220 million for direct short-term relief aid to the poor, or 0,25% of his Budget for our 7 million citizens considered extremely poor. This amounts to R31,43 per person per annum, or R2,61 per month in this year.

Then he created 510 000 new low-income taxpayers in this Budget by reducing the primary rebate, which will only increase wealth discrepancies between the haves and have-nots. This new category of taxpayer will fund R76 million in the hon the Minister's Budget of the R220 million that he has given out.

This drop in the ocean will not solve many problems. Identified delivery systems of relief and aid are clearly not yet in place, and it would be true to say that the conditions for the average Black South African are even worse today than they were 16 months ago when the transition process started. The underprivileged are fast loosing hope, and to this extent I wish to put forward several constructive proposals to help restore personal dignity and our social fabric.

Firstly, the State should create new employment programmes to create site-and-service stands, housing, electricity and other infrastructural projects. This could be handled by the State or tendered out to private enterprise. Prescribed asset requirements may be necessary to fund such projects. Although this is not an optimal situation, it is certainly the lesser of evils, as our tax base, as the hon the Minister has already said, is too small because of years of low economic growth. This type of programme was successfully introduced during the Great Depression in both the USA and in this country, and it could be started virtually immediately. Only the State has the resources to kick-start such a programme. [Time expired.]

49

Mr J J WALSH: Mr Chairman, the hon the Minister correctly referred to the restrictions placed on him as far as the tax base is concerned, but I believe we need to be constructive and look for alternative forms of financing. This party, earlier in the session, raised the whole question of a State lottery, which I believe, as a matter of grave importance, should be looked at and a decision taken.

Secondly, we as a party have for many, many years been critical of the own affairs Administrations and the duplications, of facilities in that area. Yesterday the hon the Chairman of the Ministers' Council indicated that there was scope for rationalisation, and we would ask: Is now not the time to look at that rationalisation very carefully, saving expenditure where we can. Admittedly many, many staff members are involved, but maybe we should be looking at retraining those people for re-employment in job creation and development priorities.

With regard to the whole question of pension parity, which would cause a further drain, we have lodged pleas for, as we believe it is imperative that that should be done as soon as possible. [Time expired.]

The MINISTER OF FINANCE: Mr Chairman, the hon member himself referred to high expectations. I want to issue a word of caution. So many people have talked about a lottery as a possible alternative source of revenue that, really, even if it should happen, there is no way that that source of revenue could ever address the question of hospitals, etc.

Secondly, with regard to the rationalisation of own affairs we are certainly not talking about the scale of funding that is necessary to address the poverty issue in the short term. I do not think that we should raise too high a level of real expectations.

As far as the hon member for Bezuidenhout's comments are concerned, he took a percentage which really, in itself, is a drop in the ocean, but that is additional to what is already being spent according to the Estimates of Expenditure. With great respect, that is the maximum that could have been done right now.

The hon member for Pinelands referred earlier to the whole question of various sources of funds. That is the situation as it obtains now. We have our normal sources. Certainly we are very loth to even contemplate a return to the whole issue of prescribed assets, because it gives rise to a lot of distortions in our economy. However, right now one has one's normal sources, but one has an additional source, which is the conversion of a sterilised amount of capital, lying there dormant in the way of a strategic fund, to a different kind of application altogether. This is why one cannot make it part of one's normal budget. Therefore, one needs a certain degree of arithmetic logistics in order to find out exactly what the expenditure is.

I want to reiterate: The extent of need is such today that we can do what we like, but a shifting of priorities, a rationalisation, even a state lottery—all of those things put together—will be

of no avail whatsoever without very rapid return to high economic growth. [Time expired.]

Debate concluded.

QUESTIONS

†Indicates translated version.

For oral reply:

General Affairs:

State President:

Day of peace and reconciliation

*1. Mr D H M GIBSON asked the State President:

Whether the Government will consider designating a special day in the near future, after consultation with religious leaders, to be known as a day of peace and reconciliation in South Africa, when churches of all denominations and women's, youth and other community organisations will be asked to arrange prayer meetings to be held throughout the country with a view to mobilising all citizens of goodwill to join in an endeavour to end the violence and to seek peace and reconciliation; if not, why not; if so, when?

B998E

†The MINISTER OF CONSTITUTIONAL DEVELOPMENT (for the State President):

The custom in South Africa has been for many years that churches take the lead in setting aside special days of supplication, and that they then submit a request to that effect to the Government.

Since we are on the eve of a Conference on Violence and Intimidation, which is to be held in Pretoria on 24 and 25 May 1991, and which will be attended by key leaders from church circles of various denominations, that would be a good opportunity to make such a request to the Government, which would be sympathetic towards it in principle.

Mr D H M GIBSON: Mr Chairman, arising out of the reply by the hon the State President I would like to ask whether the Government is aware that ordinary people in South Africa are desperate to find a solution to the violence in South Africa and that they believe that people of goodwill must take the initiative and, if the initiative has not come from anybody else, that the Government must take the initiative.

In this regard I would like to ask whether the hon the State President would consider placing the matter on the agenda at the peace conference himself, as a matter that could be discussed.

The MINISTER: Mr Chairman, I would like to make it very clear that the Government shares the concern of all responsible South Africans about the tragic and shocking level of violence, of death and of damage that is taking place. [Interjections.]

The Government, on the other hand, has never in the past taken initiatives with regard to religious matters. It has relied on the leadership of the churches in that respect, and I am quite sure that at the forthcoming conference the churches will take the initiative. If they do not, I am sure that all of us who may be in the privileged position of attending would certainly promote that idea very strongly.

Ministers:

Exiles: number returned to SA

*1. Mr L F STOFBERG ~~asked the~~ Minister of Home Affairs:†

330

How many members of the ANC, the SACP and other previously prohibited organisations that were banned from South Africa or that fled or left South Africa after these organisations had been declared prohibited, (a) returned to South Africa in the 1990 calendar year, (b)(i) may still apply to return to South Africa and (ii) in respect of what date is this information furnished and (c) what are the names of the other previously prohibited organisations?

B936E

†The MINISTER OF HOME AFFAIRS:

(a) The Department has no record of members of previously prohibited organisations that returned to South Africa on their own on an individual basis. No members returned to South Africa on an organised basis during 1990.

(b) (i) and (ii) There is no definitive indication of how many exiles there are aboard and how many of them would

...ducts ...ively.

SA needs 9% growth rate

Own Correspondent (49)

JOHANNESBURG. — SA needs a 9% economic growth rate every year for the next 20 years to provide jobs for all, says an ANC discussion paper on wages, employment and unemployment prepared for its national conference next month.

The paper will form the basis of delegates' discussions on a future economy and proposes a leading economic role for the state in a future society.

"All unemployed workers could be employed in viable enterprises within 20 years if the economy could be made to grow at 9% a year.

"An extra R19bn would have to be invested each year in the manufacturing industry alone to achieve this growth."

It says this R19bn will have to come from people's pockets.

The ANC says company profits increased by 25% last year while unemployment rose to 40%.

It calls for "sound economic planning and government intervention" to create jobs, increase wages, provide goods, housing, education, and health.

It says life assurers like Old Mutual and Sanlam have large amounts of money that can be invested in productive enterprises.

It calls for an improved Unemployment Insurance Fund for the unemployed and for youths that have never had jobs.

It says an ANC government will launch a mass literacy campaign and adult education programmes. government action would be needed to protect low wage earners by law.

A second paper on human resource development and training proposes a unitary, national education system and mass training to address the racially based skills imbalance in SA.

Business 'led the break-up of apartheid'

Bday 22/5/91

TIM COHEN

BUSINESS had led the way in breaking down apartheid and it was the free market which had helped make apartheid unworkable, former British prime minister Margaret Thatcher said yesterday.

Thatcher told a joint meeting of Sacob, the SA Foundation, the Institute of Directors and the Urban Foundation at Barlow Park in Johannesburg that SA's divisions could be healed and its difficulties overcome only under a free enterprise system.

She warned that township violence was threatening the whole future of SA. It was possible to argue about the responsbilities of government for keeping order, but government could not do so without the wholehearted co-operation of all black leaders.

It was now essential that investment flowed into SA, whose economy could be an increasingly powerful engine of African recovery, she said.

Throughout Africa and elsewhere, misgovernment and misguided economic policies had had the same historical root — a socialist view of the state, Thatcher said.

Thatcher criticised one-party states, the lack of free criticism and the lack of respect for the rule of law in most African countries.

"Without a real determination to alter their political and economic systems, most Africans will remain poor and indeed grow poorer," she said. (49)

But there were two reasons for optimism: that the Soviet Union had ceased to export Marxist revolution to Africa and increasing signs that Africans themselves recognised that free enterprise and multiparty democracy were the way to go.

SA's particular challenge was to achieve a democratic political system while keeping the benefits which flowed from a free economic system and sound finance.

Earlier yesterday Thatcher visited Pro-

☐ To Page 2

Thatcher

Bday 22/5/91. (49)

☐ From Page 1

mat College which has benefited from British aid, and the CSIR.

She arrived at Ulundi later to meet Inkatha leader Mangosuthu Buthelezi.

Several thousand Zulus gave her an enthusiastic welcome, Sapa reports.

In his welcoming address, Buthelezi lavishly praised her for her role in opposing sanctions.

In response, Thatcher said Zulus and Britons had shared a history which "began in conflict, proceeded to reconciliation and ended in true friendship. In that experience, there's surely a lesson for the whole of SA on how to go from conflict to friendship — as we have shown."

At a banquet in Ulundi last night Thatcher said there was no precedent for violence on the scale presently experienced in SA. The violence was a discredit to SA's black society.

● Picture: Page 5
● Comment: Page 6

Wealth creation 'vital to new system'

B/Day 22/5/91.

MARCIA KLEIN

ANY future political dispensation would be of very limited effectiveness without a viable, functioning and effective wealth creation system, Barlow Rand chairman and CE Warren Clewlow said yesterday.

Speaking at the international Spar conference in Johannesburg, Clewlow said it was the wealth creators, the business community, who generated the resources which the country used.

He said the SA economy was certainly the most well-developed in sub-Saharan Africa, based on the mining industry but having diversified itself into all of the commercial and manufacturing activites of a modern first-world economy. It also had a highly developed infrastructure of transport, communications and financial services.

Clewlow said he had always maintained that the system of apartheid and the system of free enterprise were fundamentally incompatible. The question was where to turn to find a new path.

SA business people shared two major challenges — addressing the huge backlogs in education, housing, health and the other social remants of apartheid, and finding a way to improve SA's economic performance from its "very pedestrian levels".

This included improving productivity, quality, international competitiveness, research and development, and spreading the benefits of that system far more widely.

Any person or organisation wishing to make a contribution to the economic debate had to address these two challenges.

"SA has the potential to become a high growth, well-respected world player in economic terms, with the resulting spin-offs for our own people", but violence was the one factor which could derail the process of change.

"Until we own violence as a common problem and look at solving the underlying causes, we will make no discernible progress".

BDay 22/5/91

Cosatu to debate economic policy

491 VERA VON LIERES

ABOUT 300 delegates will attend Cosatu's first national economic policy conference today in Johannesburg to thrash out new economic policy framework for the labour federation.

The three-day conference will be attended by delegates from all Cosatu affiliates and regions.

Cosatu spokesman Neil Colemen said yesterday delegates would focus on economic policy and an approach to skills training, company housing schemes, the hostels' future, worker control and industrial restructuring.

He said the conference would also decide on retrenchment and job creation demands which would be made at a national level with employer body Saccola and government. Parties agreed previously that talks on these subjects would be held soon.

Cosatu said in a statement that yesterday workers needed to fight for economic reconstruction, based on sound economic policy guidelines.

The federation said workers needed an economic policy and strategy to enable them to act to "change the economic situation".

The agenda still had to be finalised at the time of going to press but Cosatu education officer Alec Erwin will speak at the opening and ANC and SACP speakers are expected.

ARGT 22/5/96

Economic boost in 1992 predicted

49

From SVEN LUNSCHE

JOHANNESBURG. — A combination of renewed capital inflows and higher commodity prices should boost economic growth by 3,6 percent next year.

This optimistic forecast comes from Frankel Max Pollak Vinderine economist Mr Mike Brown, who adds, however, that this follows negative growth of about 0,1 percent this year.

In a publication entitled *The Conflict Economy* Mr Brown argues "some signals are starting to show a green light for an economic upturn, in spite of the current conflict situation".

The main impetus for the upswing is predicted to come from renewed offshore capital inflows and higher commodity prices.

"The link between foreign capital flows and domestic economy activity is not fully conclusive, but evidence suggests that years when net foreign capital inflows are on a rising trend have been associated with improvements in domestic real GDP growth," Mr Brown says.

He estimates that net inflows on the capital account, this year and in 1992, could lead to a boost of about R8 billion in the net gold and foreign exchange reserves.

"A continued positive trend in the capital amount could therefore be a powerful catalyst for economic recovery in 1992."

Local business activity also follows the trend in world commodity prices, which over the past two years has been negative.

However, Mr Brown expects that in line with a general year of improvement in the major economies next year, "a commodity price based export-led recovery in the local economy cannot be discounted".

The gold price could also benefit from a recovery in international commodity prices and Mr Brown says a mild revival in gold prices over the next year should be expected.

The resultant benefits for the balance of payments should see the authorities more willing to pursue a lower interest rate strategy in order to promote rather than restrict domestic economic activity.

"These could very probably be in place by the first quarter of 1992."

However, until then the factors calling for continued caution probably outweigh arguments for monetary relaxation and the most likely prospect is for no further decline in bank or prime rates for the remainder of this year.

On inflation he forecasts a 13,5 percent average rate this year with a slight decline to 12,2 percent expected in 1992.

Maggie: strong SA could boost Africa

Star 22/5/91

By Shirley Woodgate (49)

Wrongs which cry out for immediate action must be rectified in South Africa — but it is only countries which create wealth and economies which grow that can support higher living standards for both rich and poor, former British prime minister Margaret Thatcher warned yesterday.

Addressing about 280 leading businessmen in Sandton at a joint meeting of the SA Foundation, SA Chamber of Commerce, Institute of Directors, Urban Foundation and SA Institute of International Affairs, Mrs Thatcher outlined this need as one of five economic principles for a new South Africa.

Free enterprise must prevail, nationalisation and privatisation should be avoided, and demands by bureaucrats and vested interests for controls and subsidies denied, she added.

"Resist the temptation to protectionism, whether through tariff barriers or otherwise, as it leads to inefficient industries which will damage the consumer and lose exports."

Praising the strength of the SA economy despite curbs since 1985, she said the contrast between the economic performance of South Africa and that of Africa as a whole was stark.

South Africa's economy could be an increasingly powerful engine of other African economies, and it was essential that investment now flowed into the country. But expectations of tackling hunger, ignorance and poverty could be achieved only if the economic growth rate increased.

The particular challenge facing South Africa was to achieve a full and free democratic political system while keeping the benefits of a free economic system and sound finance.

"South Africans must work out their own constitutional future by negotiation. But there is no reason why building a fully democratic nation need imperil your country's economy.

"Rather it will be strengthened by bringing domestic stability and international acceptance," Mrs Thatcher said.

New dawn

Repeating earlier calls for an end to violence, she warned against the harm caused by talk of anti-enterprise economic policies and stressed that violence imperilled the country's future.

"We may argue about the responsibilities of the Government keeping order, but it cannot do so without the wholehearted co-operation of all leaders of the black population in helping to bring this violence to an end," she said.

"South Africa is now seeing a new dawn. I have met more dedicated, impressive and greathearted people working to change things for the better here than almost anywhere.

"South Africa is coming into the sunlight to rejoin the world, and the international community must warmly welcome her."

● Mrs Thatcher flew to Ulundi Airport late yesterday and was met by Inkatha Freedom Party leader and KwaZulu Chief Minister Mangosuthu Buthelezi.

Several thousand Zulus enthusiastically greeted Mrs Thatcher.

In his welcoming address, Chief Buthelezi lavishly praised the former premier for her role in opposing sanctions against Pretoria. He said he spoke for the "vast majority of black South Africans as I warmly welcome you to this country" and apologised for the way in which "some have clamoured above the masses to minimise the importance" of her visit.

In response, Mrs Thatcher said Zulus and Britons had shared a history which "began in conflict, proceeded to reconciliation and ended in true friendship".

Later, speaking at a banquet held in her honour in the KwaZulu capital, Mrs Thatcher drew attention to the fact that the number of people killed in political unrest in South Africa last year equalled those who died in Zulu-British conflict at Isandhlwana.

Mrs Thatcher complimented leaders of the IFP for their "extraordinary contribution" in resisting apartheid and refusing to adopt "that left-wing demagogue rhetoric which wins cheers and loses investment".

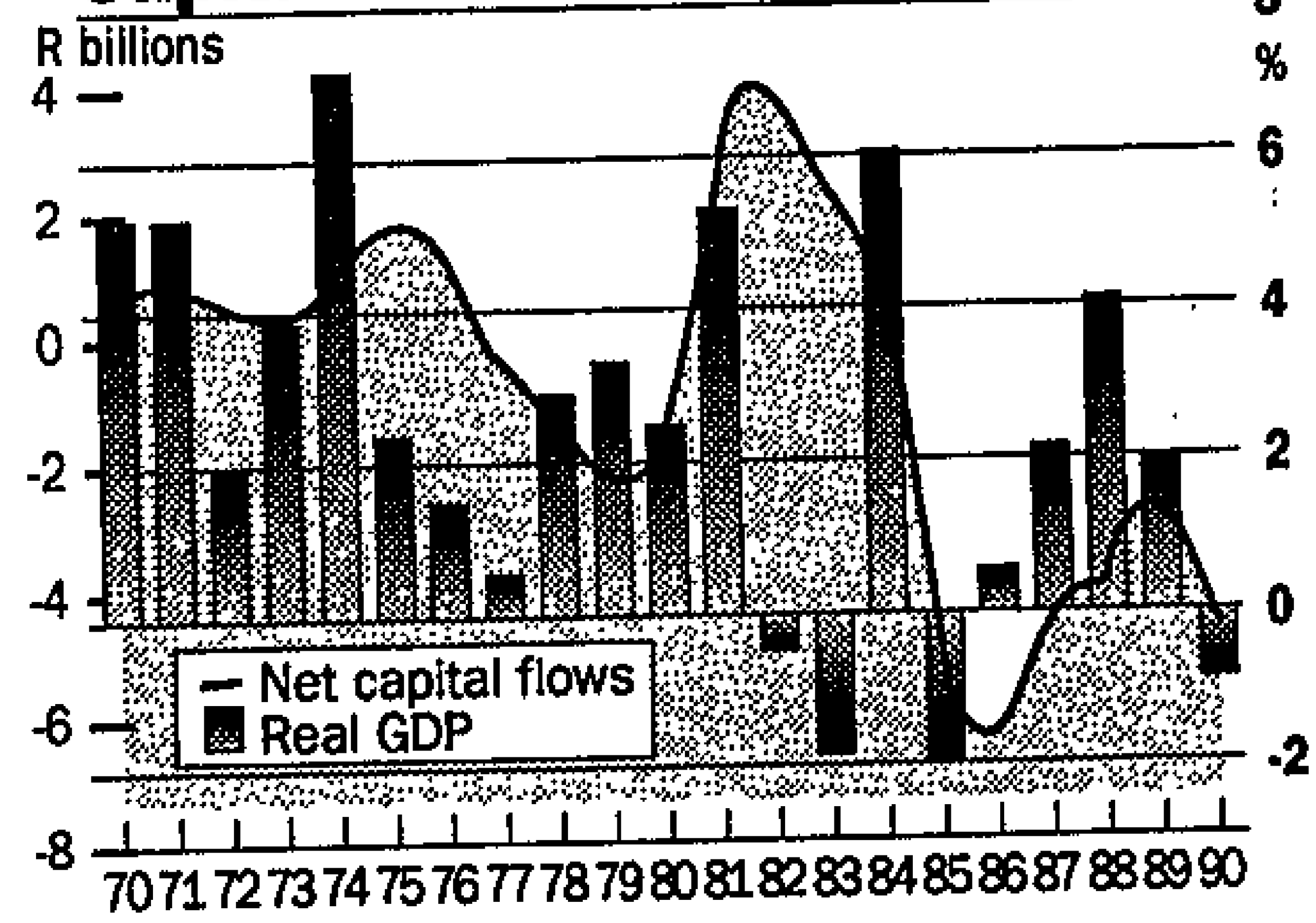
She hit out at rightwingers "who want to stop the world and get off and create the illusion that it is possible to go back to the days of Dr Verwoerd".

Surge expected in economic growth

Star 22/5/91.

By Sven Lünsche (49)

Capital inflows & GDP growth



A combination of renewed capital inflows and higher commodity prices should boost economic growth by 3,6 percent next year.

This surprisingly optimistic forecast comes from Frankel Max Pollak Vinderine economist Mike Brown, who adds, however, that this follows negative growth of about 0,1 percent this year.

In a publication entitled "The Conflict Economy" Mr Brown argues that "some signals are starting to show a green light for an economic upturn, despite the current conflict situation".

The main impetus for the upswing is predicted to come from renewed offshore capital inflows and higher commodity prices.

"The link between foreign capital flows and domestic economy activity is not fully conclusive but evidence suggests that years when net foreign capital inflows are on a rising trend have been associated with improvements in domestic real GDP growth," Mr Brown says. (see chart)

He estimates that net inflows on the capital account, this year and in 1992, could lead to a boost of some R8 billion in the net gold and foreign exchange reserves.

"A continued positive trend in the capital amount could therefore be a powerful catalyst for economic recovery in 1992."

Local business activity also actively follows the trend in world commodity prices, which over the past two years has been negative.

However, Mr Brown expects that in line with a general year of improvement in the major economies next year, "a commodity price based export-led recovery in the local economy cannot be discounted".

The gold price could also benefit from a recovery in international commodity prices and Mr Brown says a mild revival in gold prices over the next year should be expected.

The resultant benefits for the balance of payments should see the authorities more willing to pursue a lower interest rate strategy in order to promote rather than restrict domestic economic activity.

"These could very probably be in place by the first quarter of 1992."

However, until then the factors calling for continued caution probably outweigh arguments for monetary relaxation and the most likely prospect is for no further decline in bank or prime rates for the remainder of this year.

"A two percent decline in these rates may occur in early 1992 in order to get the economy moving, but in all probability only one further drop in rates is likely for the remainder of that year."

Need for 'just economic order'

B Day 23/5/91

BILLY PADDOCK 49

CAPE TOWN — An integrated environmental policy in SA would not succeed unless there was a more just social and economic order, Pick 'n Pay executive director Wendy Ackerman said in France yesterday.

Speaking at a Carrefour-organised international environment conference in Annecy, she said: "A broad-based environmental policy in these circumstances must address human needs and the unequal distribution of wealth, without jeopardising the environment and the resource base upon which economic development must depend."

She said SA needed to utilise its natural resources to generate wealth in order to meet the expectations of those who had been unfairly denied access to economic opportunities.

Upgrading people's quality of life in terms of education, health, job opportunities and housing was necessary before their awareness of the importance for the environment would gain prominance.

"Conservation will never take root while starving people see fauna, for example, principally as a source of food," she said.

Responsible companies should understand that their business operations were inseparable from the community, and they had to take responsibility for their effects.

For an organisation to survive and grow in today's economic and social climate, it had to be governed by a philosophy of responsiveness to the community's needs, she said.

Privatisation taken too far has its own economic pitfalls

B Day 23/5/91.

BUDDY HAWTON

49

PRIVATISATION and deregulation have become popular economic instruments, but it is possible to go too far with them. A totally *laissez faire* economy has its own problems.

There is clear evidence in Japan and the newly industrialised countries, like South Korea and Malaysia, that state strategy and intervention are crucial to strong economic growth.

Author and economic analyst Merle Lipton recently argued that excessive financial deregulation had contributed to the banking and savings and loan crisis in the US. She also cautioned that, in practice, privatisation had sometimes merely transformed a parastatal monopoly into a private sector monopoly.

Not all state functions are improved by privatisation, and any government must retain responsibility for certain community services.

Lipton also pointed out that sometimes regulation is required to maintain the economic environment in which natural markets flourish, and that macro-economic fine tuning in such areas as aggregate employment and balance of payments is beneficial to all players in the economy.

For example, there should always be a state health service, although it can live side-by-side with private medicine. Similarly, we might privatise SAA, but the state has an obligation to provide basic commuter services like buses and trains.

In the case of deregulation, there are some regulations which may appear irksome to business, but which exist to maintain greater social considerations.

Society should always retain a certain minimum regulative power over business, so as to be able to curb poor judgment and greed — for example, restraining indiscriminate land developers from turning pristine sites into highly geared timeshare nightmares; preventing the unscrupulous and the cunning from transferring wealth to themselves from the innocent man in the street via "venture capital opportunities".

It is necessary to look at privatisation and deregulation in their socio-political context.

Why would the ANC apparently ignore evidence that privatisation is a generally effective way of improving national economic performance? Why are some black leaders who are candidates for participation in a future government, still talking nationalisation when it is in retreat around the world?

To me there are three reasons:

□ They cling to an ideology which, although discredited, has been the backbone of their struggle for years and has brought them this far. This, of course, is a bad reason to keep any discipline, but it is understandable;

□ Although they now see the failure of a command economy, they have so successfully sold it to their supporters in slogan propaganda that they run a serious political risk in trying too quickly to reverse this thinking. The so-called "masses" might be confused if the ANC suddenly told them communism was a good strategy for *acquiring* power but a poor way of implementing it; and

□ Thirdly, because centralised economic control provides opportunities for a new government to consolidate and perpetuate its power — by more direct control of wealth creation, and by providing jobs directly under the government wing, and ultimately creating an entire middle class of parastatal people which entrenches their position.

In regard to these reasons, there is not much we can do about the sentimental attachment to communism other than continue to illustrate its failure, preferably without the smugness that some have induged in. It will fade as the real challenges of the future take hold.

With regard to re-educating the ANC support base, this process may have already begun in the February issue of the ANC journal, Mayibuye, where a surprisingly even-handed analysis of the pros and cons of nationalisation was presented in simple, easily understood terms.

It is, however, the third reason for maintaining a command economy that is the greatest challenge.

Especially to a new government, the attractions and security of a command economy are sufficiently strong to warrant sacrificing some economic performance. Simply having a great deal of people acting out of your policy is reassuring to a new leader. Robert Mugabe doubled the 40 000-strong civil service when he took power in Zimbabwe.

Moreover, in adopting this approach, a new SA government would simply be following a very persuasive example set for them by the NP government, which ran SA for more than 35 years along these lines.

A great part of the NP's success was due to the fact that it developed a massive public sector which provided employment for NP voters, generated a desirable and stable middle class community for those voters, and generally amassed for themselves a power and control which enabled them to carry out their political objectives.

It is not surprising that candidates for a future government would consider retaining control over the parastatals for the same reasons. Of course, it did not work in the long run for the NP. And that's the point.

How do we contribute to a better overall understanding of the economic requirements critical to this country's development and success?

Firstly we have to adopt an "in-partnership" attitude to economic strategy, rather than "you versus us". Thus we must concede to freezing all privatisation until political setttlement has been reached. To push anything through now would be provocative. Privatisation will succeed only if it is the *agreed policy*, not a unilateral decision by the present government.

But we should continue to promote these economic instruments by saying: "Let's not repeat the entire learning curve of the previous government. Use their experience. Peak economic performance is the best way to secure a widely accepted political settlement, because it will create enhanced prosperity across a broad base."

The paramount lesson of the second half of the 20th century has been that no ideology and no system can prevail against the general will of populations, nor against the natural state of systems, social or economic.

SA is embarking on a journey of transformation from a command society to a participation society. The impact of this will be almost inconceivably vast. It will re-fashion the character and structure of our society at every level.

Like all profound social developments, it is neither created nor controlled by the political leaders of the day. It is an evolutionary pulse from deep within the society, and the wise government does not resist it, but tries to ride and refine it, and channel it for maximum benefit.

This liberalisation is occurring across the whole frontier of our society, and economics is just one aspect of this. That is why the ANC and others like them have to understand that the force which has brought them to the negotiating table is the same force that is driving economic renovations like privatisation and deregulation.

Deregulation is clearly the more important of the two in terms of unleashing the economy. Its impact will be felt right down to grassroots level.

Deregulation will release the latent capability in the economy; it will channel resources and talent away from tax-dodging, away from loophole-searching, away from servicing the bureaucracy, and make these resources and talent available for creative application in business and industry.

Finally, the challenge in this country is not the redistribution of wealth, but the creation of wealth, and that is what privatisation and deregulation are about. However, for all that, they are not at the top of SA's priority list. We have some other economic and political restructuring to attend to which require government intervention before we reach the stage where natural market forces can propel us forward.

□ **Hawton is chief executive of Safren. This is an edited extract from a recent speech to the SA Institute of Chartered Secretaries and Administrators.**

'Outlook for SA looks promising'

CT 23/5/91

(49)

HARARE. — The return of SA to the world community should have a beneficial economic effect on Southern Africa as a whole, Standard Chartered PLC chairman Rodney Galpin said.

He told a news conference the political situation in SA looked more promising.

Asked whether London-based Standard Chartered Bank, which sold its stake in Standard Bank of SA in 1986, would return to the country, Galpin said: "That's an issue that lies ahead, but if it looks right by having some sort of presence in SA, we would probably do it, but at the right time."

Galpin, chairman and group CE of Standard Chartered PLC and Standard Chartered Bank, which celebrates its 100th anniversary in Zimbabwe next year, said the fact the board was meeting in Harare demonstrated the bank's commitment to Africa in general and Zimbabwe in particular. — Reuter

Commodity Index 1723,8
Platinum $393,00

Syfrets Cape Times
Share Challenge

DAILY LISTING

WRITE in the price movement as shown in today's JSE Prices for each share, in the panel below, corresponding to the 10 numbers on your Challenge Card. Add or subtract the movements, depending on whether they are up or down, and compare your total with the Challenge Index published in today's Cape Times. If your total equals the Index, you have won the daily prize or a share of it. Make your claim by calling between 9am and 2pm today.

TODAY'S INDEX: (+) R5,34

No	Company	Price Change (plus or minus)	No	Company	Price Change (plus or minus)
MINING			23.	MALHOLD	
1.	ROOIBERG		24.	KERSAF	
2.	BENONI		25.	PALS	
3.	KLOOF		26	DA GAMA	
4.	LIBANON		27.	SHOREDITS	
5.	RHOVAN O		**INDUSTRIAL B**		
6.	FREGOLD		28.	FMCOTEC	
7.	DRIES		29.	MIDMAC	
8.	ST HELENA		30.	KANHYM	
9	IMPLATS		31.	BIVEC	
FINANCIAL			32.	MJM	
10.	BOLAND		33.	VEKTRA	
11.	NBSHOLD		34.	AF CABLE	
12.	PROPCOR		35.	GENREC	
13.	CONSMNG		36.	WINBEL	
14.	GENBEL		**INDUSTRIAL C**		
15.	RABIE		37.	PICKNPAY	
16.	TOLUX		38.	QUANTUM	
17.	APEX		39.	SOLCHEM	
18.	S COMPASS		40.	ANJET	
INDUSTRIAL A			41.	PERSBEL	
19.	METJE & Z		42.	HORTORS	
20.	M&RINV		43.	METRO	
21.	PICHOLD		44.	O K	
22.	GRINAKER		45.	AKJ	

No further registration of such piece of land or of any portion thereof or undivided share therein shall be effected in a deeds registry until a certificate of ammended title thereto has been issued or the title deed thereof has been endorsed, in accordance with such new diagram, under the law relating to the registration of deeds.

N. C. O'SHAUGHNESSY,
Surveyor-General: Natal.
(24 May 1991)

Geen verdere registrasie van daardie stuk grond of van 'n deel daarvan of van 'n verdeelde aandeel daarin mag in 'n registrasiekantoor plaasvind nie totdat 'n sertifikaat van geamendeerde titel daarop uitgegee is of 'n aantekening gemaak is op die titelbewyse daarvan in ooreenstemming met daardie nuwe kaart, ingevolge die wet op die registrasie van aktes.

N. C. O'SHAUGHNESSY,
Landmeter-generaal: Natal.
(24 Mei 1991)

NOTICE 444 OF 1991

NOTICE IN TERMS OF SECTION 42 OF THE LAND SURVEY ACT, 1927 (ACT No. 9 OF 1927)

To **Ben Jacobus Smit Oosthuizen,** whose ID number and address is unknown and who is the registered owner of Erf 5678, Bloed Rivier, situate in the Administrative District of Utrecht, Province of Natal, by virtue of Deed of Transfer 2077/1924.

You are hereby informed that in terms of section 42 of the Land Survey Act, 1927 (Act No. 9 of 1927), the incorrect diagram attached to this Deed of Transfer has been superceded.

No further registration of such piece of land or of any portion thereof or undivided share therein shall be effected in a deeds registry until a certificate of amended title thereto has been issued on the title deed thereof has been endorsed, in accordance with such new diagram, under the law relating to the registration of deeds.

N. C. O'SHAUGHNESSY,
Surveyor-General: Natal.
(24 May 1991)

KENNISGEWING 444 VAN 1991

KENNISGEWING KRAGTENS ARTIKEL 42 VAN DIE OPMETINGSWET, 1927 (WET No. 9 VAN 1927)

Aan **Ben Jacobus Smit Oosthuizen,** wie se identiteitsnommer en adres onbekend is en wie die geregistreerde eienaar is van Erf 5678, Bloed Rivier, geleë in die administratiewe distrik Utrecht, provinsie Natal, kragtens Transportakte 2077/1924.

U word hiermee in kennis gestel dat volgens artikel 42 van die Opmetingswet, 1927 (Wet No. 9 van 1927), die inkorrekte kaart wat aan die transportakte aangeheg is vervang word.

Geen verdere registrasie van daardie stuk grond of van 'n deel daarvan of van 'n verdeelde aandeel daarin mag in 'n registrasiekantoor plaasvind nie totdat 'n sertifikaat van geamendeerde titel daarop uitgegee is of 'n aantekening gemaak is op die titelbewyse daarvan inooreenstemming met daardie nuwe kaart, ingevolge die wet op die registrasie van aktes.

N. C. O'SHAUGHNESSY,
Landmeter-generaal: Natal.
(24 Mei 1991)

49

NOTICE 445 OF 1991

SOUTH AFRICAN RESERVE BANK

Statement of assets and liabilities on the 30th day of April 1991

	1991-04-30	1991-03-31	Change
Liabilities	R	R	R
Share capital	2 000 000,00	2 000 000,00	—
Reserve fund	77 831 863,09	69 956 766,96	7 875 096,13
Notes in circulation	9 997 800 500,00	10 101 850 388,00	(104 049 888,00)
Deposits:			
Government	3 254 921 588,33	5 062 594 721,07	(1 807 673 132,74)
Provincial administrations	587 637 223,43	448 480 353,34	139 156 870,09
Banks and building societies	1 862 837 726,85	2 084 306 889,67	(221 469 162,82)
Other	535 157 824,85	126 291 164,52	408 866 660,33
Other liabilities	7 867 414 237,09	7 907 527 189,11	(40 112 952,02)
	R24 185 600 963,64	**25 803 007 472,67**	**(1 617 406 509,03)**
Assets			
Gold	4 344 634 707,84	4 201 100 306,52	143 534 401,32
Foreign assets	2 643 022 635,00	3 081 094 401,93	(438 071 766,93)
Total gold and foreign assets	**6 987 657 342,84**	**7 282 194 708,45**	**(294 537 365,61)**
Domestic assets:			
Discounted bills	1 784 850 000,00	2 541 950 000,00	(757 100 000,00)

49

	1991-04-30 R	1991-03-31 R	Change R
Loans and advances:			
Government	—	—	—
Other	1 069 436 350,23	1 405 469 920,07	(336 033 569,84)
Securities:			
Government	530 997 270,94	488 540 329,59	42 456 941,35
Other	1 122 985 044,00	1 775 726 678,24	(652 741 634,24)
Other assets	12 689 674 955,63	12 309 125 836,32	380 549 119,31
	R24 185 600 963,64	**25 803 007 472,67**	**(1 617 406 509,03)**
Rand per fine ounce	889,27	881,09	818
Gold holdings in fine ounces	4 885 619	4 768 072	117 547

Pretoria, 8 May 1991.

C. J. SWANEPOEL,
General Manager.

KENNISGEWING 445 VAN 1991

SUID-AFRIKAANSE RESERWEBANK

Staat van bates en laste op die 30ste dag van April 1991

	1991-04-30 R	1991-03-31 R	Verandering R
Laste			
Aandelekapitaal	2 000 000,00	2 000 000,00	—
Reserwefonds	77 831 863,09	69 956 766,96	7 875 096,13
Note in omloop	9 997 800 500,00	10 101 850 388,00	(104 049 888,00)
Deposito's:			
Regering	3 254 921 588,33	5 062 594 721,07	(1 807 673 132,74)
Provinsiale administrasies	587 637 223,43	448 480 353,34	139 156 870,09
Banke en bouverenigings	1 862 837 726,85	2 084 306 889,67	(221 469 162,82)
Ander	535 157 824,85	126 291 164,52	408 866 660,33
Ander laste	7 867 414 237,09	7 907 527 189,11	(40 112 952,02)
	R24 185 600 963,64	**25 803 007 472,67**	**(1 617 406 509,03)**
Bates			
Goud	4 344 634 707,84	4 201 100 306,52	143 534 401,32
Buitelandse bates	2 643 022 635,00	3 081 094 401,93	(438 071 766,93)
Totaal aan goud en buitelandse bates	**6 987 657 342,84**	**7 282 194 708,45**	**(294 537 365,61)**
Binnelandse bates:			
Gediskonteerde wissels	1 784 850 000,00	2 541 950 000,00	(757 100 000,00)
Lenings en voorskotte:			
Regering	—	—	—
Ander	1 069 436 350,23	1 405 469 920,07	(336 033 569,84)
Sekuriteite:			
Regering	530 997 270,94	488 540 329,59	42 456 941,35
Ander	1 122 985 044,00	1 775 726 678,24	(652 741 634,24)
Ander bates	12 689 674 955,63	12 309 125 836,32	380 549 119,31
	R24 185 600 963,64	**25 803 007 472,67**	**(1 617 406 509,03)**
Rand per fyn ons	889,27	881,09	8,18
Goudbesit in fyn onse	4 885 619	4 768 072	117 547

Pretoria, 8 Mei 1991.

C. J. SWANEPOEL,
Hoofbestuurder.

(24 May 1991)/(24 Mei 1991)

Growth rate 'could be 3%'

LINDA ENSOR (49)

CAPE TOWN — There would probably be no growth in the economy this year, but growth in the period 1992-94 could reach 3% per annum, Sanlam chief economist Johan Louw said yesterday.

But, he told the Belville Afrikaanse Sakekamer, it was important that the violence be ended as soon as possible.

The current downswing had lasted 28 months compared with an average length of about 17 months since the Second World War. B/Day 24/5/91

The fact that sanctions against SA were crumbling, and that the country could be readmitted to international financial markets, meant that the balance of payments would be less of a bottleneck and the economy would be able to accommodate a higher growth rate.

Louw urged the speedy implementation of the economy's restructuring and said he had great faith in economic prospects provided SA had a democratic political system ensuring law and order; a market-orientated economic system guaranteeing private initiative and property rights; an equitable tax system; and the assurance of attractive returns on investments.

Cosatu works on economic policy proposals

By DREW FORREST (49) (+see) WMail 24/5 - 29/5/91

CONCRETE proposals for negotiation with business and the government are expected from the Congress of South African Trade Unions' first economic policy conference in Johannesburg this week.

A broad economic perspective has already emerged from economists and intellectuals within Cosatu unions, but the conference — to be attended by 300 delegates from all affiliates — will be the first test of rank-and-file feeling.

Taking place against the backdrop of deepening recession, it will firm up demands for economic reconstruction. "We can no longer sit back and watch the capitalists and the state make a mess of the economy," says a Cosatu document. "We need an economic policy and strategy ... to change the economic situation, stop retrenchments, create jobs and begin the struggle for socialism."

Proposals on the economic framework, skills training, company housing schemes, the future of hostels, worker control and industrial restructuring will go forward to Cosatu's July conference.

The conference will also frame demands for talks with Saccola and the state on retrenchments and job creation which Cosatu plans for early next month. It will consider who should attend these talks.

SA must nurture an export economy to create new jobs

BDay 24/5/91. 49

JAPIE JACOBS

SOUTH Africa needs to accelerate its rate of growth in order to create work opportunities for its rapidly growing population and to be able to divert more resources to the upliftment of the underprivileged.

Even Karl Marx realised that without production there would be no real income to distribute and that people would not produce simply to have the income from their production distributed by the state. Those who argue that we can willy-nilly increase the effective tax burden on the economy from 25% to 35%, which in effect amounts to a rise of 40%, without impairing saving and investment, do not believe in the system of private enterprise.

It is no use suggesting that the new constitution should "guarantee basic human rights in relation to nutrition, shelter, education, health, employment and welfare" if the economy cannot deliver. Economic growth cannot be legislated. It has to be fostered and nurtured.

Most political parties in SA stress the need to promote export-orientated growth. It implies that more resources will have to be directed to research, technology and product design; that we must curb inflation; that fixed investment has to be stimulated; that technical education and training has to be stepped up and that we should improve labour and capital productivity.

It also means the company tax rate must be lowered and, above all, that we should have free access, for trading purposes, to the international markets and that SA should not only have access to foreign finance but should also be able to attract a net inflow of foreign capital.

It also entails a review of SA's customs tariff policy, which is in need of revitalisation in accordance with the objective of rendering the economy more competitive. The exchange rate policy is of extreme importance but we must be careful not to see in the depreciation of the rand exchange rate a substitute for higher productivity.

We must also realise that if we provide too high protection barriers for manufacturing semiprocessed raw materials, we are in fact jeopardising the prospects of establishing industries which could successfully use these intermediate inputs to manufacture products that could successfully compete on quality and price in export markets.

Nobody has suggested that SA should endeavour to enter the international markets in high-tech products. We do have certain comparative cost advantages and there is no reason why they cannot be utilised.

There are of course protagonists of the policy of inward industrialisation, supplemented by import-replacement growth, who would prefer to use this strategy as a springboard for future economic growth. It can never in the longer term raise the growth rate above 3% per annum and, moreover, this implies greater unemployment and poverty.

Whatever arguments are advanced in favour of such a policy, the fact remains that it cannot support sustainable growth and will furthermore soon cause the economy to run into balance of payments problems. We are past masters at running such policies, but the end result will inevitably enforce resort to stop-go policies unless we strengthen the export base of the economy.

The economic miracles of the Far East have all been triggered by the export of value-added products which, in contrast to raw materials and minerals, show the greatest growth potential.

We are aware of the hurdles which we have to clear in order to step up our exports of value-added products, but why can we not export clothing more successfully, or beneficiated products for that matter?

We have to build up our export base gradually, and there is no reason why we cannot implement a programme of this nature with immediate effect.

Inflation remains an obstacle to sound long-term economic growth, and it is essential that the authorities should continue to pursue policies aimed at combating inflation and breaking the vicious circle of inflationary expectations.

The availability of skilled and trained labour has been one of the recurring bottlenecks in SA's economic development in the post-war period. This, together with job reservation and poor education and training for blacks, contributed to the skewness in the availability of skills and in the pattern of remuneration.

Nobody in SA is advocating a low-wage policy for the economy as an inducement for greater employment and growth. It is, however, our function to point out that higher wages can be soundly based only if they are supported by higher productivity — both capital and labour.

We are not pointing an accusing finger at trade unions in this regard. To the extent that labour contributes to higher productivity and thus production, it should be duly rewarded for that. It is obvious, moreover, that old management styles will have to be changed and that labour should be seen as a partner in the running and management of enterprises.

We can, however, ill afford unnecessary stayaways, the intimidation of workers to strike and excessive wage settlements. It is our function as policy-makers to point out that excessive wage settlements enforced by strikes contribute to lower economic growth and greater unemployment.

Those who share in the inner circles (insiders) live comfortably, whereas those in the outer circle (outsiders) have to be supported by transfer payments.

The authorities would, from an economic growth and anti-inflation point of view, prefer to see a lower rise in the unit cost of labour. However, government has no intention of intervening in wage negotiating procedures.

Government has no wish to cross swords with organised labour. It has no intention of even considering the implementation of an incomes policy.

It can basically only use fiscal and monetary restraints to curb the rate of inflation and in this way convey a message to both employers and employees that high wage settlements are impairing the country's long-term growth potential.

It would be advisable for managements to consult trade unions more openly on matters of common interest. More resources will have to be devoted to the training of workers; consideration will have to be given to incentive schemes to allow workers to share in profits earned through higher productivity and share incentive schemes would promote team spirit at enterprise level.

Trade unions must, however, realise that they can be consulted in the determination of policies at plant level, but that the ultimate responsibilities of managements cannot be usurped in the name of democratising the economy. That will ring the death bell of the system of private enterprise in SA.

☐ **Jacobs is special economic adviser to the Finance Minister. This is an edited excerpt from an address to a wage restraint seminar in Johannesburg yesterday.**

GDP FM 24/5/91

IN PART (49)

In the first quarter of 1991, economic output fell for the sixth consecutive quarter. According to figures released last week by the Central Statistical Service, GDP at market prices fell by a seasonally adjusted annualised 0,9%.

This must be seen in the context of a large discrepancy between output and expenditure figures in 1990 and 1989. The estimate of real GDP in 1990 shows a decline of 0,9% while estimated *expenditure* on real GDP grew by a marginal 0,1%. The corresponding figures for 1989 were 2,1% and 4,5% and for the period 1985-1990, 1,5% and 1,7%.

This discrepancy between output and expenditure may not entirely be the result of statistical distortions. Unrecorded growth in the informal sector may be reflected more fully in expenditure than output figures.

Expenditure figures will not be available

Continue

FM 24/5/91 (49)

until the June Reserve Bank *Quarterly Bulletin* but, at a recent seminar at the Business School of the University of Stellenbosch, Reserve Bank Governor Chris Stals said preliminary figures show a "significant" increase in spending in the first quarter.

The CSS release shows the only sector with real growth in the first quarter was agriculture, where value added rose 3,5%. A marginal (0,7%) increase was seen in tertiary industries. Worst hit was construction, which fell 6,5%, while mining declined by 4,3% and manufacturing by 3%. All figures are seasonally adjusted and annualised. ■

GROWTH FM 24/5/91

1992 REBOUND

(49)

Sharp differences are emerging in the economic cycles of major industrial countries, says the IMF's May *World Economic Outlook.*

In 1991, output is expected to increase slightly in the US and to decline in the UK and Canada, which will experience "significant positive growth" in 1992. In Japan and the pre-unification territory of the Federal Republic of Germany, growth is expected to remain fairly strong, "although it will slow — particularly in Germany, relative to the rapid pace registered in 1990."

World growth, which slowed from 3,25% in 1989 to 2% in 1990, is likely to drop to 1,25% in 1991, because of the weakness of some industrial economies, further declines in output in the Middle East and in Eastern Europe, and a downturn in the USSR.

A recovery in several major industrial countries in 1992 and stronger growth in a number of developing countries will see growth rebound to 3%. ■

Future growth rate of 3% predicted

CT 24/5/91

(49)

Financial Editor

ALTHOUGH 1991 will show scant growth, the period from 1992 to 1994 should be relatively good years for the SA economy.

Sanlam chief economist Johan Louw predicted an average growth rate of 3% per annum as against a mere 0,5% in the preceding three years.

Speaking at a lunch of the Bellville Afrikaanse Sakekamer yesterday, he said he believes the basis is presently being laid for considerably faster economic growth in 1992.

It was, however, an important prerequisite that the current violence be ended as soon as possible.

He said the current downswing had now lasted 28 months, compared with an average of about 17 months duration since the World War II.

Money supply figures dent policy hopes

(49) CT 24/5/91

By ARI JACOBSON

THE government's attempt to keep a tight rein on the economy received another blow yesterday with the Reserve Bank's money supply (MS) figures rising roughly 15% year-on-year in April.

This figure, which should be revised upwards, is well up on the 14,4% (revised version) for March — and the 8% to 12% target range of the authorities.

The preliminary monetary aggregates for M3 — broad money supply — for April measured R171,5bn against the revised figure of R169,4bn for March.

"Chris Stals (the Bank's governor) cannot be satisfied with this performance," Sanlam's chief economist noted. He said the weak correlation (long lag) between growth in the money supply and its influence on the inflation rate could keep price rises higher for longer.

Sanlam had predicted a 13,9% growth in inflation for April (14,6%) and now saw scant chance of the rate dipping under 14% for the year.

Nedcor's Ted Osborn said the twin effect of financial restructuring and the greater stock of money in the private sector boosted the M3 supply.

Osborn pointed out that until January MS increases had been on a downtrend bottoming out at 10,2% before repurchase agreements were forced on balance sheet under the new deposit-taking laws implemented in February: "The rate of increase in MS has now been raised onto a higher plateau, which will be supportive of higher inflation."

Osborn added that the growth in government issues (eg treasury bills) had shifted a greater amount of the money stock into the private sector, thereby impacting on the MS growth rate.

"For these reasons it would be dangerous to read overly much into the latest figures."

These technical factors were also helped somewhat by increased demand for credit and strong foreign capital flows into the country, he said.

FNB money market manager Mike Law said the upward spiral was considered seasonal with vast amounts of government spending coming on stream.

Law said there would be cause for concern if this pattern was perpetuated in the coming months.

Money market rates remained unchanged despite the inflationary news. Capital market rates bounced upwards in the morning, only to retreat back to previous levels by market close.

Closing gold prices

(In $ an ounce)

NEW YORK:
354,60/355,10

LONDON:
355,20/355,60
Fixing am: 355,00
Fixing pm: 354,90

ZURICH:
353,50/356,50

— Reuter

ANC cautions on nationalisation

(49) ARGUS 25/5/91

John Spira
Special Correspondent

THE ANC could modify its stance on the controversial issue of nationalisation when it meets for its conference next month, notes an article in the lastest Chamber of Mines Newsletter.

"While not calling on the membership to abandon all leanings towards nationalisation, the information circulated to branches does advise of a number of potential risks," it says.

The newsletter was quoting from a document drawn up by the organisation's Department of Economic Policy (DEP) and used as a basis for an article in the ANC's official journal, Mayibuye.

But the article cautions against potential euphoria among business by noting that Tito Mboweni, deputy head, ANC Department of Economic Policy, has stressed that the document is a briefing one and not a document of policy.

The Chamber of Mines article reports that Mr Mboweni discounted any concern that ordinary members may not have sufficient insight to make a sound decision on nationalisation.

"If we believe in democratic mechanisms we must have faith that people are not stupid, that they are reasonable, mature and can take decisions for themselves," said Mr Mboweni.

The document draws attention to five perceived benefits and four perceived disadvantages of nationalisation:

☐ Nationalisation of basic services such as electricity supply could ensure that all are guaranteed access;

☐ It could lead to better pay and working conditions and greater protection against discrimination;

☐ It could channel some of the profits of nationalised industries into "useful productive activity" to the benefit of the people

☐ It could democratise the economy by reducing the control of conglomerates, and

☐ It could be used to set up new industries to provide important services that the private sector "may find unprofitable," — for example sewerage disposal.

On the other hand, notes the document, the disadvantages of nationalisation include:

☐ Nationalisation is an expensive exercise that will entail large scale state borrowing which, while bringing about nationalisation, would do nothing to create new jobs;

☐ Nationalisation could result in the loss of skilled people through emigration — leaving the state with industries which it could not man;

☐ Nationalisation is out of favour internationally and its adoption could scare off foreign investors, and

☐ Nationalisation could end up benefitting only a few by creating a self-serving bureaucracy.

Economy facing a critical year

Star 25/5/91.

(49)

SVEN LUNSCHE

NEXT year will determine the fate of the South African economy in the decade ahead.

On the face of it, the basis is now being laid for rapid economic growth starting in 1992.

And economists, who do not foresee a descent into turmoil, are contemplating economic growth rates of up to four percent next year with similar growth expected in the succeeding years.

That certainly is what everyone is hoping foras it would bring to a halt, if not reverse, the recent surge in unemployment and its accompanying social ills.

But the key to economic growth lies almost exclusively with the politicians.

In a recent economic review Graham Boyd, economist at stockbrokers Simpson McKie, summarised the "descent into anarchy" scenario:

"It is impossible to entirely exclude the possibility of a breakdown of negotiations, a renewed flood of capital out of South Africa, a drop in the rand and a further decline in the real economy.

Consequence

"The consequence of such an occurrence would be grave indeed, as considerable economic growth would then be required to return the economy to the 1989 level, and the backlogs in poverty and unemployment will have risen the while."

Such a scenario is not far fetched as the state of the economy has already reached near-crisis proportions and is a major cause for the devastating violence in the black townships.

According to the Department of Finance's special adviser, Dr Japie Jacobs, about 4,6 million people, 40 percent of the country's economic active population, cannot find employment in the formal sector.

In addition, only one out of every 10 people entering the job market will find employment in the formal sector over the next few years.

However, there is also ample evidence to suggest that if the political transition process remains fairly peaceful the economy could well generate strong growth rates in the next few years.

On purely economic grounds there is certainly reason for optimism about such a scenario.

The reform moves have facilitated South Africa's return to the international arena, allowing exporters to explore profitable overseas markets and, more importantly, paving the way for renewed capital inflows and fixed investments.

Exporters are already leading the way out of the current recession. The value of exports in April approached record levels and as the economies of our major trading partners pick up so will the level of export revenue.

Foreign debt

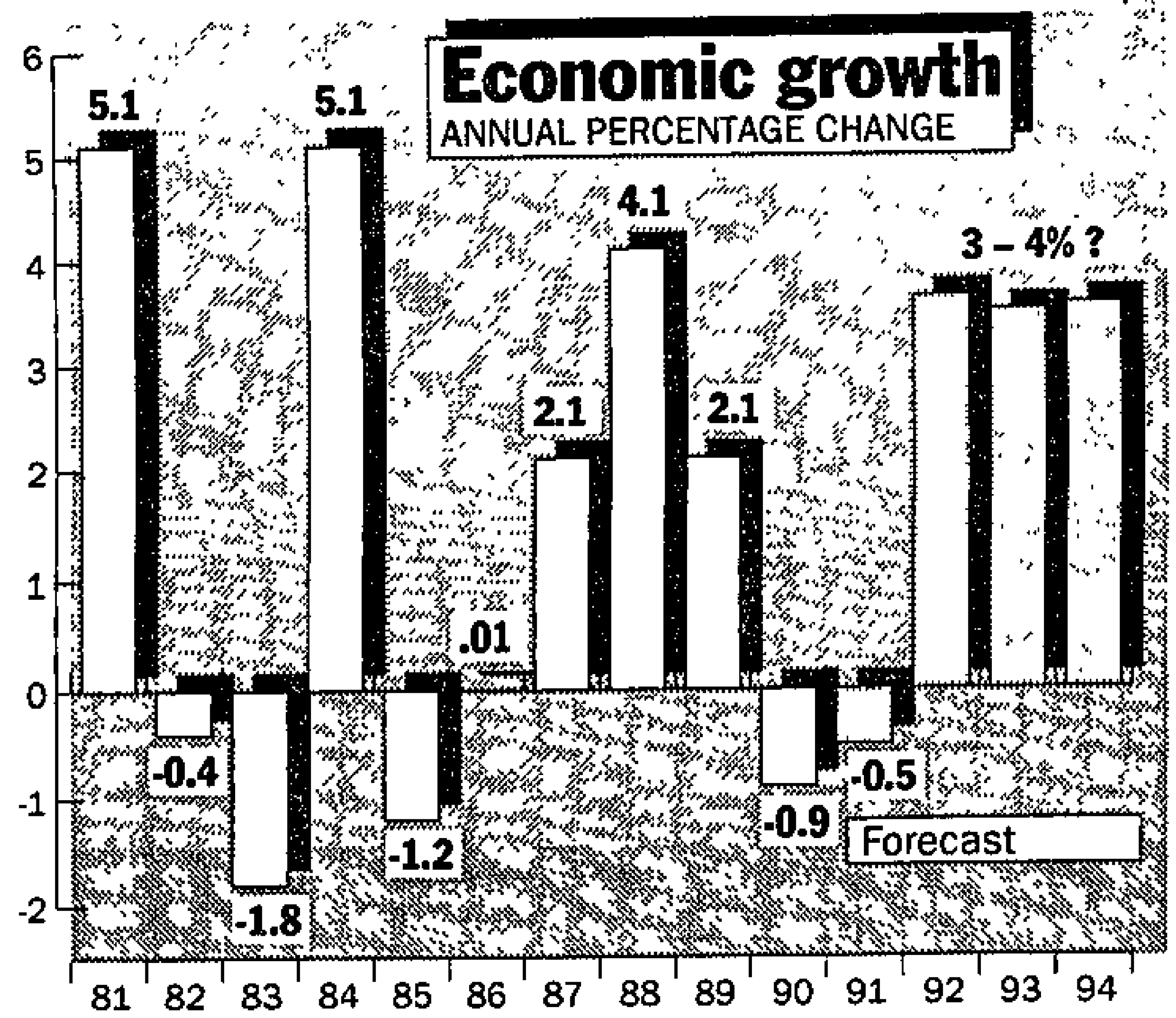
Coupled with the re-financing of much of South Africa's foreign debt, this will allow the economy to grow virtually unhindered by the need to maintain a stong surplus on the balance of payments.

A third major factor has been the surprising resilience of consumer and corporate demand which is expected to show further growth towards the end of the year and fuel industrial production volumes.

Many economists consequently are optimistic about next year's economic growth rate, as measured by changes in the gross domestic product.

Frankel Max Pollak Vinderine's economist Mike Brown is extremely bullish, expecting growth of 3,9 percent, while Mr Boyd forecasts three percent and the Bureau for Economic Research at Stellenbosch University 2,6 percent.

Sanlam's Johan Louw, in a recent speech, looked further ahead, arguing that economic growth in the 1992-94 period could attain an average of three percent a year, against a mere



0,5 percent in the preceding three years.

A three percent growth rate would arrest the rise in unemployment as most estimates indicate an expansion of some three percent a year in the economically active population in the current decade.

Growth of some 4,5 percent a year, however, would be essential to make some serious inroads into the current unemployment situation.

The path for such growth will be laid next year. To use Mr Boyd's analysis:

"The economy is currently in crisis and it is impossible to be certain as to whether, following the crisis, the fever will cool.

"Either the economy will show a substantial recovery by 1992 ... or it won't. There will not be some lacklustre middle ground which shows modest growth with reservations."

Brighter outlook for economy

Citizen 26/5/91

THERE is hope for South Africa's economy.

Although the recession has had some harsh consequences, a consistent policy stance is paying dividends, says the economic division of Standard Bank.

Over the past year the economy has been under pressure from both external and internal factors. The low gold price and weak commodity prices have set limits on export earnings.

At the same time, rapid political change has meant enormous social pressures for fiscal policy to deliver benefits to disadvantaged communities. In this context, bad policy choices were tempting.

That the authorities did not pursue "soft options" has enhanced their credibility and the soundness of the economy.

Despite unfavourable international circumstances and social and political pressures on the domestic front, there has been no deviation from the policy combination of maintaining positive real interest rates, a fairly strong rand and a restrained fiscal stance.

This has caused hardship in the economy, reflected in higher unemployment and fragile financial circumstances for many individuals, companies and farmers. Certain sectors, notably gold mining, have been particularly badly affected.

The balance of payments is much stronger than it has been, while inflation estimates have been revised downwards.

Sound monetary control has also been maintained despite the high domestic liquidity levels created by a combination of an improved balance of payments and weak credit demand.

As a result, when interest rates decline again, probably in the not too distant future, it will be for the right reasons and not because the Reserve Bank is accommodating political pressures.

(49)

Despite the ~~strict~~ policy stance and the hike in casualties in many sectors of the economy, domestic confidence levels have remained high.

This supported domestic demand last year and should continue to do so this year. The first few months of 1991 have seen consumer spending stay fairly firm, although it has slowed down somewhat.

At the same time the production side of the economy has picked up. Both are encouraging developments because they suggest that the demand/supply relationship in the economy is normalising.

This is a consequence of the authorities' consistent policy stance, which has gained them credibility as well as setting the economy on a sounder growth path. It has made a positive impact on international perceptions too, as has the progress made on the political front. As a result, export prospects are brightening, despite the world recession.

South Africa can also look forward to a normalisation of its relations with international financial markets. This, in turn, would create new latitude on the balance of payments, making possible in the medium term much higher growth rates for the domestic economy than have been achievable over the past decade.

The way to avoid economic disaster

S Times (Bus Times) (49)

26/5/91.

By RONNIE BETHLEHEM, chief economics consultant at JCI

RONNIE BETHLEHEM: Spurn the money printers

SOUTH AFRICA's economy is at a crossroads.

What happens politically in the next 12 to 18 months will determine whether it will continue to progress as a modernising, Western-type industrial country or be driven closer to sub-Saharan disaster.

This article focuses on three questions:

- How long will the recession last?
- What are the prospects for inflation?
- What needs to be done to get the economy moving again in a sustainable and meaningful way vis-a-vis existing unemployment?

It is necessary to begin with a basic axiom: *It is not possible to create jobs on a durable basis by simply printing money.*

This was a lesson painfully learnt by SA in the 1980s and the authorities are rightly resisting the temptation to repeat it in present circumstances.

That said, two factors will govern how long the recession lasts:

- What happens to the global economy on which SA vitally depends.
- What changes are made to monetary and fiscal policy.

This year is likely to be a problematical one for world growth. Two of SA's leading trading partners, Britain and the US, are in recession. But growth in Germany and Japan is offsetting this and by the second half of the year broader global recovery could be under way. International inflationary expectations are subdued.

Serious

With the gold price depressed and with an uncertain outlook for non-gold exports, continued caution on the part of the monetary and fiscal authorities is necessary.

Also, they cannot relax policy now while the *net* reserves (gross reserves less short-term foreign liabilities) remain depressed and inflation remains high (over 14% compared with an average of about 4% in leading trading partner countries).

To relax too soon, notwithstanding the short-run help to employment and the mining sector, could have serious negative medium-to long-term consequences. It could sacrifice altogether the opportunity of getting inflation back to near single-digit levels, and that is essential *before* political transformation occurs.

What then can be done about unemployment in the short and long run? Needed here is a specific State-led, but consensus-supported, strategy directed to urgent mass job creation.

This can be achieved within the discipline of strict monetary and fiscal policies only by a restructuring of State expenditure. If the fiscal deficit is to be kept to about 3% of gross domestic product and taxes are *not* to be increased (both necessary requirements) such a restructuring is the only way.

A major house-building and related public works programme could kick-start the economy to a higher rate not only of real GDP growth but also, and equally importantly, to a higher rate of employment growth. (In the past, employment growth has underperformed compared with real GDP growth — the capital intensity problem — hence the rise in structural unemployment.)

But a kick-start by itself is not enough. It should constitute only phase 1 of an accord-backed strategy aimed at normalising SA's position as a developing country and therefore logically in deficit on balance of payments current account, of getting capital inflows through the removal of sanctions, by getting SA readmitted to IMF and World Bank arrangements, and by encouraging a return of risk investment to the country (the real long-term prize).

What is being advocated is both Keynesian and monetarist in the context of a market economy. (Central planning is out. The SA State is bound to operate subject to market disciplines because the global economy is a market economy.)

Duplication

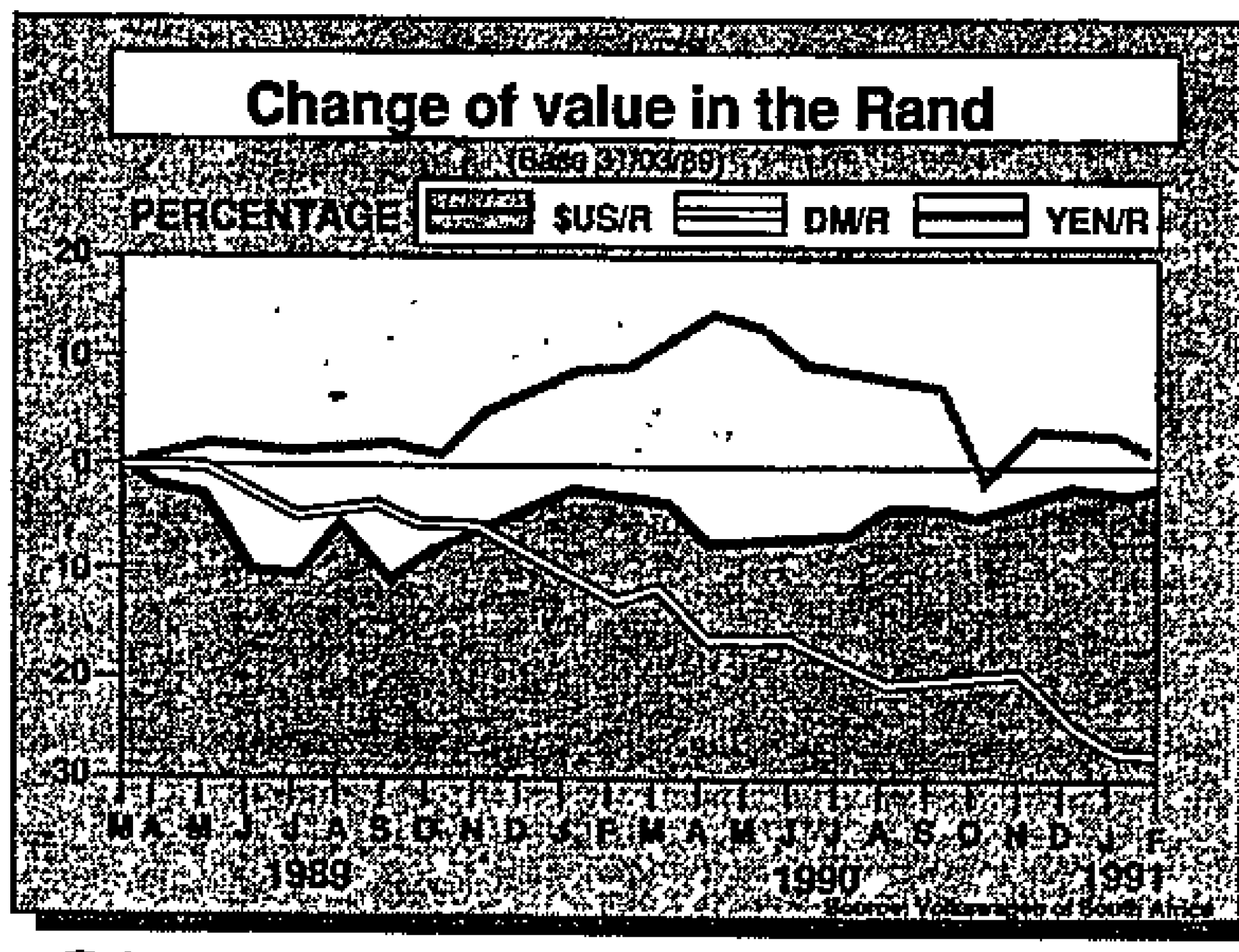
Keynesian-type intervention (providing bottom-line private sector incentives for construction) deals with mass unemployment and homelessness.

Monetarist discipline (strictly controlling aggregate State spending and deficit funding) deals with the imperative that neither the BoP nor the currency can be sacrificed.

Restructuring State expenditure has two aspects

- Reordering national priorities (i.e. house-building before defence or apartheid bureaucratic duplication).
- Improving cost-benefit regarding existing State spending (i.e. eliminating waste and improving efficiency, especially in such areas as black education and decentralistion policy).

The possibilities for both of these are so great as to give encouragement to the hope that a strategy along the lines suggested could indeed succeed.



Germans hold car-cost edge

S I Times (Bus Times) 26/5/91

By DON ROBERTSON

CURRENCY fluctuations have turned the tables in favour of South African car makers who buy components from Germany.

Those who buy components from Germany now have the edge on the Japanese.

Since the beginning of the year, the rand has fallen by 5,7% against the yen, but risen by 3,8% against the mark.

This is a reversal of the position at this time last year when the rand gained against the yen, but fell against the mark. Manufacturers of Japanese-sourced vehicles then had a large cost advantage over their German counterparts.

Toyota Marketing managing director Brand Pretorius says exchange-rate changes have put pressure on costs. Toyota takes out forward cover, but it is expensive.

Forecasts

As a result, Mr Pretorius has had to increase his pricing forecast for the current year to between 15% and 16% compared with an earlier 14,5%, "which will be impossible to meet".

Last year, Japanese-sourced companies had a price advantage of about 3% on their German competitors.

Mr Pretorius says: "We need high volumes to maintain optimum plant use and so remain competitive. We are aware of the price problem facing motorists."

Volkswagen marketing director Dave Malherbe says that the exchange-rate gap between companies using German or Japanese components has been as high as 27% since Phase Six of the local content programme was introduced in March 1989. It is now about 17% (see graph).

Mr Malherbe says: "Because of favourable exchange-rate movements last year, Japanese companies enjoyed an immediate gain of between 6% and 8% on their local content without having to do anything."

Because of the reduced cost of components from Japan, the value of the imported content declined, resulting in an equivalent increase in the value of the SA content. This has now turned in favour of German-sourced companies.

Mr Marlherbe says that in spite of this, it will be difficult to maintain price increases at below the inflation rate.

The industry is also fearful that changes to the Phase Six programme, scheduled for June 1, will exacerbate the problems of manufacturers.

In terms of the current Phase Six local content programme, manufacturers are required to have at least 65% by value of each vehicle made up of SA components.

Mr Pretorius believes that when legislation is reviewed in June, it could be increased to between 67% and 70%, putting further pressure on manufacturers.

Mr Malherbe says it could rise to 70%, which would be difficult to maintain.

(49)

Hammer and sickle lowered

SI Times (Bus Times) 26/5/91.

Business Times Reporter

BLACK South Africans are abandoning their support for communist ideology and turning to capitalism or the concept of a "mixed economy", combining elements of socialism and free enterprise.

So says a presentation, A Window on our World, compiled by advertising agency Bates Wells Partners from focus group discussions.

Part of a continuing research effort into black and white socio-political opinion, a Window on our World records and analyses attitudes to several issues.

Its objective, says Bates Wells group managing director Dave Kelly, is to provide marketers with the latest information for effective marketing in an evolving society.

Although research 10 years ago revealed a strongly positive black opinion of communism, says Mr Kelly, that system has now generally fallen from favour.

"The sharing concept has given way to the idea that under communism one would be robbed of the fruits of one's labour."

Apartheid

Although respondents believe they do not have free access to information about communism, they are well aware of its failure elsewhere.

Capitalism, a decade ago overwhelmingly associated with greed and exploitation, apartheid and oppression, is now much more highly regarded. Many respondents favour the opportunity of business ownership.

Many respondents, both black and white, favour a socialist-type system, which is held to be a good compromise between individual initiative and protection from exploitation.

Black respondents generally do not favour privatisation and supported nationalisation of certain sectors of the economy.

Proposals within two months

New scheme to kickstart the economy

BIDay 27/5/91 (49)

LESLEY LAMBERT

CAPE TOWN — A package of financial incentives to give a vital kickstart to proposed multibillion-rand industrial projects will be introduced soon, Trade and Industry Minister Org Marais has indicated.

In an interview after his department's budget vote in Parliament on Friday, Marais said he was hoping to produce within the next two months proposals for measures to assist the development of new projects in the chemicals, engineering and mineral beneficiation sectors.

The new projects had been proposed by leading SA industrialists, he said.

Marais declined to provide details on the projects concerned or the incentives under consideration, but said an announcement would be made soon. He said his department was looking at a wide range of financial incentives, including possible partial funding and tax concessions.

He said the projects had the potential to provide significant benefits to the SA economy in the form of millions of rands in new capital investment and employment.

They could also provide catalysts for much needed foreign investment in SA.

"If we are able to offer incentives and if they are competitive, the local industrialists may be able to sell off portions of the projects to foreign investors."

Marais said government would also have to give urgent attention to a longer term incentive package, in line with those offered by other countries, or SA would be unable to attract foreign capital.

But the restructuring of the Industrial Development Corporation (IDC) had made it necessary for the state to consider providing assistance to help selected new industrial projects over the initial unprofitable stage.

Finance Minister Barend du Plessis announced during his Budget that he had instructed the IDC to disburse some of its holdings and inject R500m a year into the economy for new developments over the next two years.

In the debate on the Trade and Industry Department's budget, Marais said government also hoped to stimulate the rate of technological development in SA by providing partial funding to projects aimed at developing new technological products or processes.

This was in line with proposals in the draft technology policy statement for initial, temporary support to activate growth.

Government also intended to encourage venture capital investment in technology

☐ To Page 2

New scheme

BIDay 27/5/91. (49)

☐ From Page 1

and the commercialisation of technological operations in the military and the atomic energy sectors, Marais said.

Practical measures to achieve specific results would be proposed in the almost completed technology policy statement.

Proposals for the industrial incentives had not yet been submitted to Cabinet.

Marais said: "We have discussed the project with the SA industrialists who proposed them and have decided — in conjunction with other departments and in line with proposals by the late (Economic Co-ordination Minister) Wim de Villiers — to give as much attention as possible to the question of assisting new capital investment and industrial development.

"If there are ways we can assist, they will have to be decided within weeks."

Whites are a precious asset

THOSE who are playing the major roles in shaping the new South Africa could do worse than to keep before them the accompanying graph.

Indeed, it would not be a bad idea if the graph's significance could be brought home also to those who are now promoting violence in South Africa.

The graph shows how very much wealthier South Africa is than any other African country, even Nigeria, the big, populous oil-rich state that is often referred to as the Giant of Africa.

By the same token it shows what South Africans have got which is worth cherishing and protecting in this impoverished and declining continent.

It shows what has been threatened by sanctions and what is being put at risk by the present political upheaval and violence and what would be put at risk in the future by the introduction of bad political and economic systems.

(49) Sowetan 28/5/91

Slicing up SA wealth pie could be disastrous

Sowetan Correspondent

It shows what could be destroyed by an unrestrained contest for political power in South Africa.

It gives an indication of the wealth that could be spread more fairly among all South Africans by better systems than those that have prevailed in the past, and that could be expanded by sane systems.

Conversely, it gives an idea of the levels to which South Africa might be reduced by political upheaval and instability.

What made South Africa the richest and strongest country in Africa and why has no other African country matched it?

Answers

The answers to these questions lie in defining the wealth and examining where it comes from.

It comes partly from mineral resources that exceed anything in any other African country.

The possession of these resources is sheer luck, but the efficiency of their exploitation was not.

If the productivity of a country is measured by the competitiveness of its products in international markets then it must be said that South Africa's wealth comes in part from the exploitation of cheap black labour.

But this is only one factor and certainly not the main one in the generation of the country's wealth.

To some extent it comes also from the political stability the apartheid regime was able to maintain before it was weakened by international sanctions and domestic opposition.

Perhaps more than anything else, South Africa's wealth - certainly its ability to grow wealthier - comes from its free market system and the relative absence of central control of the economy.

It comes from the freedom given to entrepreneurs to seize and exploit opportunities, to take risks and to use imaginative and innovative approaches to creating wealth and to respond creatively to the demands of the only place where real wealth has ever been generated: the marketplace.

In other words, South Africa's wealth comes from the incentives provided by capitalism and from the skills that capitalism appears to have been able to generate better than any other ideology.

Arguments about whether the wealth could be more fairly distributed in a free market system may be decided in and around the negotiations that will hopefully create the new South Africa.

But if the lessons to be learned from Africa's experience are applied in those discussions, the negotiators will immediately veer away from the popular concept of wealth as something so concrete and permanent that it can be sliced up like a pie and shared out.

Water

African countries that tried to slice up the wealth pie after independence found that it cannot be done because redistributing wealth is like trying to slice water.

They found - or some of their economists did - that wealth is not always rigidly definable but must be seen as a plastic thing that swells and shrinks with changes in the economic temperature.

Or as a living organism that flourishes only in political stability and freedom of enterprise and which must be nourished by effort and production.

Or as a substance as fragile as human confidence and vulnerable to being shattered by violence and political excesses.

Cattle

It was found that wealth can be defined in the short term in currency units, cattle, land or personal possessions but that these are all subject to fluctuation and that in the long term wealth can perhaps best be defined as the creation and exploitation of economic opportunities in a climate of political stability.

The experience of Africa dictates that when efforts are made to redistribute South Africa's wealth in the post-apartheid era the emphasis should be put not so much on re-slicing existing pies but on expanding opportunities for the creation of wealth.

That way everyone would stand a better chance of becoming richer, even though it might not happen overnight.

Africa's experience demonstrates the crucial importance of skills in creating wealth.

To a very large extent - perhaps the largest extent - South Africa is richer than other African countries because it has more skills and entrepreneurial experience than any other country in Africa.

Skills

That these skills derive largely from white South Africa's connections with Europe is a matter of historic association rather than racism (although the whites' failure to share those skills more fully with the blacks is a matter of racism).

Countries like Japan, Switzerland, Denmark and Mauritius have demonstrated it is not raw materials that create wealth so much as human attitudes and skills.

The devastating effect of the withdrawal of skills has nowhere been more dramatically demonstrated than in Mozambique, where the economy collapsed after the flight of the Portuguese.

Damage

The resulting damage was even greater than that done by the civil war and the economic mistakes of the Frelimo government.

Thus one of the most precious assets that the new South Africa will inherit will be its large white population, for it is in this population that the skills at present largely reside.

This is an asset that no other African country has ever had and its value is immeasurable.

The scrapping of racism of all kinds would allow the skills and experience previously monopolised by the whites to spread throughout the population, turning the innate energy and initiative of the country's black people into what could be the most powerful economic force Africa has ever known.

But only if the opportunities are provided.

South Africa's wealth comes partly from mineral resources that exceed anything in any other African country.

Lower inflation is unlikely — ANC

49

Bday 28/5/91

SHARON WOOD

THE ANC believes a stable inflation rate at around current levels is a more realistic and achievable goal than reducing inflation to single digit figures.

ANC representative Maria Ramos said in an interview that while bringing inflation down to single digit figures was desirable, the organisation did not believe this was possible, given the causes of inflation in SA.

Ramos said the Reserve Bank had probably realised it was not possible to bring inflation down to single digits in the short to medium-term.

"Despite a significant period of austere monetary policy, inflation is still nowhere near the single digit figures we were promised," she said.

Damage

"Indeed, it is difficult to imagine how much longer Dr (Chris) Stals can pursue this strategy — clearly the benefits of it for inflation have now been maximised."

She said it could even be argued that the current levels of interest rates were causing more damage to the economy than the benefits derived from the relatively marginal declines in the inflation rate.

Ramos stressed that fiscal and monetary policy alone would not address the inflation problem, but added the ANC had committed itself to exercising responsible fiscal and monetary policy to avoid initiating an inflationary spiral.

Fundamental structural problems were the root cause of the high core inflation rate in SA and only once these had been resolved would single digit inflation be feasible.

"Added to this is the fact that the current growth path of the economy has simply not yielded the kind of growth in real national income which is required to meet the growth of effective claims on this income," she said.

The recession would continue and exacerbate structural problems.

"In the current environment, where the pie gets smaller and the claims on the pie continue to rise, it is difficult to see how inflation can be brought down to single digits," she said.

The present economic crisis, and inflation, would not be overcome unless the economy was restructured and steered on a new growth path.

In the growth path envisaged by the ANC, the major goal would be the creation of employment and the alleviation of poverty, she said.

In this light, the ANC was looking at policies that would begin to address the critical problems of unemployment, poverty, land redistribution and social welfare. Ramos added that the ANC had stated its commitment to a democratic mixed economy.

Ramos said: "The ANC is fully aware that these policies have the potential to trigger off inflation.

"However, we also know that we must begin to address the critical economic problems which we face."

Financiers assured on sanctions

Mandela talk helps to ease business fears

49

BDay 28/5/91.

TIM COHEN

ANC deputy president Nelson Mandela yesterday impressed a meeting of 80 stockbrokers and investment managers with his commitment to economic growth and the negotiating process.

Mandela acknowledged that sanctions were hurting the economy and committed the ANC to reversing its pro-sanctions stand "as soon as possible".

At this stage the organisation could not do so for political reasons. But he was at pains to stress that it was not in the ANC's interests to damage the economy.

The private meeting — at the AA Mutual building next to the JSE — was attended by representatives from Old Mutual, Syfrets and leading stockbroking institutions.

Earlier, Mandela paid his first visit to the JSE.

Businessmen who attended the meeting said Mandela had made a much better impression than he had at the Consultative Business Movement (CBM) meeting earlier this month, which left many in the audience disappointed at his lack of clarity on the ANC's position on violence.

One businessman who attended both meetings said Mandela yesterday appeared to make a special effort to reassure investors.

A senior economics consultant said Mandela came across as "evidently sincere" about the ANC's commitment to achieve stability through negotiations.

A stockbroker said that despite the ANC's suspension of negotiations with government, Mandela appeared to be firmly committed to the process.

"He was successful in reassuring us about the bona fides of the ANC," a businessman said.

Sidney Frankel, of Frankel, Max Pollak Vinderine Inc, who arranged the meeting, said Mandela outlined the background to the violence and repeated what steps the ANC would take to reduce the conflict.

Mandela believed it was important to have stability for economic growth, Frankel said.

Mandela reiterated his belief that government had the capacity to halt the violence, but said there was no need for a state of emergency, Frankel said.

One businessman said although he was "heartened" by the meeting, businessmen remained concerned that while the ANC called on government to control the violence, it wanted to dictate what measures government should and should not take.

Mandela had acknowledged that ANC supporters were involved in violence but stressed that they initiated incidents of violence in only a small number of cases.

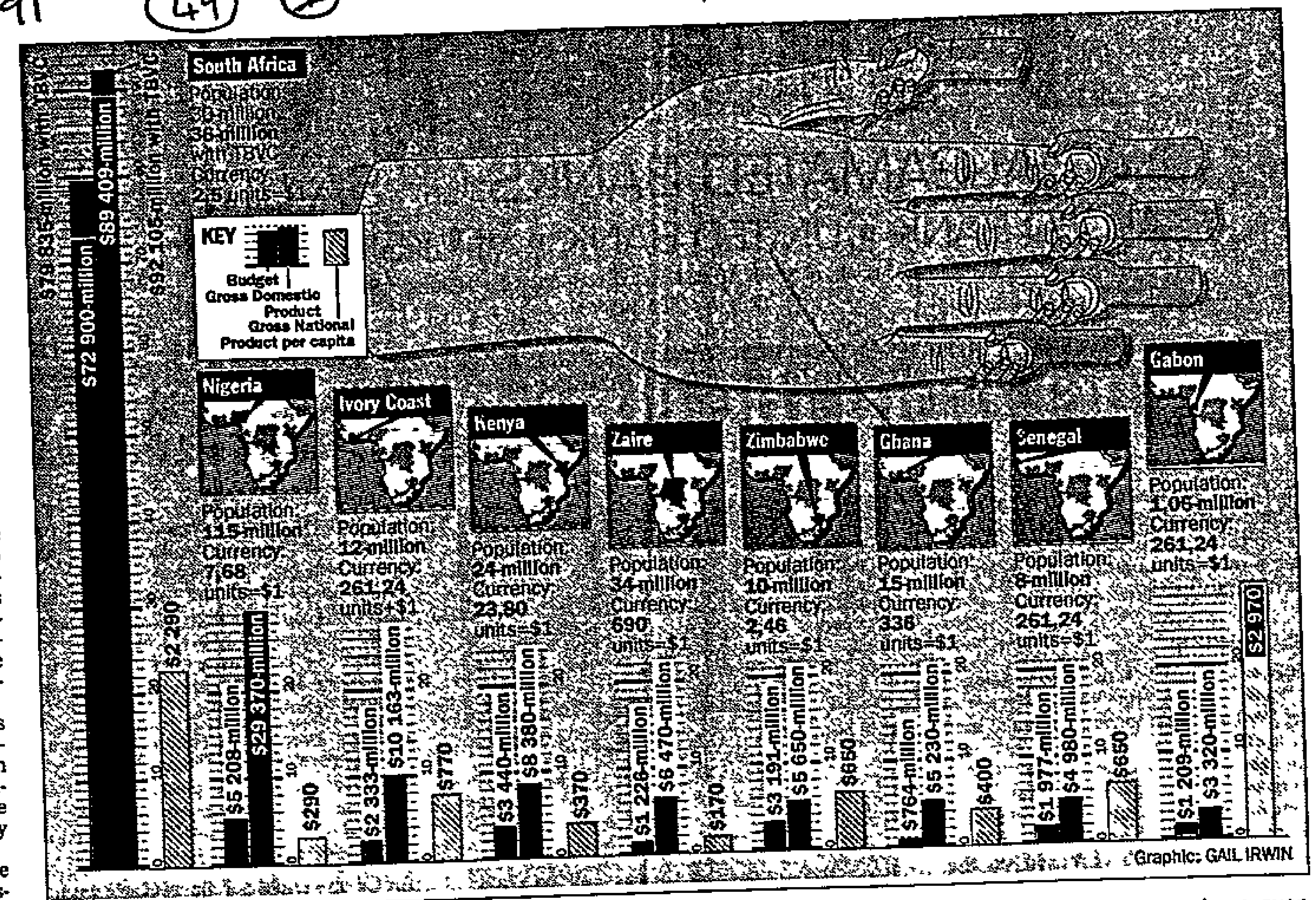
On the other hand, ANC casualties in the violence were disproportionately large.

ANC spokesmen yesterday declined to comment on the meeting.

Why SA dwarfs Africa

Star 28/5/91 (49)

South Africa's economic power is vastly greater than that of even the wealthiest countries of black Africa, but it could be threatened by the efforts to create a new political dispensation, reports GERALD L'ANGE.



The tall and the short of the matter . . . In both budget and gross domestic product South Africa towers above even Nigeria. The currency unit figures broadly reflect the relative strength of national currencies against the American dollar.

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Indeed, it would not be a bad idea if the graph's significance could be brought home also to those who are now promoting violence in South Africa.

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If the productivity of a country is measured by the competitiveness of its products in international markets, then it must be said that South Africa's wealth comes in part from the exploitation of cheap black labour. But this is only one factor and certainly not the major one.

To some extent, it comes also from the political stability that the apartheid regime was able to maintain before it was weakened by international sanctions and domestic opposition.

Perhaps more than anything else, South Africa's wealth — certainly its ability to grow wealthier — comes from its free market system and the relative absence of central control of the economy.

It comes from the freedom given to entrepreneurs to seize and exploit opportunities, to take risks and to use imaginative and innovative approaches to creating wealth, and to respond creatively to the demands of the only place where real wealth has ever been generated: the marketplace.

In other words, South Africa's wealth comes from the incentives provided by capitalism and from the skills that capitalism appears to have been able to generate better than any other ideology.

Arguments about whether the wealth could be more fairly distributed in a free market system may be decided in and around the negotiations that will hopefully create the new South Africa.

But if the lessons to be learnt from Africa's experience are applied in those discussions, the negotiators will immediately veer away from the popular concept of wealth as something so concrete and permanent that it can be sliced up like a pie and shared out.

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Or as a living organism that flourishes only in political stability and freedom of enterprise and which must be nourished by effort and production.

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The experience of Africa dictates that when efforts are made to redistribute South Africa's wealth in the post-apartheid era the emphasis should be put not so much on re-slicing existing pies but on expanding opportunities for the creation of wealth.

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But only if the opportunities are provided. □

● Gerald L'Ange is editor of The Star's Africa Service.

Capital shortage threatens recovery

Star 28/5/91

Finance Staff

(21) (49)

A shortage of capital threatens the next upswing in the economy, says Bankorp in its latest economic commentary.

According to Bankorp economist Nick Barnardt, net private savings (personal plus corporate) will be fully absorbed by the Government's deficit for the first time.

"This indicates an acute underlying funding shortage in the economy, which is currently being obscured by falling fixed investment and destocking".

Mr Barnardt says the economic downswing will only bottom out in the first half of 1992, revising his previous forecast of a recovery by late 1991.

He attributes the delay to the prospects of continuing high levels of interest rates and inflation, despite a rise in the surplus of the balance of payments to a strong R2,2 billion in the first quarter this year.

"This implies that the current business cycle downswing will be extended through year-end, with the next upwsing only commencing around mid-1992."

Negative

This prospect is reinforced by the negative implications for consumer spending of the budgeted rise in effective personal income tax rates, the impact of VAT and the labour attrition occurring throughout the economy, Mr Barnardt says.

"The consequent likelihood of a year-end inflation rate of 14 percent, instead of our previous forecast of 12 percent, implies the strong possibility of only one further cut in official interest rates this year," Mr Barnardt says.

"Any revival in economic growth will immediately reveal a shortage of capital, which would curtail, and eventually abort, any long-term economic upswing."

This will lead to an "ungovernable scenario" in the mid-Nineties, with rising unemployment and social instability.

This could be averted by creating an environment conducive to long-term foreign capital inflow.

"In the absence of a rising gold price, the economy would require rapid export growth, sustained capital inflows from abroad and a continuation of strict financial discipline in order to avert a financial crunch," he warns.

Increased investment from abroad would generate new income, which in turn would create scope for increased domestic saving and further fixed investment.

Commodities

Other prerequisites for averting the "ungovernable scenario" include a rise in the exports of non-gold commodities, a rise in tourism and the maintenance of real interest rates, the study says.

Looking farther ahead, he estimates that the inflation rate in 1992 will retreat to around 12 percent, while the prime interest rate could fall from its current level of 20 percent to an average rate of 17,2 percent next year.

(49) ARGUS 29/5/91

SA economy needs boost, says visiting German MP

The Argus Correspondent

PRETORIA. — South Africa's economy should be strengthened as foreign aid alone would not solve the country's problems, said a visiting German parliamentarian, Dr Volkmar Kohler.

One way to strengthen the economy would be through regional co-operation in Southern Africa. Once such co-operation had been established, a trade relationship could be formed with the European Community, Dr Kohler said in Pretoria. Regional co-operation should, however, be based on an equal and fair partnership.

The changing political situation in the country could result in economic co-operation between South Africa and the frontline states, he said.

Dr Kohler, the Christian Democratic Union spokesman on South African politics and member of the Bundestag's Foreign Affairs committee, said violence was causing European investors to think twice about investing in South Africa.

Trade and economic relations between South Africa and Germany would be normalised once all apartheid legislation had been abolished.

Germany, as part of the EC, donates R100-million in aid to South African organisations in various programmes.

Dr Kohler, who arrived in South Africa on Monday with the Christian Democratic Union spokesman on development aid Professor Winfried Pinger, met the Inkatha Freedom Party and representatives of the PAC, Azapo and the ANC on their first day.

SA cannot rely on mineral wealth — Sacob

(49) CT 29/5/91

SA can no longer rely on its mineral wealth for economic prosperity — the key to real growth is to export manufactured high-value goods, says the chairman of the SA Chamber of Business Technology Committee, Ted Adlard.

Addressing the Institute of Marketing Management's Services Branch in Johannesburg, Adlard said gold had steadily lost value in real terms and was no longer a hedge against inflation.

"Continued reliance on gold is not the solution for this country and neither is platinum.

"In future years mineral wealth cannot be relied upon to be the major foreign exchange earner, nor will it boost our gross domestic product sufficiently to overcome the problems of unemployment and poverty."

Adlard said SA's current policy of exporting mainly raw materials to its largest market, Europe, will become progressively more difficult as Eastern European and Soviet raw materials enter the EC market.

"For this reason alone we need to boost the level of technology in exports — but technology by itself does not guarantee competitive advantage.

"Becoming a major player in world markets also calls for excellent and consistent product quality, competitive prices, reliability of supply, top-class technical support and effective warranties."

"We need to think globally to become effective world players.

"Our commitment must be long-term and our export drive must be strategically focused.

JSE actuaries bond yields

SOWETAN Wednesday May 29 1991

VAT's aim is to boost economy - Minister

Sowetan 29/5/91

(49)


SAM MOTSUENYANE

CREATING a sound economy was every bit as important as political reform and this is why an efficient taxation system like Value Added Tax should be introduced without delay.

By ALI MPHAKI

This was said by the Deputy Minister of Finance, Dr Theo Alant, at the annual conference of the Southern Transvaal Chamber of Commerce at the Jan Smuts Holiday Inn yesterday.

Alant said without economic expansion and job creation South Africa could slip into chaos.

"We must use every opportunity to put our economy on a growth course. Value Added Tax is one means to this end," he said.

The Minister said despite the risk of VAT creating more tension in an already tense society, it was the responsibility of the Government to introduce the system because of three major benefits. These were that:

* VAT did away with sales tax on purchases not meant for resale. This effectively eliminated double taxation, reduced manufacturing and distribution costs and assisted business in containing price increases to the benefit of both local consumers and South Africa's export effort;

* VAT did away with the distorting effect of GST which taxes mainly goods and few services. Because of its broader base, VAT would treat rich and poor alike, thus becoming a fairer and more efficient tax; and that

* VAT was less prone to evasion than GST. The extensive tax losses caused by GST meant that tax rates were unnecessarily high and that the State could not provide certain social services because its revenues were being lost.

An intensive programme of informing and guiding the business community on VAT would start next wek.

"Nevertheless, the administration of VAT is going to be a relatively simple business, ultimately involving not much more than keeping an accurate record of purchases and sales," he said.

The conference attracted hundreds of businessmen. Also attending was Nafcoc president Mr Sam Motsuenyane.

LABOUR

Cosatu demands talks on economy

W/Mail 30/5-6/6/91.

49

Negotiations with the state and employers on a wide range of economic issues was one of the chief demands drawn up by the Congress of South African Trade Unions at its economic policy conference last week, reports **DREW FORREST**

THE Congress of South African Trade Unions has formulated a broad platform of economic demands for negotiations with employers and the state.

These include a retrenchments freeze and a national programme of adult education and training. The employer body, Saccola, will also be asked to support the call for an interim government, constituent assembly and an end to political violence.

The demands, emerging from Cosatu's economic policy conference last week, were unveiled at a Cosatu press briefing yesterday. After discussion within affiliates, they would be finally endorsed and refined at a special central executive committee meeting, said Cosatu press officer Neil Coleman.

Coleman said the conference, attended by 300 delegates, had been a first crucial airing of grassroots worker thinking on the economy but had not drawn up a definitive economic policy. This would be done at the federation's congress in July.

The demands for negotiation with Saccola and the state — the aim is to hold the first round of talks next month as a prelude to the congress — were of an interim nature and directed at checking job losses and creating employment. Broader proposals for economic restructuring would be addressed at a later date.

Key elements of Cosatu's negotiating platform include:

- A retrenchments moratorium, and negotiations on a job creation programme,
- An end to privatisation and commercialisation, and negotiations on the sale of strategic stockpiles. The state would also be asked to avoid policies leading to job cuts, such as the precipitate lifting of tariff barriers.
- Saccola support for an interim government, constituent assembly and an end to violence.
- Employer and government agreement to a nationally integrated system for basic adult education and training.
- The reduction of wage gaps.

Neil Coleman ... conference was a crucial airing of grassroots worker thinking on the economy

- Pensions changes, including an end to racial discrimination in pension payouts, the reduction of the retirement age to 55 years and pensions for all those entitled to them.
- One provident fund per industry. This would facilitate the use of provident money for development, Coleman said.
- Saccola would be asked to fund a feasibility study on the conversion of hostels to single and family accommodation. Employers would also be asked to give time off for consultation with hostellers.

Coleman said the National Council of Trade Unions (Nactu) would be approached to join the negotiations as part of a union front. Black employer bodies such as the National African Federated Chamber of Commerce and Industry (Nafcoc) and the Foundation for African Business and Consumer Services (Fabcos) would be invited, and Cosatu wanted state representation to include public sector employers.

It was envisaged that next month's opening encounter would be the start of an ongoing tripartite process, he said. After adopting an economic policy, Cosatu would also take it to its alliance partners and the Broad Patriotic Front.

Coleman said sectoral reports at the conference revealed an economy-wide crisis and that neither the state nor employers had a global vision on how to tackle it.

"The employer response is to cut wages, retrench and seek unilateral rises in productivity — there is no job creation perspective and no productive investment. Monopolisation and the export of capital continues."

Outlook prosperous for Southern Africa

(49)

Own Correspondent CT 30/5/91

JOHANNESBURG. — Effective development and investment could turn Southern Africa into one of the world's most prosperous regions, visiting German president of the International Association for Co-operation and Development (ACODA) Heinz Schwarz said yesterday.

Schwarz, a member of a four-member German delegation visiting SA, Lesotho and Swaziland, said financial assistance for development projects in the region should not be withheld until SA's constitutional issues were resolved.

The other delegates are members of the governing coalition in the German Bundestag, Ulrich Heinrich and Johannes Ganz, and Stuttgarter Zeitung foreign editor Joachim Worthmann.

"We cannot wait for three years until everything is over. You need the help as soon as possible ... to stabilise the situation," said Schwarz.

He added that Namibian independence, peace in Angola and the political turnaround in SA had re-focused European interest on Southern Africa.

Star 30/5/91

'Govt must aid redistribution'

Political Staff (49)

Although the free enterprise system was the only one which could stimulate economic growth, the Government had to step in and "kick-start" the process by helping in the redistribution of wealth, Finance Minister Barend du Plessis said last night.

Speaking at the inaugural meeting of The Jerusalem Club in Lower Houghton, he said a number of realities had forced the Government to turn its back on apartheid and strive for genuine power-sharing.

During this time of little economic growth, the market system would be slow to address the imbalances and so "we must assist by giving the process a kick-start".

Sowetan 30/5/91

49

Faster economic growth likely in 1992: expert

SANLAM's chief economist Mr Johan Louw believes that the basis is presently being laid for considerably faster economic growth in 1992, although 1991 would probably show virtually no growth.

In fact, he expects the period 1992/94 to be relatively good years for the South African economy.

Louw added that it was an important prerequisite that the current violence be ended as soon as possible.

People feeling uncertain or worried about the state of affairs should not think they were on their own or poorly informed.

Dangerous

"In fact", he said, "if you cannot feel the intense process of change, you are living in the dark - and that may hold dangerous consequences for your business.

"If you think it is a matter of 'business as usual', you are living in a fool's paradise."

The current downswing had now lasted 28 months, compared with an average of about 17 months duration since the Second World War.

Several favourable changes creating better prospects had taken place in the past few months, for example, the ending of the Middle East War, increasing indications that the trade and financial sanctions might be lifted, lower interests rates and the fact that agricultural conditions were not expected to be as poor as first expected.

Govt, business in master plan

S/Times 2/6/91. 49 (Bus/Times)

By CURT VON KEYSERLINGK

AFTER being at odds for years over economic policy, the Government and the private sector are teaming up to prepare South Africa's faltering economy for growth.

SA Breweries executive chairman Meyer Kahn has been appointed part-time special adviser to Economic Co-ordination and Public Enterprises Minister Dawie de Villiers.

Mr Kahn says: "We are at a stage where there are no fundamental differences between the Government and business on economic issues. The only differences are those of degree.

"For example, we agree that there should be real interest rates, but have not yet defined how high they should be."

There is also growing co-operation between the SA Chamber of Business (Sacob) and the Department of Trade, Industry and Tourism.

Sacob this week released a 63-page document — A concept for the development of a new industrial policy for South Africa — which analyses factors restraining growth and makes recommendations on how to deal with them.

Input

Sacob notes the similarity of its conclusions with those of the new Minister of Trade, Industry and Tourism, Dr Org Marais. Barring one exception about which it requires more information, Sacob says: "The policy stances touched on by Dr Marais have in most cases been arrived at in consultation with Sacob and the rest of the organised business community."

Dr De Villiers said in an interview this week that the Sacob document would be used as an input in the Economic Development Programme being prepared in his department for publication late this year.

Dr De Villiers says the private sector is the locomotive of growth. He is determined to eliminate factors controlled by government that needlessly raise business costs.

His priorities include: tax reform, the fight against inflation, supply-side economics, revision of import protection and the control of State spending.

"The private sector must be encouraged to make production profits instead of capital profits that come from investing in property developments or the stock exchange."

Dr De Villiers is keenly aware that co-operation between the Government and business will not by itself solve SA's economic problems.

"We must restore confidence in our economy and everybody with a genuine interest in the welfare of the country should help.

"The brutal political violence should be stopped, so should the irresponsible utterances about economic policy by certain political figures."

Dr De Villiers says the Government is trying to promote what he calls social contracts between disadvantaged communities and various State and private organisations to provide basic housing and infrastructure, including electricity, clinics and schools.

"It would stabilise these communities by creating jobs for their members and giving them the facilities they think they need most.

"But we cannot merely hand out money. We need their involvement and we require that they take responsibility for ensuring that the projects succeed. This is not always easy because some parties appear bent on breaking down local authority structures.

"The poor people of this country will be the first beneficiaries of economic growth and it is a tragedy that those who purport to represent them appear to be working against it.

"If we cannot start growing now, whoever becomes the new government one day will inheirit national poverty.

"The ANC has moved a lot in its economic outlook — for example, there is little talk about nationalisation now. We must give them credit for it. But until the ANC formally commits itself to more moderate views, foreigners will remain wary of investing here."

Painful

Dr De Villiers says aspects of the new economic programme, such as the fresh approach to tariff protection, could necessitate painful adjustments for certain industries.

"But the public sector has already begun to make painful adjustments of its own. Organisations such as Transnet, Eskom and Armscor have made huge staff reductions in switching to commercialisation. There have been big spending cuts in many Government departments."

Dr De Villiers says his job as Minister of Economic Co-ordination does not make him a "super minister" with authority over other departments involved in economic affairs.

"They have line authority over their own activities, but I chair the meetings of all ministers involved in economic matters. I have to ensure that they do not depart from agreed guidelines relating to the achievement of national economic objectives."

DAWIE DE VILLIERS: Poor first to benefit Picture: TERRY SHEAN

Impetus from govt's 'kick-start' package

Capital projects set for huge injection

(49) CT 3/6/91

Own Correspondent

JOHANNESBURG. — Spending on SA capital projects looks set to a get a huge injection from government's proposed "kick-start" package to give impetus to multibillion-rand projects.

Many large projects under consideration by SA's industrial giants might meet the criteria of the proposed package, which is expected in the next two months.

The scheme was first mentioned by Trade and Industry Minister Org Marais last week. There is no indication yet of the amount of government assistance involved, but incentives under consideration include partial funding and tax concessions. Proposals require that the projects be viable, new, export orientated, involve local beneficiation and have a long life. The package is aimed at projects in the chemicals, engineering and mineral benficiation sectors.

One project that might benefit is the chemical plant or naphtha cracker under consideration by Engen, AECI and Sentrachem to produce chemical feedstocks and downstream chemicals. This could involve capex of R4,5bn.

Another is the proposed Columbus stainless steel joint venture between Samancor and Highveld Steel & Vanadium, which could cost between R2,8bn and R4bn.

Directors of this joint venture have said government's initial response to their submissions on reducing the project's start-up costs was favourable.

Sasol plans 20 new projects with a capital value of R3bn and chemical giant AECI has large capex plans under consideration. In addition, oil companies are set to spend billions of rands expanding their refining capacity; this could have spinoffs in chemical production. Other companies that could benefit are Iscor and Dorbyl.

Only viable projects that required some kind of "kick-off" assistance would be able to benefit from the proposed scheme, Marais said last week.

Assistance would not be permanent, and smaller projects that met the criteria could also benefit.

Marais declined to outline the type of assistance that would be available or how much the package would cost.

Marais said the scheme, which he hoped would be finalised within eight weeks, was based on research into the different ways industrial incentives had been granted in other countries. There had been contact between government and parties interested in the scheme.

HOUSE OF ASSEMBLY

QUESTIONS

49

†Indicates translated version.

For written reply:

General Affairs:

Budget: deficit before loans

52. Dr W J BOTHA asked the Minister of Finance:†

(1) What was the last financial year in which there was no deficit before loans in the budget;

(2) (a) how large was the deficit before loans for each financial year since the financial year referred to in paragraph (1) above and (b) what percentage did each such deficit represent of the (i) State Revenue Account and (ii) gross domestic product of the financial year concerned?

B75E

The MINISTER OF FINANCE:

During the 1976/77 financial year, the separate revenue, loans and Black Education Accounts were replaced by the present single State Revenue Account. In addition the SWA Account lapsed in 1979/80 and was replaced by a transfer which was deposited in the Central Revenue Fund of SWA.

As a result of the above-mentioned changes, the deficit before borrowing (as presently calculated) is not strictly comparable with previous periods. However, the Department published series of comparable figures in the Statistical/Economic Reviews (1983/84 to 1990/91). The following calculations are derived therefrom.

	Total actual expenditure1)	Total actual expenditure2)	Deficit before borrowing	Deficit as % of total expenditure	Deficit as % of total GDP
	Rm	Rm	Rm		
1973/74	4 405,4	4 058,8	346,6	7,9%	1,6%
1974/75	5 500,9	4 817,0	683,9	12,4%	2,7%
1975/76	6 803,4	5 486,3	1 317,1	19,4%	4,7%
1976/77	8 244,6	6 357,0	1 887,6	22,9%	6,0%
1977/78	8 960,5	7 016,4	1 944,1	21,7%	5,5%
1978/79	9 955,3	8 138,4	1 816,9	18,3%	4,4%
1979/80	11 441,0	9 787,5	1 653,5	14,5%	3,3%
1980/81	13 595,4	13 310,3	285,1	2,1%	0,5%
1981/82	16 431,3	14 416,3	2 015,0	12,3%	2,8%
1982/83	19 183,0	17 173,0	2 010,0	10,5%	2,4%
1983/84	22 316,8	19 087,7	3 229,1	14,5%	3,4%
1984/85	27 130,0	23 425,9	3 704,1	13,7%	3,3%
1985/86	32 908,4	29 320,1	3 588,3	10,9%	2,8%
1986/87	40 247,4	34 135,9	6 111,5	15,2%	4,1%
1987/88	47 449,8	37 892,5	9 557,3	20,1%	5,6%
1988/89	55 926,7	48 071,4	7 855,3	14,0%	3,8%
1989/90	65 517,4	61 101,3	4 416,1	6,7%	1,8%
1990/91*	74 730,6	67 379,5	7 351,1	9,8%	2,7%

Sources: Statistical/Economic Review 1983/84 to 1990/91
Budget Review, 20 March 1991. 49

1) Excluding discount on sale of new stock.

2) Excluding loan levy, revenue for standing allocations, transfers from reserve accounts and privatisation income.

* Revised estimate

Toys from the Far East: importation figures

365. Mr D G H NOLTE asked the Minister of Finance:†

(1) What did the importation of toys from the Far East amount to in each of the latest specified three financial years for which figures are available;

(2) whether the Government, with a view to preventing foreign exchange losses as a result of the importation of toys of poor quality, is exercising control over the quality of imported toys; if not, why not; if so, what control?

B975E

The MINISTER OF FINANCE:

(1) The following statistics are in respect of calendar years since they are not available for financial years.

1988 — R49 845 714
1989 — R44 157 192
1990 — R53 263 965

(2) No. Neither legislation nor any other provisions exist according to which the Department of Finance or the Reserve Bank can enforce quality control measures on such goods.

Toll roads/shares in toll-road companies: investments

385. Adv M J MENTZ asked the Minister of Finance:†

Whether any (a) insurance companies and/or (b) other institutions have been granted permission to invest in toll roads or shares in toll-road companies; if so, (i) which (aa) insurance companies and (bb) other institutions and (ii) to what percentages of (aa) income from premiums and/or (bb) cash surpluses, in each case?

B1017E

The MINISTER OF FINANCE:

(a) and (b) No.

(i) and (ii) Fall away.

Commuters transported from Qwaqwa: subsidies

396. Mr J J WALSH asked the Minister of Transport:

(1) What total amount was paid out in subsidies to companies transporting commuters between (a) Qwaqwa and Harrismith, (b) Qwaqwa and Bethlehem, (c) Qwaqwa and the Orange Free State Goldfields, (d) Qwaqwa and Kroonstad and (e) Qwaqwa and the PWV area in respect of the 1984-85, 1987-88 and 1989-90 financial years, respectively;

(2) how many commuters were involved in each of these financial years?

B1025E

The MINISTER OF TRANSPORT:

(1) Bus Companies *per se* are not granted any subsidies, however the total subsidy amounts which have been paid during the relevant financial years with regard to commuters, between the relevant places, are as follows:

(a) Qwaqwa and Harrismith —

Financial year	Subsidy amount
1984/85	R1 736 752,87
1987/88	R3 490 952,54
1989/90	R3 561 039,10

(b) Qwaqwa and Bethlehem —

Financial year	Subsidy amount
1984/85	R 76 618,50
1987/88	R 203 036,30
1989/90	R 195 136,85

(c) Qwaqwa and the Orange Free State Goldfields—None.

(d) Qwaqwa and Kroonstad—None.

(e) Qwaqwa and the PWV area—None.

FM 7/6/91 (49)

THE ANC AND BUSINESS

BOLD QUESTIONS

"Answer please, Mr Mandela" pleads the headline of an advertisement that has appeared in the press during the past month.

The ad, placed by a group called Businessmen for Growth and Stability, asks Mandela some of the bold questions that big business seems to have been avoiding:

☐ What degree of nationalisation in the economy is envisaged by the ANC — that is, what exactly is the mix in the ANC's mixed economy?

☐ When will the process of transition become irreversible in the ANC's view, and the organisation's continued call for sanctions become a thing of the past?

☐ Will a future ANC government continue to subsidise unprofitable economic ventures?

☐ Assuming recognition of the need for renewed foreign investment in SA, how does the ANC envisage itself successfully convincing international investors to do so? and

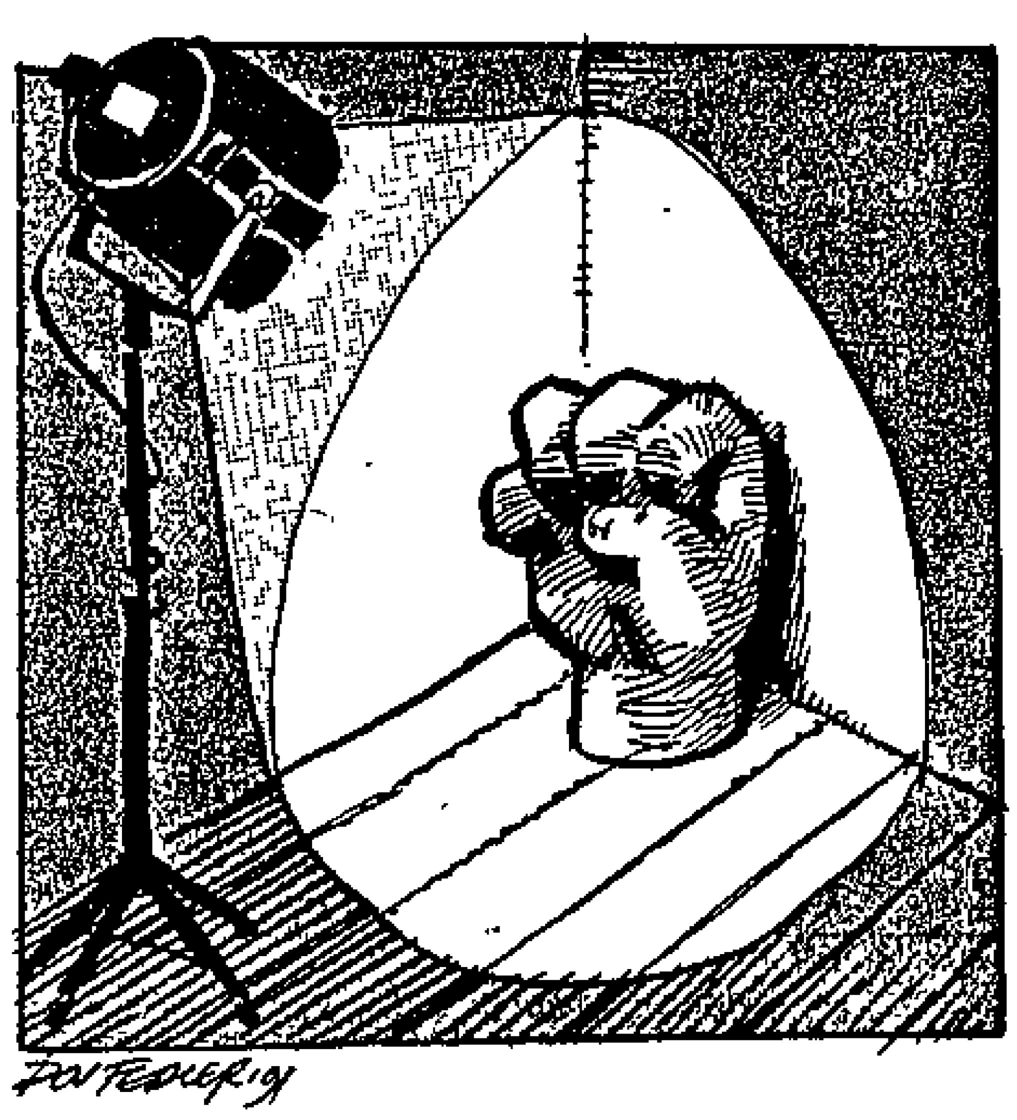
☐ How will the ANC implement its affirmative action programme without seriously harming economic productivity and performance?

While these questions may well appear on the agendas of the numerous private meetings held between the ANC and select establishment groups, such as the SA Chamber of Business and the Consultative Business Movement, for many, they remain unanswered.

Businessmen for Growth and Stability's national co-ordinator, Mariette van Niekerk, says the group represents about 150 — and growing — business people from a variety of sectors and professions who are frustrated by the political uncertainty.

"Contradictory and often ambiguous statements from political leadership across the entire spectrum make even short- to medium-term predictions a hazardous business," she says. "The result is a growing unwillingness to contemplate, let alone undertake expansions, and a marked disillusionment among ordinary people with politics."

The group, the idea of JSE stockbroker



Hannes Herbst, is unashamedly pro-free enterprise. "Economic growth cannot be enjoyed without economic security and the best guarantee of economic security is the economic opportunity that the free-enterprise system provides," Van Niekerk says.

She says the group is particularly concerned with the negative economic implications of the ANC's programme for a post-apartheid SA. They decided to place the ad after seeing a recent ANC publication, *Let the people decide: Negotiations and the struggle for a democratic SA.*

The ad has certainly stirred the pot.

Nelson Mandela called the group on the first day the ad appeared, on May 8, according to Van Niekerk, and he expressed a willingness to address the members.

Pleased with his reply, the group nevertheless insisted that such an address take place in a public forum — on television or radio. "We feel that it is not good enough to hold behind-the-scenes economic talks with the ANC, the PAC and others. Ultimately, what transpires in SA will be determined not by a well-heeled and eloquent leadership-elite, but by the degree to which radical demands remain strong at grassroots level."

Since the initial call, Mandela has been overseas much of the time and no further arrangements have been made. Comment could not be obtained from the ANC this week.

SA Chamber of Business chief economist Ben van Rensburg questions the group's authority to speak on behalf of business. "Groups of individuals who claim to represent business tend to confuse issues rather than solve problems. An independent movement such as this could weaken organised business rather than give it clout."

Nevertheless, the group claims to have the support of many chambers of commerce around the country, including those in Johannesburg, Germiston, Bloemfontein, Durban, Cape Town, Pretoria and Alberton.

But Van Rensburg believes questions such as these should be asked through existing structures, such as the chamber. "We have regular meetings with the ANC's economic committee and regular feedback takes place, though we often don't see eye to eye." He will not, however, elaborate on the differences of opinion.

He says it is difficult for any opposition party to have a detailed economic policy. "It's easier to criticise because they don't face the day-to-day economic realities." However, Van Rensburg concedes that the ANC needs to sort out who, in its own ranks, is going to rule economic policy. "Is it going to be the socialist-communist thinking or will market-related thinking prevail?"

He does not seem to think a clear statement will be forthcoming soon. "Given the realities of the political implications of making this decision, they are still forced to purport this almost split personality in their economic thinking and policy."

Meanwhile, Businessmen for Growth and Stability says it will address any issue that

FM 7/6/91 (49)

could influence growth and stability and will do so with any organisation. Says Van Niekerk: "Therefore, while the ANC was our first target, it certainly is not our last."

Mirryéna Deeb

Pretoria's budget rockets

B/Day 7/6/91. 49

GERALD REILLY

PRETORIA — Pretoria's 1991/92 budget has soared to a record R1,665bn and residents face a drastic hike in assessment rates and higher service charges.

Tabling the budget in the council yesterday, management committee chairman Pieter Smith stressed local authorities were being squeezed between huge operating-cost increases and limited revenue sources.

Pretoria's operating budget in the new financial year will amount to R1 301,1m, a 19% increase, and the capital budget to R365,9m — up by 16,8%.

Rates will increase by 25,2% from July. From September 1 electricity goes up by 7,6% and water supply by 16,6%; and from August 1 sewerage by 18% and refuse removal by 15,8%.

Additional revenue from rates would be R40,1m and total rates revenue R198,9m.

The deficit budgeted for amounted to R20,3m. This was because of the tight financial position of residents and a realisation that property taxes and service charges could not be raised beyond the recommended level.

The only possible alternative to the shortage of finance, Smith said, was forcing expenditure down to a lower level. That, unfortunately, would detrimentally affect quality of service.

The single biggest expenditure item is wages and salaries — a total of R529,9m in the new financial year.

Stressing a "truly remarkable" achievement, Smith said that in 1971 there were 13 381 council posts, while in the new financial year the figure would be 13 347 — a decrease of 34 posts during 20 years of phenomenal growth in Pretoria.

A curious tendency comes out the closet

W/Mail 7/6 – 13/6/91

(49)

The Marxist Workers Tendency, a secretive far-left grouping operating in the ANC, appears to be emerging from its closet. In what may be its first open contact with the press, DREW FORREST spoke to one of its adherents

'A NICE guy out to lunch," scoffed a colleague who had eavesdropped on my four-hour part-interview, part-argument with Weizmann Hamilton, member of the Marxist Workers' Tendency of the African National Congress.

For those who can't see that immediate nationalisation of the economy's "commanding heights", worker self-management, "soviets" and an armed populace will magically dispel South Africa's problems, it is a common reaction to Trotskyist certitudes.

Numerically insignificant, incorrigibly sectarian and with little or no support among the working masses they claim to champion, the disciples of Leon Trotsky are a bad joke in the advanced capitalist countries of the West.

But in South Africa it would be a mistake to dismiss them. In many ways, conditions are pre-revolutionary: huge inequalities amid economic decline and surging political hopes are fertile ground for fundamentalist and millennarian ideas of all kinds.

South African Trotskyism is often seen as a foible of coloured and Indian intellectuals — particularly from the Western Cape — but Hamilton insists that most MWT support is to be found in the black townships. "There's a climate of opposition developing in the ANC to the strategies of the leadership," he says. "The rank and file are unable to understand opposition to our ideas."

By submitting to an interview under his own name, Hamilton broke with MWT practice and appeared to signal that the tendency is emerging from the closet.

An "entryist" group working from within to push the ANC leftwards, it is proverbial for its secretiveness. This is partly a response to official intolerance: four of its leading lights, including historian Martin Legassick, were expelled from the ANC at a special conference in Zambia six years ago.

With "Stalinist" stifling of dissent now in disfavour on the left, the tendency has new room to manoeuvre.

The MWT's journal, *Congress Militant*, epitomises the paradox of the far left: highbrow and scrupulously researched, it is shot through with a kind of biblical zeal. "What Marx said about minimum wages" trumpets a recent headline, suggesting that the views of this bearded 19th century German sociologist must be the last word on the subject.

Elsewhere, "our science of Marxism" is invoked to attack SA Communist Party general secretary Joe Slovo for daring to suggest that enterprise has a role in wealth-creation. Judged by its predictive powers, Marxism has as much claim to scientific status as I Ching — but it is "our science", a source of certainty for the faithful.

The world crisis of socialism, far from spurring self-doubt, is seen as a triumphant vindication of Trotsky. Like free marketeers who hold that South African capitalism is not the real thing, Hamilton argues that failed Eastern European regimes were Stalinist perversions of a true socialism still in the wings.

Indeed, the claim that there has never been a genuine socialist order makes Trotskyists exceedingly slippery customers — debate tends to be conducted at a stratospheric level of abstraction.

The result is a programme for a future South Africa resting heavily on a quasi-religious appeal to authority which makes only glancing contact with the real world.

Whatever the shape of the future, it is unlikely that political power will be exercised by a network of workers' councils (soviets), that all major industries will be instantly nationalised under worker control, that people's militias will replace the police and army and that to prevent the crystallisation of a bureaucratic elite, official posts will be rotated and state officials paid no more than a skilled worker's wage.

It may also be reasonably doubted that a "class appeal" to white workers will succeed in undermining support for the security forces.

The irony is that Hamilton attacks the Congress of South African Trade Unions' moves towards co-operation with business and the state as "utopian". Based on an antagonistic relationship, the pact between labour and capital in the European social democracies is inherently unstable, he argues. "It's a post-war phenomenon — a bat of the eyelid in the context of human history," he says, pointing to Sweden's worsening economic straits.

The fact is that there is no sign of revolutionary ferment in social democratic Europe: the lesson of Thatcher's Britain is that economic difficulties characteristically spark a rightward shift.

Hamilton believes the labour movement has fallen under the baneful influence of "reformist" elements in the ANC and, particularly, the SACP, which he concedes has working class support despite being "indelibly tainted with Stalinism". "The party is the right wing, not the left wing of the ANC," he says. "It provides a justification for reformist policies — this is why De Klerk has no objection to Slovo's involvement in negotiations."

There is no doubting Hamilton's sincerity or intelligence, and he has suffered for his convictions — detained and held in solitary confinement for nine months in 1975, he was banned for five years and has just returned from 15 years in exile. And there are libertarian elements in the MWT's programme: it favours free speech and assembly and a multiparty system.

But its drive to convert the ANC into a revolutionary socialist party poses a real threat to the movement's multi-class appeal.

In one Johannesburg branch, for example, a hard-line MWT clique, organising around domestic workers' wages, is said to be driving conservative Indians into the arms of the National Party. Writ large, this could threaten an ANC majority in a future election.

Hamilton says the MWT favours negotiations with the state "if they can achieve true democracy and address the problems of working people, such as education and unemployment".

But one of its conditions is the dismantling of state forces and the arming of the people — which will clearly not be met. Hamilton also dismisses proposals for the integration of the South African Defence Force and Umkhonto weSizwe as a "reactionary idea".

The risk is that by fuelling millennarian and militarist fantasies in the black townships, the far left may embroil the enormously complex and delicate task of reaching political settlement.

ECONOMIC POLICY (49) FM 7/6/91

NO TIME FOR WAVERERS

In view of the need to overcome the violence, dismantle apartheid laws, restore equity to social policy and move swiftly towards a new constitution, it is understandable that economic policy does not enjoy the priority in the Cabinet's deliberations that it did only a year ago. But that lack of focus could be creating problems that in the future will be even more difficult to solve.

One of the indications of its reduced priority is the difficulty any intelligent observer has in determining where exact ministerial responsibility lies. Too many economics ministers have come and gone. Responsibilities have been split for reasons that are hard to fathom. And, most important, the policies of privatisation and deregulation are now, at best, on the back-burner.

If economic growth is as important as everyone — government and non-parliamentary opposition — says it is, then the streamlining of the economy through privatisation and deregulation should have the highest priority. Instead, government is preoccupied with structural adjustment programmes that pale beside the need to get public assets into more productive private hands.

Price stability is another economic objective the importance of which is paramount if sustainable economic growth is to be resumed. High real interest rates are hurting and because of the unfortunate legacy the monetary authorities face (a legacy explained in more detail on the following pages) progress can at best be described as slow. As unemployment rises and business activity declines, public support for the Reserve Bank's tight money policy is going to become increasingly tenuous.

Two things need to be done. Attempts to create level playing fields and increase the prudential capital requirements of financial institutions need to be shelved. They are clearly hindering the Bank's ability to contain monetary growth as quickly as possible. The cart is before the horse.

Second, government must realise that support for a shareholding democracy (privatisation) requires a sustained political initiative. And the same applies to tight money and high real interest rates to encourage savings and thus investment.

Ordinary people will accept short-term discomfort if the benefits over time can be seen to be tangible. That requires responsible ministers to be constantly aware of the need to proselytise. And that isn't happening now.

Nor was government's commitment to these policies convincingly adumbrated in the last Budget. It has got to get economic policy back into focus and priorities straight. ■

A MODEL FOR AFRICA

FM 7/6/91 49

US Ambassador William Swing recently spoke in Johannesburg at a congress on political, social and economic change in SA. This is an edited version of his speech.

It has become obvious that there is an important revolution occurring in the world.

Bipolarity as well as ideological confrontation are giving way increasingly to pragmatism, consensus politics and some rather unorthodox alliances. I believe we are going to see the continued emergence of multilateralism worldwide.

We saw an excellent example of multilateralism and pragmatism in the negotiations leading to the 1989 Namibia/Angola settlement, and in the fine performance of the UN Transition Assistance Group (Untag) in Namibia.

Still closer to home, SA's heretofore one-on-one "talks about talks" are being expanded into formal negotiations as the "all-party conference" approaches. SA, in one breathtaking year, is suddenly setting the pace for much of Africa by attempting to settle its long-festering domestic dispute through direct talks. And SA's still-tender process is developing promisingly.

SA has a unique contribution to make. The collapse of authoritarian regimes in Eastern Europe has meant that Third-World countries, many of which after independence adopted the "single-party government, state-run economy" as a model, are now looking to other systems and are much more receptive to multiparty democracy and free enterprise as a guide to development. Countries embarking on this path to democratisation — especially African countries — will increasingly examine SA's transition to democracy.

The economic debate in SA is undergoing a renaissance. After a slow start the debate is progressing beyond the "capitalism versus nationalisation" rhetoric, and is now beginning to examine the exercise of economic power by business, workers, government and political movements in a post-apartheid economy. What happens to the economy here is going to be watched closely by other emerging democracies.

In these circumstances, South Africans, long divided, are undertaking pioneering thought in concepts such as "nation-building" which involve finding common ground. Similar challenges are facing many emerging democracies, and experience (good or bad) gained in building the new SA could set an example for others into the next century.

One aspect of this pioneering work is the search for common interests and values around which individual South Africans can unite. South Africans must develop almost from scratch a mutually acceptable Bill of individual rights; a new structure of local and national government; and strategies for exploiting equitably — and preserving — national resources, including the land. The very diversity of backgrounds among the country's various peoples makes it essential to discover and define the basic human values shared by all South Africans.

The US, of course, recognises that the establishment of a new constitutional order is a South African task, and that this is well under way to accomplishment. We nonetheless hope to see emerge from this process a number of safeguards and guarantees that we think are essential to the new SA political order. These include the following:

- Agreement on a set of constitutional principles, among these a robust set of checks and balances, as well as an effective separation in practice of executive, legislative and judicial powers;
- A consensus among all parties that preserving the democratic "rules of the game" is the highest imperative in any democracy — even in times of political or economic crisis;
- An understanding that, much like the US, SA's great cultural diversity can be a strength, not a weakness — provided a new political system includes a strong Bill of individual rights;
- A willingness to distinguish carefully between dissent and disloyalty, and to provide the former with every possible form of protection; and
- A growing consensus on the economy which will lead to the sobering but necessary recognition that not all black expectations can be met, nor all white apprehensions can be allayed entirely in the short to medium term — given the economy's parlous state and the devastating effects of apartheid. (I should add, however, that the long-term economic outlook can be more favourable than ever before, provided the right economic policies are agreed to now and followed.)

These precepts would constitute a major challenge for any country, particularly one in which basic human rights have in the past been subordinated to political and bureaucratic expediency.

We remain, however, optimistic about the future of SA. For one thing, the global and regional trends I have noted are the most favourable ever for a negotiated, workable solution to SA's old family quarrel. In addition, the multiparty negotiations developing here, to a large extent, mirror the emergent multilateralism in the world today.

Above all, we are confident because South Africans increasingly seem determined to make the most of this historic moment.

A case of keeping your eye on the sparrow

Argus 8/6/91 (49)

JOHN SPIRA, Weekend Argus Correspondent

AS the industrial index continues to break into new high ground, the manner in which South Africa's business cycle is likely to evolve between now and the end of next year assumes growing importance.

For, if the pending economic recovery is to be short-lived and shallow, there is little room for doubt that share prices are too high. The weight of institutional funds cannot continue to pressure shares ever higher in the face of so negative an economic outlook.

If, on the other hand, the recovery is to be robust and elongated, then there are sound reasons for believing that share prices can continue to scale new highs.

Right now, we are witnessing two schools of thought.

The optimists believe the business cycle is in the late stage of a cyclical downswing which began in 1989 and which will hit bottom before the end of this year and then advance strongly in 1992 when real gross domestic product could rise by between 3 and 4 percent.

It's a school of thought which emphasises the economy has traditionally been boosted in the early stages of a recovery by a strong balance of payments. At present both the capital and current accounts are serving to create a base for a new upswing.

The volume of merchandise exports rose by 6,5 percent last year following an increase of 17 percent in 1989.

This year the growth rate of merchandise exports will probably moderate but the combination of withering sanctions and a looming revival in the world economy will likely lead to a growth in export volumes in 1992.

Further international commodity prices will start rising within the next six months enhancing export receipts.

A commodity price-driven, export-led recovery should accordingly get underway in 1992 when the revival could be assisted by favourable trends in the capital account of the balance of payments.

The huge capital outflows in recent years in the form of foreign debt repayments have absorbed a large share of the economy's limited domestic savings, thereby curtailing the resources available for domestic investment.

Any reduction in the burden of capital outflows will be beneficial for growth prospects.

A net inflow of capital of more than R1 billion was recorded in the first quarter of this year and the optimists believe such inflows are likely to persist throughout 1991 and 1992, in the process stimulating investment in inventories and plant and machinery.

Additionally, a strong balance of payments will lead to a substantial rise in gold and foreign exchange reserves, thereby encouraging the authorities to relax their tight monetary policy.

Against such a background we are looking at a much longer cyclical upswing than occurred in the late 1980s with growth accelerating in 1993.

Economic growth in sight

By PIETER COETZEE
Financial Editor

49

AFTER two years of negative economic growth SA can now look forward to a positive real economic growth rate of 3,6% next year, says Mike Brown, economist of stockbrokers Frankel Max Pollak Vinderine.

"Present trends suggest that the economy might experience a bottoming-out of its cycle later this year, but real growth could still be negative to the tune of 0,1% for the year as whole.

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"A cyclical upswing in 1992 might push GDP growth up to 3,6% in real terms, which would be slightly higher than the average 2,5% to 3% growth in the first year of past economic upswings.

"A key factor for pushing up the growth treshold in 1992 would be for fixed investment growth to respond positively to higher social investment and to positive foreign capital inflows."

Brown says the cyclical recovery in the SA economy will be based on:

- Improvement in world commodity prices leading to an expansion of our export volumes.
- An expected upturn in the US economy, acting as the locomotive for increasing world trade, lower international interest rates and declining inflation rates, which should provide a good framework for improvement in the prices of industrial and consumer commodity goods, although it may be negative for gold.
- An easing of domestic monetary and fiscal policy — fiscal policy appears to be adopting a more expansionary mode and monetary controls could be eased if the capital account continues to improve at the rate experienced in recent months.
- Capital account inflows would be a major factor in promoting an economic revival by facilitating a rise in total savings; an increase in liquidity; a reduced need to protect the foreign exchange reserves; a general lowering of interest rates; and a boost for fixed investment speding.

Brown expects private consumption expenditure to increase from an expected 0,8% growth in 1991 to 2,0% in 1992, government consumption expenditure from 1,3% to 2,1%, gross fixed investment from a negative 6% to a positive growth of 3,8% and gross domestic expenditure from a negative 0,3% to a positive 4,2%.

The current account surplus should rise from an expected R2,9bn in 1991 to R3,1bn in 1992, while net capital inflows should increase from R600m to R1,5bn and net foreign exchange reserves from R3,5bn to R4,6bn.

He says the inflation rate is under pressure from a number of cost-push factors, including wage demands (not only from the unions but also the civil service, which is the only area of current general employment growth in the economy), food prices and the effect of the introduction of VAT.

Little alleviation in inflation pressures is expected over the next two years and an average inflation rate of 13,5% is expected for 1991 and 12,5% in 1992.

The anti-inflation stance of the SA Reserve Bank will also probably preclude any meaningful easing of short-term interest rates this year, but a shift towards a more accommodatory monetary policy appears possible next year, particularly if foreign exchange reserves continue to show the current rate of improvement.

A prime rate of 17% appears possible in the second half of next year.

Economic power the key to new political era

By LULAMA LUTI

49

THE economic advancement of blacks cannot be left in the hands of whites, according to National Sorghum Breweries (NSB) executive chairman Mohale Mahanyele.

Cpres 9/6/91

Speaking at a one-day conference of the Black Housewives' League at Lebowa last weekend, Mahanyele said whites had "over the years proved themselves content to benefit economically at the expense of blacks".

"Any new political dispensation will have to be accompanied by black economic emancipation – politics and the economy are inseparable," he said.

Outlining the NSB's newly adopted Affirmative Action Programme, Mahanyele said the NSB hoped to "increase black economic participation by favouring black-owned businesses in its dealings".

Mahanyele said a just and democratic South Africa "could not be arrived at unless the question of land was addressed".

"How are we going to address poverty if we do not have the resources and the means of production and exchange," he said.

Referring to the economic situation in other African countries, he said "most liberated African countries were still largely dependent economically on their former colonisers and on foreign aid".

"It is a sad fact that after decades of political emancipation there has been no large scale economic growth in most African countries."

Head of the ANC's department of arts and culture, Barbara Masekela, urged women to "fight illiteracy" in order to participate in the shaping of a new political dispensation.

"All the debates about the new constitution will be meaningless to us unless we take part actively as South Africans and as women.

"Until such time that all women know how to read and write they will not be able to grapple with issues like our children's education.

"I must warn that if women do not participate fully now, politicians will be allowed to do as they please with our destinies," she said.

ANC Northern Transvaal regional chairman, Dr Aaron Motsoaledi, challenged women to "do something to end the violence".

Himself a victim of rightwing attacks in the Northern Transvaal, Dr Motsoaledi said it was in the "interests of the government that violence continues".

"The government is trying to disillusion the people so that they will go the polls hating each other," he said.

League president Sally Motlana said the reform programme would be meaningless unless there was a "fair distribution" of land.

She pledged her support for a single education system.

Output slump is cause for alarm

(49)

■ MONEY TALK

C/ Press
9/6/91

THE South African economy is in serious trouble, and some commentators are even forecasting a depression.

The seriousness of the situation was confirmed last week when figures released by Central Statistical Services (CSS) showed that the manufacturing industry – on which many millions of people depend for their living – is still on the slide.

Output by volume in March dropped 5,2 percent on a year-on-year basis and production has been declining since the first half of 1989.

There are a number of reasons for this accelerating decline.

First, the recession hitting large overseas economies is biting locally, and we are suffering under strict monetary and fiscal policies aimed at curbing inflation. Secondly, business confidence has sagged as a result of the continuing violence, political uncertainty, stayaways and industrial action.

Together with sanctions pressures, these problems have kept foreign capital away from South Africa.

Capital has been invested in Eastern Europe and elsewhere.

There is a perception in the developed world that South Africa is a trouble-spot which should be avoided. Even if sanctions were lifted, few businessmen would be prepared to invest here.

We must solve the problems of unrest, because soon we will not be able to halt the economic decline.

FW has trade network plan

Sowetan 10/6/91.

49

President FW de Klerk with Kenyan President Daniel arap Moi after the South African leader arrived in Nairobi on Saturday for a two-day State visit.

NAIROBI - In ground-breaking talks with Kenyan leader Mr Daniel Arap Moi, South African President FW de Klerk has proposed that Africa should be divided into a network of trade blocs to obtain its share of world prosperity.

De Klerk said on Saturday after three hours of talks with Moi that South Africa, Kenya, Nigeria and Egypt could be the leaders of four interlocking trading regions that could compete against a united Europe.

Important

"We feel that we can play a constructive role in interaction with other fairly prosperous countries such as Kenya," he told reporters.

"I think it is important that we should have specific interaction with what could be described as other regional powers."

De Klerk noted that South Africa's 1990 gross domestic product of R300-billion almost equalled the R325-billion GDP of all the other 40 countries of sub-Saharan Africa.

South African Government sources have expressed increasing concern over the past year that Africa's economic decline and the opening of new markets and investment zones in Europe could cut access to aid and investment capital.

South African and Kenyan ministers of trade, industry, agriculture and energy met simultaneously on Saturday to identify areas for potential cooperation.

"The foundation is there now," said South African Trade and Industry Minister Org Marais. "I expect things to start moving soon."

De Klerk has travelled widely in the United States, Europe and Africa since he moved to end decades of political and economic isolation last year with a promise to end 42 years of apartheid.

But he said some powerful members of the 51-nation Organisation of African Unity had been slow to recognise the significance of the changes already made and the reforms in the pipeline. - *Sapa-Reuter*

Bankorp now predicts upswing in mid-1992

B/Day 10/6/91

WILLIAM GILFILLAN

THE economy is likely to bottom out only in the first half of 1992 if inflation keeps interest rates high, Bankorp says in the latest issue of Econovision.

Econovision added that an upswing was unlikely until mid-1992. Previously the bank's economists had expected the economy to touch bottom in the second half of 1991 and to move ahead early in 1992.

However, other economists interviewed last week were less pessimistic. Old Mutual chief economist Dave Mohr predicted an upswing towards the end of the year, while First National Bank chief economist Cees Bruggemans cited slower stock declines as a positive indicator.

The stubborn inflationary environment was one reason given for Bankorp's revised forecast. The persistence of the high inflation rate suggested interest rates would not be reduced as rapidly as previously expected, which led to the conclusion that the Bank rate was unlikely to be cut more than once during the remainder of this year.

"Labour attrition occurring throughout the economy and the initial sharply unfavourable incidence of VAT on the financial position of most consumers" would contribute to the delay in the upswing, Econovision said.

However the upswing would last for longer than initially predicted given the healthy position of SA's balance of payments.

Bruggemanns said stock declines had been occurring at a much reduced rate in 1991 and would continue to do so, which was stimulatory for spending and output. He predicted a 1% cut in interest rates early in the fourth quarter.

Mohr agreed with the stock cycle argument.

Econometrix chief economist Azar Jammine believed one of the reasons for SA's continuing high inflation was the high degree of economic concentration where "80% to 90% of the economy is controlled by six groups".

On long-term prospects, Bankorp said the outlook was positive. The domestic upswing projected from mid-1992 would raise the country's import volumes.

ANC stands firm on plan to tax wealth

16/6/91

TANIA LEVY (49)

ORGANISED business had so far failed ~~to come~~ up with a viable alternative to taxes on wealth as a means of combatting poverty, Max Sisulu, head of the ANC's department of economic policy, said at the weekend.

Sisulu told Business Day the ANC was willing to listen to other suggestions, but still believed taxes on wealth would be necessary to address crucial issues such as redistribution, poverty and unemployment.

A Budget drawn up by an ANC government would include a capital gains tax, a capital transfer tax, a land tax, a progressive property tax and a minimum business tax to boost tax revenues to 35% of GDP. Taxes currently contribute 28% of GDP.

But Ben van Rensburg, chief economist with the SA Chamber of Business (Sacob), said organised commerce and industry remained convinced taxes should be kept as low as possible and the government sector as small as possible. Sacob recognised the need to address poverty in SA, but redistribution could not be the primary goal in designing a new economic system.

SA had to be careful not to allow the issue of redistribution to destroy its potential for economic growth.

Taxes which were out of line with global norms would affect its trade relations, Van Rensburg said.

SA needed to ensure its industries' global competitiveness and that its economy was attractive to local and foreign investors.

The firm establishment of an economic growth path had been the first goal of economies which had successfully solved the redistribution problem.

Germany, the country which had probably progressed furthest along the road of government social responsibility, had only done so once economic growth was under way, said Van Rensburg.

(49) CT 10/6/91

World Bank focus on SA

First report on the country provides a framework for study

Own Correspondent

JOHANNESBURG. — The World Bank intends tackling a range of contentious SA issues that have been the subject of debate since the unbanning of the ANC — including economic concentration, "excessive" profits, the size of the Budget deficit, per capita government spending on the different races, the informal sector and the flow of funds into development projects — according to a secret bank document.

The World Bank discussion paper on SA — its first report on the country — has been circulated among government, ANC, business people and trade unionists, and provides a framework for the Bank's study on SA.

A draft of the study is expected to be completed in July this year after a recent visit by bank representatives to collect data and hold discussions with wide-ranging interest groups.

A major theme of the document is whether a bias towards capital intensive production might not be a major factor inhibiting employment growth in SA.

The document said a comparison with other countries disclosed that SA "appears to be unusually capital-intensive", and noted that in the late 1980s, SA had a capital stock equivalent to $30 000 a worker, compared with $12 000 for Argentina and $18 000 for Mexico with its highly capital-intensive oil industry.

SA's capital-to-labour ratio had doubled between the first half of the 1960s and the end of the 1980s.

"Has the past pattern of industrial development been excessively capital-intensive as a consequence of policy biases? If so, what are the options for change?"

The Bank would attempt to answer those questions in its study. The clothing and textile industry was mentioned as one which might be too capital intensive as a result of protection.

The bank would undertake case studies of small-scale textile and garment firms to help establish whether small-scale industry had an important role to play in generating employment.

It was important to establish to what extent the capital intensity was "normal" or the result of the economy moving in an "inappropriate" direction.

Two factors were mentioned as possibly contributing to the capital intensity — protection of industries and the concentrated ownership of business.

"High concentration can be inimical to efficient, labour-absorbing growth if it goes hand in hand with protection, monopolistic behaviour and a preference for a capital-intensive approach."

The bank added, however, that the issue of concentration had to be analysed by distinguishing between individual industries and large and diversified conglomerates "for which the implications are less clear".

The section on public finance hints at a much more lenient approach to the size of the Budget deficit than the strict rule — stated in government's long-term economic strategy — that borrowings should equal government's capital investment. The bank emphasises the need for investment in "human capital".

The bank would assess possible sustainable levels of the fiscal deficit and would investigate whether the channelling of savings to finance development was functioning well.

Per capita public spending on the white population was "unusually high" — at a level that was "unaffordable" for a country of SA's income level and had only been made affordable by the neglect of service provision for the black population.

On pushing up wages as a way to reduce income disparities, the bank noted that the effects were often temporary with subsequent erosion by inflation.

But "if profits are excessive, whether through excessive capital intensity or high protection, a shift from profits to wages may be feasible."

49 11/6/91

SA's black rulers doomed to follow in Afrikaner footsteps

BDay 11/6/91. 49

SIMON BARBER in Washington

FRANCIS Fukuyama is best known as the End-of-History man. He is the former state department policy planner who in 1989 propounded the notion that history, if defined as a struggle between Hegelian teleology and liberal democracy, was to all intents over, the latter having won in a series of knockouts that included the destruction of the Berlin Wall.

Earlier this year, the SA Foundation took Fukuyama over to SA. It was an inspired move. Unlike most of the other big and not-so-big name tourists the SA private sector indulges every year, Fukuyama has not only sung for his airfare, chauffeur and hotel bills, he has applied himself to understanding SA's dilemmas.

The result is not just another quickly tossed off column for the Washington Times but an important article in the forthcoming issue of the National Interest, a quarterly journal that helps set agendas. It is not often, these days, that SA warrants such attention.

What appears to have intrigued Fukuyama most was the persistence and deep-seatedness of Marxist conviction in the opposition phalanx. How could this be when the political changes sweeping the rest of the planet exhibited "an almost universal revulsion of elites and popular masses alike to the old socialist system, and a broad consensus on the need to replace it with the democratic, free market system of the West"? Not a bad question.

In its early drafts, the piece was subtitled A Tale of Two Modernisations. This has been edited out, which is unfortunate, since it goes to the heart of Fukuyama's analysis. His starting point is that the reason for the authoritarian crack-up worldwide — from which regimes neither of the left nor right have been immune — is "the logic of modern economic development".

To simplify his argument considerably, the growth of technologically advanced economies, both socialist and capitalist, has obliged societies to urbanise. It has also necessitated the replacement of traditional forms of association, tribes, clans, extended family and the like, with more "modern" variants — political parties, labour unions, bureaucracies — whose organisational principles "are functional and geared toward economic efficiency".

Equally important, technologically based economies have required universal education since they depend on a "broad mass of workers who must be not only literate but must be increasingly proficient technically". Education and rising socio-economic status "bring in their train a much greater recognition of one's personal status and dignity and thus make people unhappy with authoritarian political systems that fail to recognise them as free adults". That, in turn, "tends to foster belief in the only political system that provides man with rational recognition of his dignity, modern liberal democracy".

Which is not to say that economic development leads in some deterministic fashion to democracy; rather, the former creates an environment for the latter, an environment that needs fostering by wise political leadership. Nonetheless, it is surely self-evident that societies with sizeable middle classes manifest a different form of politics than "premodern" and predominantly agrarian ones, the bulk of whose members are uneducated and illiterate smallholders.

"In the latter, it is possible for authoritarian rulers to mobilise poorly educated followers into armies or death squads — one fad that yuppies have been notably reluctant to take up."

Translating this overall thesis to SA, Fukuyama finds that Afrikanerdom has by and large passed through the sequence of modernisation. The National Party may have mortgaged SA's economic future in the process, but by the start of the last decade its initially poor and rural constituents had been "transformed into an urbanised, professional population, little different in educational or occupational terms from their counterparts in other Western countries".

Thus transformed, they began to break with the economic statism and racial totalitarianism upon which the transformation had been based. In ideological terms, they were closing in on "the end of history", as Fukuyama defined it in his earlier article.

Unfortunately, in getting there, they had made certain that the majority of their fellow South Africans would not arrive at the destination with them. For if modernisation crippled apartheid, apartheid stunted the modernisation of black SA.

"No communist apparatchik ever devised a policy so contrary to the fundamental laws of economics" as apartheid which, by the rigorous implementation of pass laws, job reservation and the denial of access to proper education or even business opportunity, effectively said to the majority of SA's population: thou shalt not enter the latter half of the 20th century. The only consolation is that the system was so "insane", so out of sync with the requirements of SA's modernising economy, that it proved unenforceable long before its death notices began to appear.

Nonetheless, the damage has been done. The majority of SA's population has still to make the great journey Afrikanerdom embarked on in 1948. Having been barred from the homogenising effects of economic development, black society remains riven with ancient, often self-perpetuating, conflict.

There remains plenty of scope for mobilisation of the poor and illiterate into armies and death squads. Black politics tend to be as authoritarian and statist as those of Malan and Verwoerd. Much of the ANC/SACP alliance remains wedded to the quaint superstitions of socialism.

Fukuyama sees nothing for it but for "the black population to undergo the same process of social evolution as the Afrikaners", a thought that does not make him particularly optimistic about the country's immediate future.

"The forces of economic modernisation have only begun to operate on the much larger black community, whose starting point was in any case considerably far behind that of the Afrikaners. In many townships, it is impossible even to recreate the sweatshops of Hong Kong, since potential seamstresses cannot read the instructions of their sewing machines."

Assuming the ANC emulates the NP, maintaining similar levels of nationalisation while keeping its redistributive urges within reason, Fukuyama predicts SA will be doing well if its economy looks like Brazil's a decade from now.

There will be no massive infusion of foreign investment after "democratisation". The belief that Japanese and other investors are lining up in anticipation is "the Cargo Cult of the 1990s". Financing will have to be largely internal, derived from higher taxes, deficits and inflation.

Indeed, hyperinflation, in light of the new government's political imperatives, must be seen as a given, but so long as there is not a massive exodus of skills, the country should be able to sustain a modicum of growth. Even then "Peru, with its constant economic crisis and long-term stagnation, may be a more probable model".

As for what the outside world, and particularly the US, might do, Fukuyama suggests that beyond encouraging the new government to avoid too many socialist precepts — for its own good — there is not much that realistically can be done.

Once sanctions are gone, he believes, Americans will lose interest anyway. For the left, the chief allure has always been the hated white minority. "It will be much less appealing ... to oppose yet another socialist African regime sliding into dictatorship and economic decay." The right, on the other hand, will want to have nothing to do with an ANC government.

"Both are likely to treat post-apartheid SA as just another part of a backward, powerless and unfortunate continent."

Economists see upswing in economy next year

49

CT 11/6/91

By AUDREY D'ANGELO
Business Editor

THE next economic upswing will not begin until next year, say Bankorp chief economist Nick Barnardt and Rob Lee of the Board of Executors.

But when it comes, both expect it to continue strongly into 1994.

Barnardt has revised his inflation forecast upwards from 12% at the end of this year to 14%, with "a strong possibility of only one further cut in official interest rates this year".

But he expects both inflation and interest rates to decline in the second half of 1992. "The consumer price index (CPI) inflation rate should be around 10% and the prime interest rate about 16% at that time."

Lee also expects the prime interest rate to be down to 16% in the third or fourth quarter of 1992, with the inflation rate between 11% and 12% by the middle of the year.

But he warns in his Investment Outlook that, although he is optimistic about domestic growth prospects for 1992/93, "the major risk to this view is the level of violence in the country which, if not effectively dealt with, will greatly reduce the pace and sustainability of the next economic upswing."

He also points out: "Another risk to our optimistic growth scenario would be if the inflation rate does not fall significantly from current levels.

"The Reserve Bank would then come under enormous pressure to lower interest rates, but any economic upswing produced in these circumstances would be inherently less sustainable."

Like Barnardt, he thinks "the next cut in Bank rate is probably some months away."

Discussing the "chicken and egg situation" of violence, Lee points out that it inhibits desperately needed growth while "high economic growth and reduced unemployment would clearly contribute significantly to the prospects of containing the level of violence.

"On the whole we are encouraged that these realities are widely recognised and that the issue of violence is receiving an enormous amount of attention from all relevant parties.

"We feel the probabilities are that sufficient success will be achieved in this area to allow the positive economic and other fundamentals that are developing to have a significant impact on the growth rate next year and thereafter."

He is less cheerful about the inflation rate. Pointing out that progress in reducing it has been "disappointing", he says in spite of the sacrifices that have been made, "so far the objective of securing a significantly lower inflation rate has not come close to being achieved".

Assessing all the factors which have prevented it from coming down further: "We feel that the target of single digit inflation is looking increasingly implausible, certainly on any sustained basis.

"However, assuming that the Reserve Bank sticks to its guns in terms of interest rate and exchange rate policy for at least a few more months, we believe that the inflation rate has a good chance of falling to between 11% and 12% by the middle of 1992.

"This in turn, combined with further rises in the level of foreign exchange reserves and lower money supply growth, should permit a reduction in the prime overdraft rate to around the 16%-level sometime in the second or third quarter of 1992.

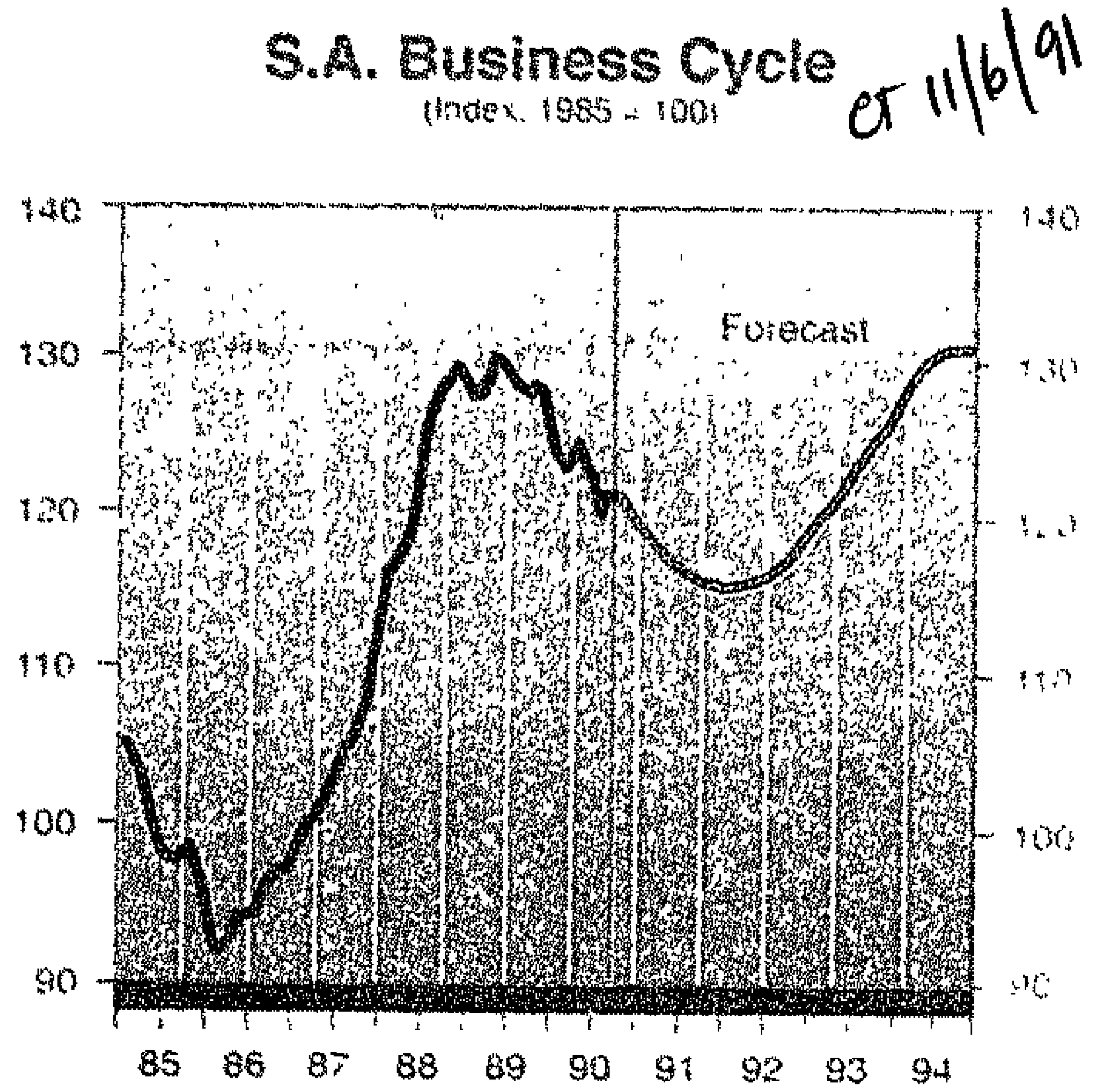
"Should inflation fail to fall much below current levels the Reserve Bank is likely to come under enormous pressure to relax its interest rate policy anyway as the political urgency of getting growth under way intensifies.

"Unfortunately an economic recovery again stimulated by artificially low real interest rates and from a high inflation base will be inherently less sustainable than otherwise.

"Our expectation of a buoyant economic recovery sustained into 1993 and onwards would therefore be in jeopardy if inflation does not noticeably fall in the next 12 months."

Barnardt says in his Econovision that without a higher gold price "a number of prerequisites would be crucial in averting a financial crunch, large-scale unemployment and the accompanying risk of ungovernability in the mid-1990's.

"These are rapid export and tourism growth, sustained capital inflows and continued strict financial discipline."



This is how Bankorp economists see the economy strengthening from next year, with the upturn continuing strongly into 1994.

Pretoria touts its plan to cure Africa's woes

Bday 12/6/91 (49), (6)

ANTHONY JOHNSON

CAPE TOWN — President F W de Klerk and Foreign Minister Pik Botha are aggressively marketing the concept that Africa's best chance of economic survival is to divide into regional economic blocs modelled on the EC.

Within each common market, the most powerful national economy would act as an "engine of development" for the region.

While the various "dynamos of development" would help to co-ordinate the continent's economic revival, regional self-interest would remain paramount.

In their recent African safaris — many of them unpublicised — SA politicians have proposed that the continent be carved up into at least four economic blocs, each with an integrated plan to encourage trade and attract foreign investment.

Unsurprisingly, Pretoria is proposing SA as the "locomotive" of development for southern Africa, with Kenya fulfilling this role in East Africa, Nigeria in West Africa and Egypt in North Africa.

Just how Zaire and some of the other Francophone countries will fit into this game plan is still unclear.

But the proposal has clearly struck a responsive chord in a number of African states, particularly with those considered suited to leading regional development.

SA Foreign Affairs officials say there is a growing appreciation for the proposition that Africa, as a unit, is too large, diverse and unwieldly to put together an economic rescue plan.

African leaders are now having to come to grips with the fact that the continent, after decades of economic decline since the heady days of independence, is no longer regarded as interesting by investors or even development economists.

The imminent economic union of Western Europe, and the developed world's preoccupation with rebuilding the economies of Eastern Europe, have highlighted the possibility that Africa, with all its problems, could be bypassed.

In its contacts with African leaders, Pretoria has been at pains to emphasise that unless countries in the proposed development zones give the outside world the impression that they are relatively stable and working constructively towards specific targets, they face a bleak future.

Botha is upbeat about the prospects of the SA approach to Africa. Indeed, buoyed by the success of his latest African expedition, he was confident enough to say: "I love it when a plan comes together."

Zimbabwe 12/6/91

BUSINESS

Reserve Bank to keep tight rein

ARCT 12/6/91

From SVEN LUNSCHE

JOHANNESBURG. — The Reserve Bank is determined to keep a tight rein on monetary policy in its endeavour to reduce inflation.

The Bank's deputy general manager, Economics, Bernie de Jager, said at a conference yesterday that inflation distributed income away from the poor to the rich and that it was in the interest of a more equitable economic system that the inflation rate be lowered from its current high levels.

"Monetary policy could do the job alone, but a co-ordinated effort is required to limit the effects of such policy," Mr De Jager said at an inflation debate organised by the Association of Corporate Treasurers.

He called on management and unions to take account of the money targets set by the Reserve Bank when negotiating wage demands.

Mr De Jager said that one of the most crucial aspects of the current anti-inflation campaign was to affect expectations that inflation would inevitably stay at double-digit levels.

For this reason alone the Reserve Bank would have to remain persistent in its actions on inflation and assure the public that inflation would remain the predominant target of monetary policy.

Furthermore, the fiscal and monetary authorities must co-ordinate their policies to achieve a lower inflation rate, something which has only recently been in evidence.

Professor Brian Kantor, the Director of the UCT School of Economics, echoed Mr De Jager's sentiments.

"If we drastically relax interest rates now, we would be giving up hope of ever bringing the inflation rate below 10 percent.

"This is most probably also the last chance we have to change expectations that such a drop is possible," Professor Kantor said.

He was optimistic that the economy had enough resilience to sustain high interest rates.

Australia grants SA R4,2m aid package

AUSTRALIAN Foreign Minister Gareth Evans yesterday announced a R4,2m assistance package for the development of economic planning in SA, including a R180 000 grant to the ANC's economic planning department.

Evans said his government was sponsoring the programme to help develop the anti-apartheid movement's capacity to play an effective role in the sound economic management of post-apartheid SA.

Asked whether the Australian government was trying to shape future ANC economic policy, Evans said his government was not seeking to be "pre-emptive, restrictive or directive.

TIM COHEN

"We obviously have a view, based on the discussions that we have had with the relevant people in the ANC, that there is a core of good sense and a sense of commitment to real world strategies which could usefully be built upon." However, these strategies had to grow out of SA's experience and perceived needs.

Australia would spend the R4m over the next two years and the funding would be in addition to pledges covering establishment of an ANC economic planning department and economics scholarships.

BDay 12/6/91

49

Barred SA still owes UN $60m

GERALD REILLY

PRETORIA — SA's debt to the UN has soared to $60m since the country was expelled from the General Assembly in 1974.

The debt, says Foreign Affairs Director-General Neil van Heerden, is made up of $45m in arrears on the UN's regular budget and additional arrears stemming from the working capital fund and the world body's peacekeeping operations.

The fact that SA does not participate in the General Assembly in no way absolves it from paying its dues.

Asked if the UN would insist on payment of backlogs if SA were readmitted to the General Assembly, Van Heerden said the question arose whether a country could be held responsible for payment of arrears when it was illegally prevented from exercising its rights at the UN.

SA considered the non-acceptance of its credentials in 1974 as a violation of the spirit of the UN Charter.

"The question of SA's arrears will be considered by government when it becomes clear that the country's right of participation is respected."

Asked if there was a likelihood of SA being readmitted to the General Assembly for either this year's session, or next year's, Van Heerden said there were signs the climate for SA was improving. But it was too early to speculate on precisely when SA's right of participation might resume.

SA's annual UN assessment runs at about $4m in addition to smaller amounts relating to peacekeeping operations.

It was interesting to note, Van Heerden said, that the US, which was also in arrears and contributed 25% of the UN budget, owed $430m at the beginning of this year.

Critics point to flaws in Tucker's scenario

49 190 B/Day 12/6/91

TIM COHEN

AN article in the left-wing journal Work in Progress (WIP) has criticised former Perm MD Bob Tucker's scenario for social and economic upliftment.

Financial institutions Old Mutual, Nedbank and the Perm are trying to sell the "compact" — which has been worked on behind the scenes for nine months at a cost of R1,7m — to organised labour, civic associations, progressive political parties, "the regime" and capital, the article says.

The future scenario is an "unlikely marriage" of ANC/Cosatu's Growth through Redistribution economics and current efforts by the state and capital to mimic newly industrialised countries like South Korea and Taiwan, the article says.

So far the scenario has been presented to the ANC's national executive, Anglo American, Cosatu leadership and the ANC's department of economic planning, among others.

"F W de Klerk was said to be especially keen," the article's authors, Patrick Bond and Mark Swilling, say.

Persuading big business of the merits of Growth through Redistribution, social investment taxes and other deals with the ANC and Cosatu will not be easy. "But the team concludes that a compact is in everyone's interests, because managing SA's political transition fundamentally depends on both a lack of violence in society and strong economic growth."

In reality, unmanageable township strife and the spreading slump in the manufacturing, mining and agriculture sectors appear as insurmountable barriers to a successful social democratic transition.

The article accuses the scenario team of a "simple-minded cultural model" and says its analysis on racial integrations "comes perilously close to 'blaming the victim' in classic neoconservative style". But, it says: "Tucker stunned his audiences with the most ambitious housing programme yet mooted in SA."

The scenario also chips a big crack in the armour of smug self-satisfaction that Tucker says characterises the current occupants of the economy's commanding heights. "... The scenario team criticises the opulence of SA corporate elites who spend more money on buildings and fanciful decoration than on R & D and new machinery."

The article suggests progressive forces launch their own scenario planning or risk having to accept someone else's because no better option exists.

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'S Africans poorer in '80s'

CT 12/6/91

49

JOHANNESBURG. — South Africans got poorer at a rate of almost one percent each year during the 1980s, according to Dr Jan Visser, executive director of the National Productivity Institute.

Dr Visser yesterday said the average economic growth between 1985 and 1990 was a mere 1,3%, severely limiting job opportunities.

"In the manufacturing sector, the number of jobs for blacks increased by only 0,4% per year and for other population groups by 0,5% per year."

Dr Visser added that manufacturing was supposed to be the engine of economic growth and, therefore, of wealth creation in the country, but it had failed to live up to expectations.

"Debate on wealth distribution in South Africa is the order of the day. Wages and salaries contribute 59% of our gross domestic product. They are not only the most important element of economic life, but they also influence everybody."

● Bracket creep, which has accelerated the flow of tax revenue into government coffers over the past 15 years, is clearly reflected in the latest statistics.

According to internal revenue statistics the income "bracket creep" showed a steady upward movement of workers into higher tax brackets, but bigger incomes have been badly eroded by inflation and higher taxes. It is estimated that more than 100 taxpayers earn in excess of R1,5m a year.

According to inland revenue statistics, there were 3 391 taxpayers in the income category above R250 000 in 1989, and they paid in excess of R560m or 4,63% of the total.

In the 1988 tax year, there were only 2 440 in this category, and they paid R444m or 4% of total collections.

The biggest contributers to the total income tax take were in the R50 000 to R60 000 income bracket — 91 303 taxpayers who paid R1,360bn or 11,24% of the total. In 1988, this category included 72 779 taxpayers, and made up 10,25% of the total. — Own Correspondent and Sapa

HOUSE OF ASSEMBLY

QUESTIONS

†Indicates translated version.

For written reply:

General Affairs:

TBVC countries: across-the-border activities

60. Mr A E DE WET asked the Minister of Foreign Affairs:

(1) Whether the Government has entered into any agreements with any of the four independent Black states (the TBVC countries) regarding the operating of members of the (a) defence and (b) police forces of one country within the borders of the other country; if not, what rules or regulations govern across-the-border activities with regard to South Africa and the TBVC countries; if so, (i) what agreements, (ii) when were they entered into and (iii) what is the purport of these agreements in each case;

(2) whether any transgressions of these agreements have occurred since they were entered into; if so, (a) by whom, (b) when, (c) what were the circumstances surrounding each case and (d) what action was taken in each case? B171E

The MINISTER OF FOREIGN AFFAIRS:

(1) (a) Yes

(b) Yes

(i) Non-aggression agreements exist with Bophuthatswana, Venda and Ciskei. The non-aggression agreement with Transkei was terminated by Transkei on 10 May 1978. In the case of the police forces, the Government of South Africa has entered into bilateral agreements wih Bophuthatswana, Venda and Ciskei.

(ii) The non-aggression agreement with Bophuthatswana, Venda and Ciskei were entered into on 15 November 1977, 13 August 1979 and 20 November 1981, respectively. The police agreements between South Africa and Bophuthatswana, Venda and Ciskei were entered into on 26 November 1977, 13 August 1979 and 20 November 1981, respectively.

(iii) The purport of the non-aggression agreements are clear from the title. Military co-operation includes joint exercises, the provision of training and of seconded personnel. Joint Management Boards have been established where matters of mutual military interest are discussed. The police agreements provide for co-operation in general on request and has resulted in sound co-operation in such fields as vehicle theft, stock-theft, narcotics, forensic services and criminal investigations. Training assistance is also provided.

(2) No.

Reserve Bank exchange rate basket: make-up

361. Mr A P OOSTHUIZEN asked the Minister of Finance:†

49

(a) How is the exchange rate basket of the Reserve Bank made up and (b) what is the share of the various foreign exchanges in this basket? B966E

The MINISTER OF FINANCE:

(a) and (b). The composition of the basket takes into account the geographic distribution of South Africa's foreign trade in goods and services as well as the role played by the major foreign currencies in the country's flow of foreign payments. It is however not desirable that the weights used to calculate the effective exchange rate of the rand be disclosed, since the management of the exchange rate and the Reserve Bank's day to day market operations could then be hampered by speculators operating against the Reserve Bank.

Sacob calls for 10-year social accord

B/Day 13/6/91

SHARON WOOD

THE SA Chamber of Businesses (Sacob) has called for a 10-year "social accord", involving organised business and labour, to address the immediate needs for socio-economic upliftment. (49)

Releasing its document Economic Aspects of a New Constitution for SA, Sacob said yesterday socio-economic upliftment had to be separated from the development of a new economic and political system.

The document outlines Sacob's view on the economic and political requirements needed for the formulation of a new SA constitution.

Sacob says achieving socio-economic upliftment and economic and political stability must be two parallel developments in the negotiation process.

Socio-economic development is a short-term process and economic and political stability is a "normal" expected part of negotiation about a new constitution.

"If we allow the constitutional negotiations to be bedevilled by redistribution issues, the risk of failure is likely to be much higher," Sacob says.

"It may be necessary to establish a monitoring commission which will report on a regular basis to Parliament on the progress made with the programme of social upliftment," the chamber says.

Political stability will be achieved only with a strong but limited government, su-

☐ To Page 2

Sacob (49)

B/Day 13/6/91

☐ From Page 1

premacy of the rule of law and a bill of rights which safeguards inalienable rights and freedoms, Sacob argues.

The constitution had to guard against an excessive concentration of political power by supporting maximum devolution of power and "alarm bell procedures" which subjected all legislation to public scrutiny.

The new constitution had to be based on a market economy, guaranteeing the law of persons, property and contract.

"Sacob stands for a system of constitutional government which permits economic freedom and a private enterprise ethic," Sacob says.

The independence of the Reserve Bank must be secured to prevent economic mismanagement and excessive inflation, the report sas. As such, the main purpose of the Bank had to be to protect the purchasing power of the country.

The problem of SA's rising tax burden should be approached by gaining consensus among the negotiating parties about the need to entrench some constraint on government taxation.

● Picture: Page 4
● See Page 8

(49) ARG 13/6/91

Constitutional curbs on economic mismanagement urged by Sacob

From DEREK TOMMEY

JOHANNESBURG. — Any new constitution for South Africa should contain some means of limiting taxation, and it should also prevent government destroying assets through runaway inflation, according to the South African Chamber of Business.

These proposals are contained in a document issued by Sacob last night discussing the economic aspects of a new constitution.

Mr Raymond Parsons, director general of Sacob, said that no matter how many checks and balances were built into a constitution, they would not prevent a Government from ruining a country through economic mismanagement, particularly through excessive inflation and taxation.

It was not only the fact of ownership as such, but the implications and benefits of ownership that needed to be safeguarded and respected within reasonable limits.

"In shaping a future constitution the position of the Reserve Bank should be secured."

The main purpose of the Reserve Bank should be to protect the purchasing power of the country, the document says.

"It should be clearly understood that inflation can be kept under control only if strict monetary policy is underpinned by an equally conservative fiscal authority.

"It is important to accord the Reserve Bank a high degree of de facto autonomy in deciding monetary policy."

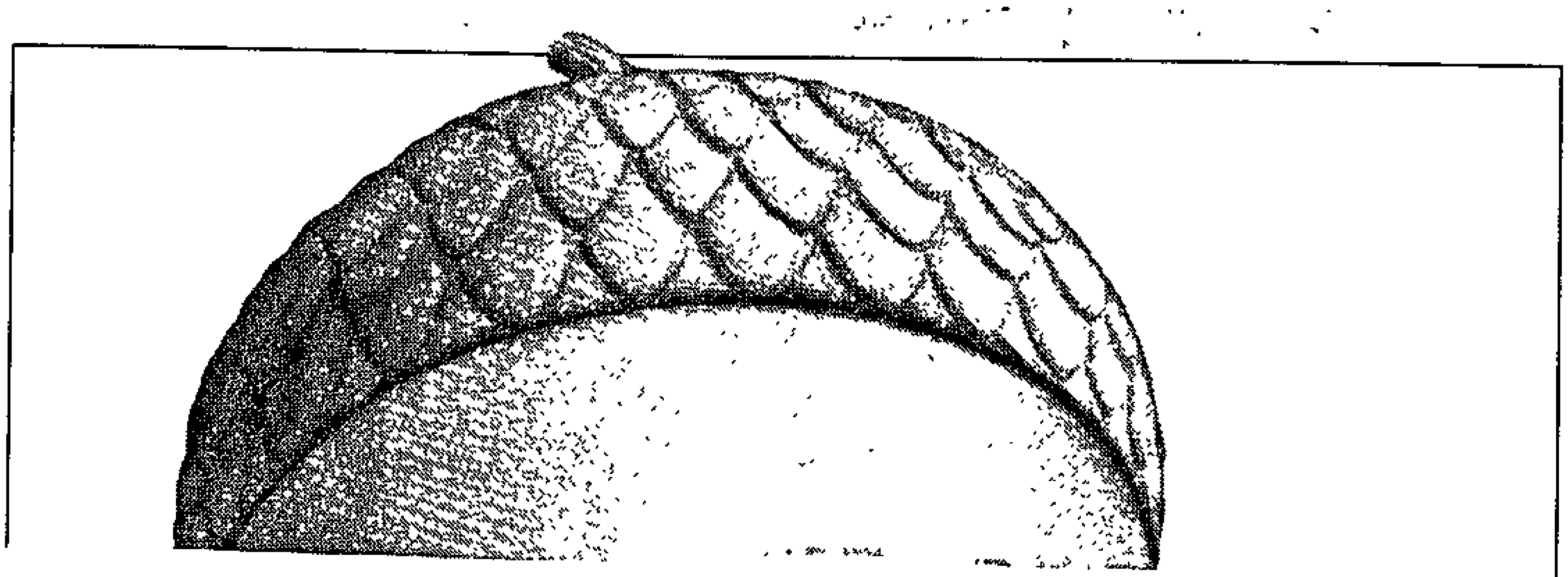
But the Reserve Bank could not be completely independent because there should not be any organisation not accountable to anybody in the new South Africa, said Mr Parsons.

The document says that the relentless increase in the tax burden in many countries was largely the result of the weakening status of parliaments in relation to their executives.

"As the central government assumes more functions that require ceaseless management rather than the mere laying down of basic rules or private behaviour, parliament as the law maker becomes relatively toothless".

However, at this point the primary issue was to gain consensus among the negotiating parties about the need to entrench some constraint as a precondition to proceed further along the road of political reform.

"While a constitution can protect citizens against individual excesses, a sound economic policy is essential to underpin economic growth and wealth creation in the best interests of the whole population.



Businessmen have formula for future

Star 13/6/91

49

Big business has added its voice to the debate on a new constitution to steer South Africa into the the post-apartheid era. MICHAEL CHESTER reports on how the South African Chamber of Business (Sacob) has assigned 15 experts to marshal these views in a policy document that seeks to oil the wheels of negotiations.

BIG BUSINESS yesterday entered the debate on a new constitution by urging President de Klerk and ANC deputy president Nelson Mandela to oil the wheels of negotiations by splitting talks on the political and economic future into two completely separate agendas.

Sacob laid out the radical new proposals in a major policy document which argues that the whole process of negotiations on the shape of South Africa in a post-apartheid era would stand a far better chance of success if two agendas were created to divide short-term and long-term issues.

One should concentrate on formulation of a "social accord" that would commit all parties to a special 10-year programme to ensure the socio-economic upliftment of black society.

Formulation of a new constitution laying out longer-term guidelines to the political and economic system should be tackled on an agenda of its own.

Sacob director-general Raymond Parsons confirmed that the proposals had been put forward to Mr de Klerk and Mr Mandela, and copies sent to politicians and political parties.

"Sacob believes that socio-economic upliftment in South Africa is urgently necessary and must be given a high priority," said the document. "But Sacob is of the view that the immediate need for socio-economic development must be addressed separately from the fundamentals of a future political and economic system.

"If we allow the constitutional negotiations to be bedevilled by redistribution issues, the risk of failure is likely to be much higher. It is better to address the questions of socio-economic upliftment in its own right."

Sacob said "political idealism and power competition have to be constructively balanced by sound economic judgment and experience if South Africa is to prosper".

The business sector wanted to see future political and constitutional issues settled by negotiation and not by violence.

"What matters to the business community is that there is trust in a new constitution, and its ability to limit any possible abuse of political power.

Essential

"Business perceptions of the political process in South Africa and its future have a significant impact upon business confidence and hence upon long-term investment in the private sector.

"This type of investment is essential for the future growth prospects of the country.

"Although South Africa must ultimately decide its own future, a new constitution must also inspire confidence in foreign investors and bankers.

"To maximise economic growth in an open economy like that of South Africa requires political structures which are also perceived as legitimate internationally.

"The search for a new constitutional model for South Africa is not only a matter of importance to those who live here, but also for those countries with which we do business."

The role of the government should be strong but limited. A future constitution should explicitly define and preclude all authoritarian traits and tendencies in government such as:

- Execessive and uncurbed emergency powers. Such powers must be exercised under clear limitations prescribed by law and under the scrutiny of the legislature.
- Central government powers which permitted encroachment on fundamental rights and freedoms, the unbridled erosion of local autonomies and the installation of political appointees in the administrative hierarchy without scrutiny by independent bodies.
- Legislative powers that allowed retrospective legislation and the abolition of constitutional safeguards for the protection of minorities, freedom of association, independence of the judiciary, and suspension of rights and freedoms.
- A political system that curbed the formation of free political parties and inspired tendencies towards a one-party state.
- Excessive government interference and undue influence on the economy.
- Arbitrary restrictions on the civil liberties of individuals.

"Sacob stands for a system of constitutional government which permits economic freedom and private enterprise.

"It is self-evident that authoritarianism in government goes against such an ethic, and in effect destroys the basis upon which free enterprise can be undertaken."

The rule of law must be a basic ingredient of a future constitution, said Sacob.

In the past, the principle of the sovereignty of the law had been undermined and indeed denied by a political system that was dominated by the supremacy of Parliament, which in turn acted in accordance with the policies and wishes of the government of the day. □

'SA's real challenge is to create wealth'

Star 13/6/91

Staff Reporter (49)

The real challenge facing South Africa was to create wealth and not to fight over what little there was, the executive director of the National Productivity Institute said in Johannesburg on Tuesday.

Addressing a conference on remuneration, Dr Gerrit Visser said the debate on the redistribution of wealth was the order of the day but this would be impossible to attain unless it was linked to productivity and the fact that South Africa achieved the desired rate of economic growth.

Dr Visser said the average economic growth between 1985 and 1990 was a mere 1,3 percent, severely limiting job opportunities.

South Africans became poorer at a rate of one percent per year in the '80s — "a rickety platform to launch social and political reform", he said.

In the period 1980 to 1990 the situation in the manufacturing sector could be considered as pathetic, with the number of jobs for blacks increasing only 0,4 percent a year and for other groups by 0,5 percent per year, Dr Visser said.

Manufacturing was supposed to be the engine of economic growth.

On remuneration, which he described as not only an important element of economic life but as also "influencing everybody", Dr Visser said the most emotional matter about wages was the so-called living wage campaign.

He said that in the 14-year period to 1989, earnings per worker in manufacturing had increased by 1 000 percent, but this only represented a 30 percent increase in real terms — that is, what could be bought with the rand.

Innovation will be needed in banking to meet future challenges

Star 13/6/91

By Ann Crotty

(49)

The ANC's Freedom Charter raised the spectre of nationalisation or extensive state control of the banking sector. In an address, earlier this year Stanbic chairman Henri de Villiers highlighted a number of reasons why a government should not interfere with the operation of a banking system.

Calls for increased state control of the banking sector are in part a response to the tendency over the years for the banks to serve the First World — largely white — sector of the economy.

This tendency has been reflected not only in the lending policies of the banks but also in their staffing with a predominance of white staff particularly in managerial ranks.

In his address, Stanbic chairman Henri de Villiers stated that the temptation by a future government to interfere with the banking system should be strongly resisted.

"For a future government seeking to redress inequalities, the banking sector may appear to offer a 'quick fix'. Nationalisation or extensive state control of the sector may be seen as ways to ensure that the staffing and lending policies of the banks serve the economic and social objectives of a majority government."

Mr De Villiers refers to suggestions that a future goverment could manipulate interest rates and direct allocation of credit to sectors considered socially desirable.

But he points out that South Africa has already had bad experience of direct government interference in the financial sector. "For a long time interest rate and credit controls seriously distorted financial flows and this demonstrably had most undesirable long term effects on the economy."

International experience suggests that market mechanisms and private ownership are most conducive to the efficient allocation of credit and to sustained economic growth.

But as Mr De Villiers stressed: "This is not to say that our banking system should remain static. Innovation will be needed if the sector is to meet the challenges of a changing environment.

"New approaches will be required if emerging black consumers and business people are to be brought into the financial system in a meaningful way."

Although the ANC's Freedom charter includes nationalisation of banks as well as mines, as one of its clauses Mr De Villiers believes that nationalisation (implying state ownership) now appears to have little support among ANC thinkers.

"The probable reason for this is that bank nationalisation has not proved successful even in relatively dynamic countries such as France and Portugal, and is therefore being undone now."

The focus has shifted to alternative ways of exercising influence over the banking sector such as manipulating interest rates and directing the allocation of credit.

Referring to motives behind the nationalisation sentiment Mr De Villiers notes that the perception is that the banks have done little to provide credit for low income housing or emerging black business people. In addition there is a feeling that banks have not done enough to promote job creating industrial growth.

Greater state control is seen as a way of ensuring that the banks direct resources to redressing these inequalities.

International experience shows that state-directed credit and interest rate policies have in some cases contributed to growth, but in the long term have led to substantial distortions in financial markets and economies where they have applied.

Noting some of the attempts to address some of the criticisms leveled at the banking sector Mr De Villiers states that the major banks have made serious efforts to broaden their black staff base and also to broaden lending to black and small business.

"From the financial sector's point of view these actions to make up for limitations of the past were borne out of a recognition of demographic trends and enlightened self-interest."

Although some progress has been made, the efforts of the banks have been restricted by practical problems. The supply of suitable black trainees has been constrained by the disturbances in the educational system since 1976.

Broadening credit facilities to a whole range of people (from landless peasants to poor urban dwellers and very small businessmen) is constrained by the existence of legislated maximum interest rates under the Usury Act.

"In practice the problem stems principally from bankers and other lenders in the formal economy having adopted the position that their lending should be secure, cost effective and remunerative.

"Also their return must adequately reflect both the particularly high cost of doing business in marginal areas of the economy and the potentially high risk inherent in the informal sector lending. Comparatively low legal maximum interest rates have effectively prevented this."

Mr De Villiers agrees that redistribution is needed but stresses that the financial sector should not be manipulated in order to achieve this redistribution since financial markets play a critical role in allocating resources efficiently.

He believes that specialised financial institutions should be created (with the assistance of the banking system) to direct funds to meet the much wider needs. Where social considerations are perceived to dictate lower than market lending rates, the state may choose to subsidise some or all of their lending.

"Banks can and will do much to assist in solving the country's social needs through suitable channels. But alienating their function, forcing a diversion of resources into areas which they are not suited to serve, or forcing them to provide banking services at uneconomic prices or in uneconomic locations, as a social service, would be incompatible with the need to have an economy sufficiently dynamic and competitive to ensure rapid economic growth."

(49)

Let's get reform back on course

Viewpoint by SAMPIE TERREBLANCHE

IT IS 16 months since the State President, Mr F W de Klerk made his momentous speech in Parliament but, for at least the last six months, the reform process has been seriously off course and could soon end up in a cul-de-sac.

A naive acceptance of the government's propaganda about its alleged breakthrough could prove to be dangerous. It is not too early for serious soul-searching. What has gone wrong with the seemingly promising transition strategy announced at the beginning of 1990?

Could it be that the so-called transition strategy was too hasty and ill-conceived and therefore doomed to fail? Or was it a well thought out and brilliantly executed masterplan to disrupt the liberation movements, to "normalise" South Africa's international relationship and to regain sufficient legitimacy to perpetuate the white power monopoly — both in the political and economic arenas?

In explaining his government's transition strategy, Mr De Klerk often told audiences during his foreign tours that South Africa would soon reach the point where the process of constitutional negotiations and the attainment of a high economic growth rate would prove to be mutually reinforcing processes.

We will be fortunate if we get to the point where we have succeeded in putting both these processes in full motion and can experience the reinforcing influence of constitutional negotiations on economic growth and vice versa. But before we can reach this desired interaction, it will be necessary to get both constitutional negotiations and economic growth, so to speak, on the road. And there's the rub!

It is of no avail for Mr De Klerk to emphasise a thousand times how important it is that negotiations should commence as soon as possible, while not doing what is needed for creating an atmosphere conducive to negotiations.

Social reform

It is equally of no avail for the Minister of Finance to emphasise a thousand times the importance of a high growth rate, while the government is also not doing what is needed to create a climate promoting growth.

In his Budget speech the minister said it was the specific purpose of the Budget to create such a climate. But an analysis of the Budget and other policy measures makes it clear that the government has a very restricted and superficial conception of what it will take — especially in the field of social reform — to create the atmosphere of mutual trust and social stability necessary to get both the processes of constitutional negotiations and economic growth on the road.

We have reached a point in the attempted transition process where it has become obvious that neither political reform nor economic revival can succeed if both are not preceded by a comprehensive programme of social reform and poverty relief with the specific purpose of creating an atmosphere of social stability and mutual trust.

Unfortunately, it seems as if the government completely underestimates both the symbolic and material value of comprehensive social reform to change hostile perceptions and to restore trust, confidence and social stability.

Consequently, the government's approach has attained a legalistic and mechanistic character deprived of the necessary compassion and human touch. It is sad that in the important debate about the trade-off between "efficiency and equity" the government is inclined only to emphasise efficiency, while the liberation movements are mainly concerned with equity while displaying a serious lack of efficiency. The government should know better and realise that long-term efficiency is not attainable without compassion.

When the government announced it intended to abolish apartheid, this abolishment was not meant to be an isolated event. It was supposed to be an important opportunity not only to terminate a horrible system but also to implement a policy of social upliftment to relieve the terrible suffering of the poorest third of the total population on whose shoulders the apartheid system has put — directly and indirectly — an almost unbearable burden.

The abolishment of apartheid should have happened in such a humane way and in such a spirit of generosity that it could have been an occasion for rejoicing and festivities with prayers of thanksgiving at special services in every church and denomination. It should have been possible for Mr Mandela and other leaders to praise and to thank the government for its humanity and its repentance.

Unfortunately the government has blown the golden opportunity. It is removing the so-called last pillars of apartheid from the statute books in an atmosphere of growing animosity between the it and the liberation movements. The accusation is not without force that the legalistic manner in which the last pillars are being removed is nothing but a clever and "efficient" ploy to privatise apartheid and to continue white power and privileges. It is a face to implement a policy of land reform without a land redistribution policy to compensate for the deprivation caused by the Land Act over 78 years.

President De Klerk's unwillingness to acknowledge the truth about the exploitative and immoral nature of apartheid and to make a confession of guilt is inexcusable. Is this unwillingness due to a lack of understanding or a determination to defend the vested interests of his bourgeois constituency?

It is unrealistic to think that it will be possible to build the mutual trust and the social stability necessary to create an atmosphere suited to negotiations and economic growth without a preparedness to show repentance for apartheid. It is also an indication of hard-heartedness.

How on earth can anyone deny the deliberate exploitative and immoral nature of apartheid? The NP government has used all kinds of arguments to build a collective (white) conscience about the alleged moral justification for apartheid. Why is the NP not now prepared to take part in a campaign to build a collective (white) conscience about the worldwide acknowledged immoral character of apartheid?

Before we can hope to experience the benefits of negotiations and economic revival, we should take full cognisance of the devastating effects apartheid and sanctions are still exerting on the lives of the majority of the black population and especially on the 15 million living in abject poverty.

Restitution

Since 1974 South Africa has experienced creeping poverty. Given the power structures institutionalised in our political and economic systems, the greater part of this "creeping poverty" has been "shifted" on to the lower half of the black population.

Without compassion for the harsh fate of these poverty-stricken victims of apartheid, the government's reform policy cannot succeed. The time for a confession of guilt by the government for its apartheid misdeeds and for a commitment towards (reasonable) restitution is long overdue.

What we need is a comprehensive War on Poverty programme. As soon as the organisational framework can be created, the government should spend at least R10 m annually on such a programme and present it as part-and-parcel of restitution.

We should not underestimate the material and symbolic potential of such a programme.

It would bring highly needed relief to the millions living in desperate poverty. It could convince the liberation movements of the sincerity of the government's reform intentions. It could end the spiral of violence — at least the part that is poverty-related. It could offer an opportunity to Mr De Klerk to not only inform but also educate the mainly white taxpayers about the inevitable consequences of reform and repentance.

But, above all, it could prove to be invaluable in building the trust and the social stability be essential for success in constitutional negotiations and economic revival.

□ *Professor Terreblanche teaches economics at the University of Stellenbosch.*

LETTERS

Capitalists v

From GRAEME BLOCH

WASN'T it ironic that Jo[...] protect Joe Slovo from th[...] tions and heckling of the [...]

Why the SACP says no to social democracy

W/Mail 14/6-20/6/91

49

What is the difference between democratic socialism and social democracy? JEREMY CRONIN looks at the two concepts and explains the South African Communist Party's stand on the issue

THE South African Communist Party has been talking lately about "democratic socialism". Isn't this a guilty half-admission that we have become social democratic?

That was implied in a question John Bishop put to Joe Slovo in the course of last Sunday's SATV *Agenda*.

Is there substance in the distinction between "democratic socialism" as espoused by the SACP, and "social democracy"? Or is it all just word-play?

In the first place, we should travel back in history. The shot from a Serbian patriot in Sarajevo in 1914 did more than kill an archduke and trigger World War I. The shot, or rather the war, proved fatal to the old Second Socialist International as well. The various affiliates, including the South African Labour Party, split into anti-war internationalists, and pro-war groups supporting their respective national governments.

This was the immediate political background to the opening up of two distinct socialist currents, communist and social democratic. Both claimed, at least initially, an adherence to Marxism.

But there was also a deeper background. Within individual capitalist countries, the working class was stratified — here in South Africa quite dramatically so.

Then there were different political contexts. In some countries a relatively stable and formidable bourgeois democratic order and a large, well-organised working class seemed to offer possibilities for a piecemeal advance to an ultimate socialist goal.

But in Tsarist Russia, in semi-colonial and war-ravaged China, in Hitler's occupied Europe, in south east Asia, in Bastista's Havana, and indeed in the mine compounds and townships of apartheid South Africa, incremental advance within the rules of the game didn't look particularly possible. Conditions like these, if nothing else, have always sustained another socialist tradition. It is this tradition, of course, to which the SACP belongs.

So where do we stand in 1991?

In a number of countries, among them Italy, the old 1914 split is being re-evaluated self-critically from all sides. Here in South Africa our party has expended considerable energy in publicly assessing the failures of the Soviet system.

But what is the balance sheet on social democracy? In the decades after World War II it notched up significant achievements in parts of western Europe in particular. The welfare state emerged in countries ravaged by war. Economies were revitalised and there were major social gains for the people as a whole.

Jeremy Cronin — assessing the failures of the Soviet system

In power, social democratic parties instituted major progressive reforms in health, education, housing and working conditions. Within the context of social democratic systems, a humane culture of political democracy has taken deep root. This gain has generally been much more profound than in either Eastern Europe, or in the hard-nosed "free enterprise" systems. The moral decline in Brezhnev's stagnant Soviet Union and Thatcher's privatised Britain has often justly been noted.

There is also a South African angle to the international contribution of social democracy. No anti-apartheid activist, communist or otherwise, should ever be allowed to forget the enormous support we have received from many social democratic parties and governments.

But social democracy has profound limitations. Let me note three:

● The first relates to the world we live in. Leaving aside roots and passionate commitments, I guess Sweden would be one of the nicest places to live and bring up a family. But is the Swedish option even vaguely realistic for the greater part of humanity?

The relative success of social democracy has been in the rich pockets of the globe. Social democratic amelioration is made in the context of a world division of wealth.

The world division of wealth is also a world division of power. When socialist president Salvador Allende attempted to introduce progressive reforms in Chile, external forces, in the shape of the CIA and transnational ITT, simply bankrolled a bloody change in the rules of the game.

● Secondly, many social democrats in the West attribute their relative success to the fact that they have focused on control (through taxation and legislation) rather than on ownership. But this means that they have always only ameliorated some of the worst effects of capitalist ownership. They have never been able to end them.

Mass unemployment and major social inequality have remained features of social democratic dispensations.

● Finally (and to generalise somewhat), there has been a major tendency for social democratic parties to collapse into a narrow parliamentarianism.

When this happens, as it does in the context of a continuing capitalist economy, the goal of socialist transformation recedes ever further. Nowhere could this be more clearly illustrated than in the case of the British Labour Party.

So, when the SACP speaks of a democratic socialism it does so advisedly. We hope to learn from the achievements and shortcomings of both currents of socialism. We want to progressively abolish, not ameliorate capitalism.

But the answer is not to hand over the economy lock, stock and barrel to a highly centralised, bureaucratic state.

The emphasis must be on public (not state) control and ownership. To be sure, nationalisation will be one important mechanism for ensuring public control and ownership. But this depends upon the state itself being democratic and, therefore, strengthened, checked and balanced by a host of independent organs of civil society — like trade unions, civics and consumer bodies.

Besides, there are many more forms of public ownership and control than nationalisation. Co-operative, collective and municipal ownership can all be valid forms of socialist property.

Social democracy has come to mean, at its best, capitalism with a conscience. By contrast, the SACP is committed to a democratic socialism. That is, socialism, which through both electoral and mass democratic means, empowers the great working majority of our people.

ECONOMIC ADVISORY COUNCIL (49) FM 14|6|91

RETREAD OR RETHINK

The Economic Advisory Council (EAC)'s three-year term expires at the end of June. It seems likely that President F W de Klerk will take the opportunity to cast it in a new mould. Not only is its composition (predominantly white) and structure being reconsidered, the reconstituted body is likely to operate on different lines.

Any change would be welcome — for a variety of reasons. The council's origins are unfortunate. It was conceived by Hendrik Verwoerd as part of his grand design to remove blacks from the economic mainstream. Chaired by Hennie Steyn, retiring Secretary for Finance (a post replaced by that of Director-General), its purpose was to promote communication between private and public sector and co-ordinate the activities of government bodies and organisations. "One of its first tasks," says former Reserve Bank Senior Deputy Governor Jan Lombard (then Steyn's deputy), "was to tackle border area industrial development."

Clewlow ... *in the chair*

This attempt to decentralise the economy was the linchpin of apartheid. "But by 1975 it became clear there was no way it could succeed," says Lombard. "At that stage I realised that the economy would have to become integrated, therefore, the political system would have to be integrated and, therefore, some other solution to a plural society would have to be found."

In its present form, the EAC bears the more recent imprint of ex-President P W Botha's heavy hand on economic policy. It was reconstituted by him in 1985, without formal consultation with the private sector.

Though representation from the private sector was raised to 76% from the previous 50%, the move was received with little enthusiasm and some hostility, partly because representatives of organised commerce, industry and mining were appointed only in their personal capacity. Under the old dispensation, most employer organisations had been able to nominate formal representatives.

Also excluded were private-sector economists, though several members have qualifications in economics.

Nor were any black labour leaders invited to join. This omission was felt not so much by members of trade unions, who would probably have considered an invitation as an attempt at co-option, as by businessmen who realised the broader implications of excluding labour from the decision-making process.

Consultation, of course, was never Botha's strong suit. But the omission of organised business was seen as a deliberate snub following the failure of the Carlton and Good Hope conferences to generate enthusiasm among business leaders for his policies. Business, having given Botha considerable support for his 1983 referendum, had begun to carp when few benefits were derived from the relationship, and none at all from Botha's constitutional dispensation.

For several years thereafter, the EAC was riven with ideological differences between those who supported the market policies of the late Reserve Bank Governor Gerhard de Kock and those who favoured the interventionist stance of Sanlam chairman Fred du Plessis — both members of the council.

Two reports on economic strategy released in 1986 and 1991 show a shift towards the policies of the former.

The EAC now has 45 members: five from government, one from the Bank, six from public corporations and the rest from the private sector.

Though cut from an earlier 65, the body is still unwieldy. The number involved in decision-making and the fact that all are fully occupied in other capacities make consideration of policy options a protracted affair — it meets only four times a year.

Attempts have been made to streamline the process. Last year an executive committee of nine members was established. It meets more frequently and acts as liaison between the EAC and Cabinet. It is chaired by EAC chairman Warren Clewlow. Technical support and advice comes from the Economic Advisory Service.

In future, the role of the executive committee and advisory service may be developed. While input from every sector is crucial to the efficacy of any economic strategy, formulation is better left to a small group, many of whom should be professionals. ■

GOLD — 1 FM 14|6|91

SILVER SISTER

So far, so good. The silver-led rally, which has added 30% to the grey metal since its 17-year low of US350c/oz in February, with 9% in the past five trading days alone, is holding gold up at US$372,75/oz as the *FM* goes to press. Silver itself eased a touch to US455c, after failing to hurdle US460c, on profit-taking in New York. Gold is behaving more warily, with London waiting for the next bout of forward selling from those producers afflicted by what GFSA's Robin Plumbridge has called "negative mindset."

Up a mere 5,5% on its 1991 April low, gold has crawled behind what is, after all, primarily an industrial metal (only 15% of silver goes into jewellery or silverware). But it would seem that a residual "precious metals" linkage lingers.

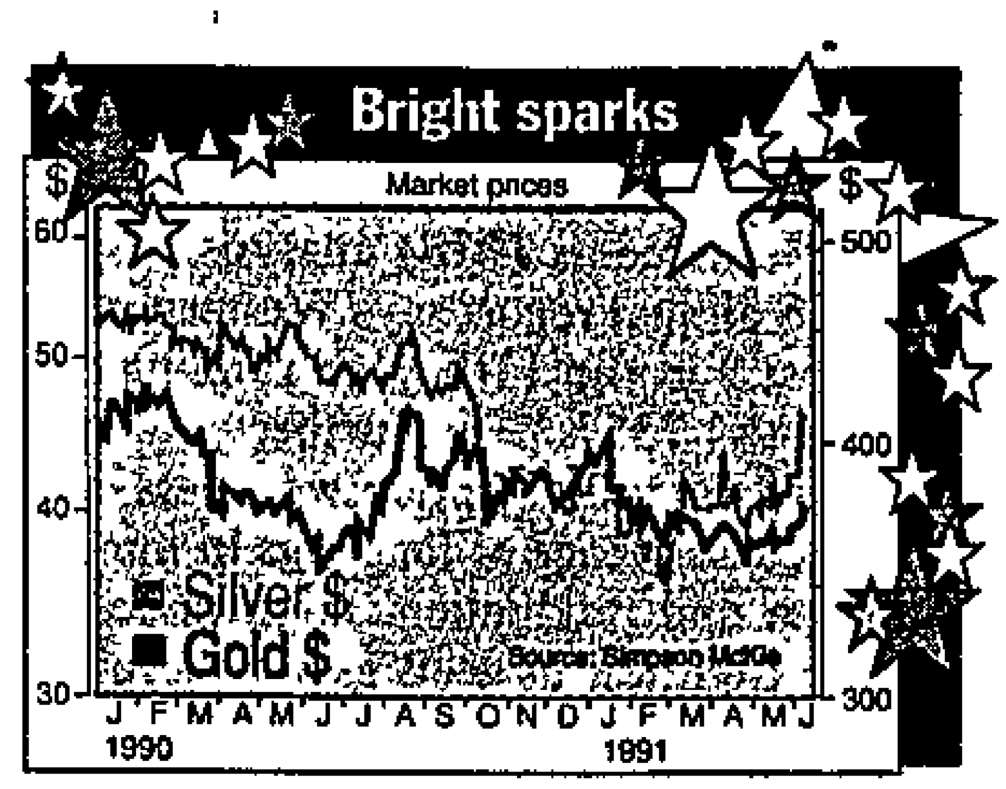
Silver's run does have some short-term fundamentals going for it. The Silver Institute in the US last week reported a 2,7% drop in total supply in 1990 and the first deficit for 12 years as demand of 500m oz outran offerings by 24,4m oz. The shortfall was entirely due to a drop in scrap recovery, which was deterred by low prices. New mine output was up 4% at 362,6m oz.

But the institute forecasts a deficit of 32m oz this year as high-cost primary producers — the average is over US425c/oz — close. This will not affect by-product silver, which is equivalent to 70% of mined output. But a 2% dip to 356m oz is projected and production plans for 74m oz, due to come on stream over the next three years, have been dropped.

Industrial demand, up 6,6% in 1991, is projected 2,3% higher this year, with photography (40% of consumption) gaining 4%.

Where does that leave gold, which has no similar set of fundamentals?

Silver's bottoming in February owed much



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EDUCATION FM 14/6/91

CLOSING THE DOORS

Not so long ago, the Afrikaners were an oppressed and needy people. They had been deprived of their country by the cynical, greedy British. The civil service was run by English-speakers. Arrogant imperialists insisted that English must be the language of instruction in schools. The "poor white" problem was almost entirely an Afrikaans one. Simple farmers were forced to leave the land in search of unskilled, badly paid work in the cities. Children went hungry.

En kyk hoe lyk hy nou!

The Afrikaner understood that the way out of poverty was through education. In Afrikaans communities the teaching profession still stands equal with the church, law, medicine and engineering. They understand (more than English-speakers, who have always taken education for granted) that without good schools there will be nothing else.

Which makes it all the more difficult to understand the mind of Piet Clase. This verkrampte Minister, responsible for own affairs white education, has decided to close five teacher training colleges — at a time when black colleges are forced to turn away thousands of aspirant student teachers. One Natal college that had been under threat survived, with permission to go nonracial, but only under enormous and anxious pressure from educationists, opposition politicians and businessmen.

Only if white education could be seen in isolation, as it was in Verwoerd's mad visions, would the closures make any sense. But they are absurd.

Even government's own Education Renewal Strategy, issued last week, recommends a single education department. The strategy also officially acknowledges the desperate need to train more teachers.

The sop thrown by Clase — that the buildings made empty will still be used for education — is alluring but meaningless. The black education establishment is certainly in no condition to staff and maintain new colleges, and the white professional expertise that will be lost through the closures is irreplaceable.

Minister Clase, a former Free State headmaster of whom better things might have been expected, is evidently unaware of the new strategy. Perhaps someone should enlighten him.

But perhaps, too, we should start asking whether this "rationalisation" is in fact a deliberate scorched-earth policy, with whites retreating into the laager and making it as difficult as possible for blacks to empower themselves.

If this is the hidden agenda, it has to be asked: does the State President approve of it? ■

SA-AUSTRALIA RELATIONS (49)

THE LATE NEWS

FM 14/6/91

It is very broadminded of Australia's Foreign Affairs Minister Gareth Evans to visit this country and find out for himself what changes are taking place, and what our future needs may be. It's also a pity that his government, proud of having orchestrated Commonwealth sanctions against us, has taken so long to send someone of his position and obvious integrity.

It is idle to speculate what Australia's position may have been had this education been sought a little earlier. The material circumstances of many blacks who are now out of work could have been less onerous had that happened.

Evans, we guess, would disagree: he appears to have that turn of mind which prevents some Sixties radicals from coming to terms with the demise of their romanticism.

If Evans had spent time with our northern neighbours, he would have seen into what frightful economic and political degradation policies similar to the thinly veiled collectivism of the ANC and its ally the SA Communist Party have fructified. Once-prosperous black populations are facing starvation while all political dissent has been dealt with in a manner no less horrifying for being nonracial.

Despite Evans being here to see the removal of the last vestiges of apartheid, he still advocates the retention of financial sanctions to discourage the Nats from delaying constitutional negotiations. Yet he is not prepared to countenance the idea that the ANC itself could be the cause of delay — an ANC bereft philosophically, administratively inept, and incapable of curbing the violence of its supporters.

Having seen and acknowledged the need to uplift so many poor South Africans and provide them with the basics of civilised life, Evans still argues for the retention of those sanctions that are most economically destructive. He will have to forgive us for seeing contradiction in his views.

What we hope he will have learnt from this visit is that the international community should be working to create a new society which avoids the perpetuation under another regime of the political and economic depredations of the apartheid government.

That is not a plea for the veiled preservation of white privilege. For if the ANC wishes to take over where the Nats left off — and there is every indication that it does so — many more blacks than whites are going to see their suffering, both economic and political, perpetuated if not intensified.

Or are Commonwealth members, with their mixed record on human rights and economic proficiency, unable or unwilling to face that reality? ■

'We're still ahead of the Third World'

Star 15/6/91. (49)

STAFF REPORTER

PROPHESIES that South Africa will become a Third World state are unnecessarily pessimistic, says a new wide-ranging book on the global environment, which pays special attention to South Africa.

The book, "Back to Earth" by Star Assistant Editor and environmental writer James Clarke, while critical of South Africa's efforts to curb pollution and soil erosion, takes an optimistic view of the country's future.

It says that while many people claim South Africa is halfway towards being a Third World state the country can still redeem the situation.

Clarke, who says he wrote the 350-page book "for anybody who can read — young or old", sees the country's strong points as its "generally healthy and attractive environment and the First World infrastructure bequeathed by its extraordinarily talented engineers".

Clarke paints a grim picture of "industrial delinquency" on the eastern Transvaal highveld and accuses the Department of Health of being "more protective of polluting industry than the suffering public".

In one of the five chapters on air pollution he says that governments worldwide have allowed industry to carry out "a crazy experiment" on the planet's atmosphere. "They are actually changing the nature of the atmosphere without the foggiest idea of what this might do to life on earth."

Disasters

He paints a frightening picture of the possible impact of the hole in the ozone and describes how scientists — despite industrial denials — tracked down the offending pollutants which cause the hole.

He predicts disasters around the South African coast unless the global output of greenhouse gases is curbed, and says boycotts may be used by "clean countries" to force "dirty countries" to curb such gases.

He says the unhealthiest part of the country is the Eastern Transvaal highveld and particularly the townships.

South Africa's soil erosion problem is possibly its most critical environmental threat, says Clarke. He traces the historic and cultural roots of the problem and says the situation needs not just an education process but the strong arm of the law to curb farmers who are sometimes criminally negligent.

Aids is viewed with a mixture of alarm and resignation and the author believes it will accelerate South Africa reaching "that blessed state" where its population will be able to live within its environmental income.

"Back to Earth" looks in detail at the "built environment" and believes rapid urbanisation should be welcomed because, in time, it will help curb explosive population growth.

The author predicts the rapid demise of the motor car as a commuting vehicle, the end of wild urban highway development, and the emergence of light rail public transport in South Africa.

● *James Clarke's book appeared in book shops this week at R79,99. The Star is offering readers a special price by post.*

Restrictive monetary policy imperative, says economist

183 49 CT 15/6/91

JOHANNESBURG. — The maintenence of a restricitve monetary policy over the coming months is imperative, says United chief economist Hans Falkena.

Writing in the latest United Perspective, Falkena says such an approach is particularly needed to provide an effective redress against the inflationary pressures currently present in the SA economy.

Falkena says, however, it is doubtful whether the monetary policy will provide the required and necessary redress against the underlying inflationary pressures in the SA economy.

He agrees with the views of the Reserve Bank that both the production and consumer price indices are stil rising at unacceptably high rates and that the anti-inflationary programme, spearheaded by the monetary policy, must be accepted as a medium and longer-term policy that will produce results only after an inevitable time lag.

Falkena says a lower wage rate rather than a lower rate of interest is badly needed to promote economic growth in the country.

"To provide effective redress against inflation, the SA real prime rate will have to be maintained at least at 6%."

This precludes any premature lowering of the Bank rate, says Falkena. — Sapa

Scenario for future of SA

49

THE thinking of all politicians and major businessmen has been influenced by a scenario for the future of SA commissioned by Old Mutual and the Perm.

It takes all viewpoints, expectations and economic facts into account — and the havoc likely to be created by the spread of Aids.

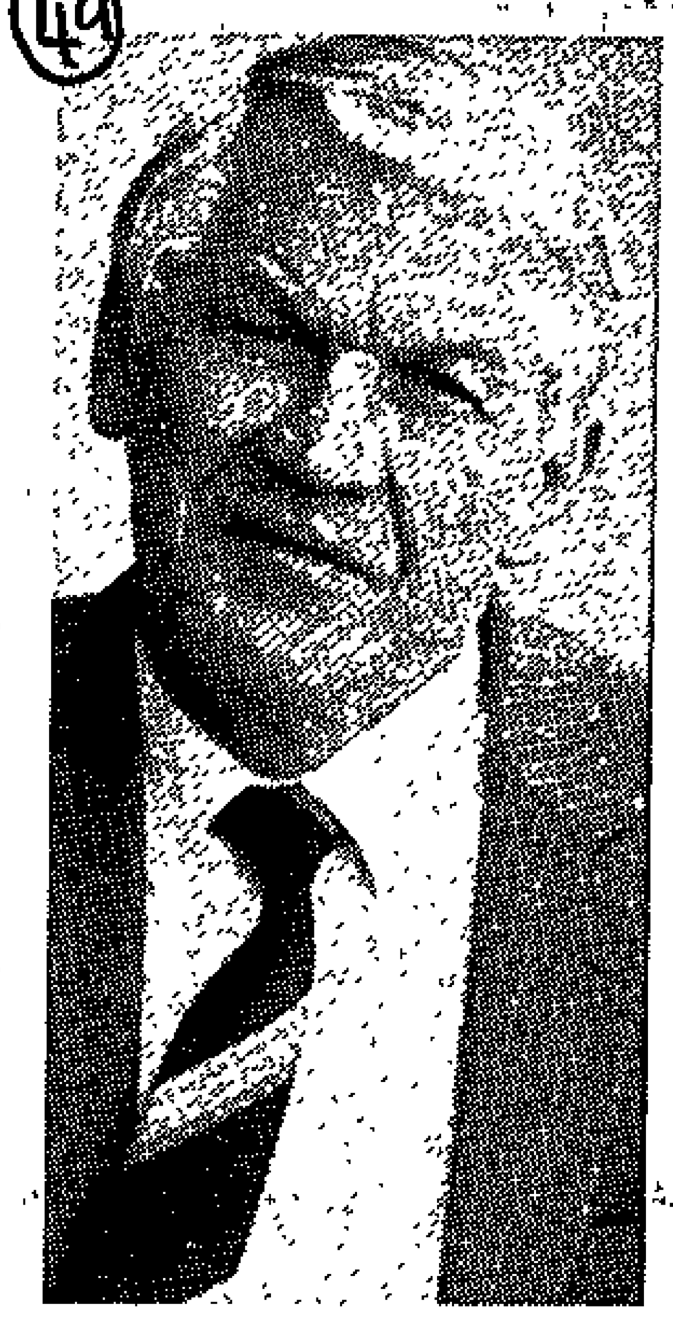
Politicians of all races, over the entire spectrum from left to right, and international experts in many fields, have contributed to this convincing and detailed forecast of what lies ahead for this country.

They have also suggested ways to tackle the most pressing problems.

The scenario will be explained by Professor Willie Esterhuyse of the University of Stellenbosch at the next meeting of the Seeff-Cape Times Executive Breakfast Club.

Coming to hear him may be the only way for many Capetonians to obtain this valuable insight.

Presentations of the scenario are by invitation only, and copyright restrictions have so far prevented the media from reporting it.



Willie Esterhuyse

CT 15/6/91

KEN OWEN ON SUNDAY

49 S/Times 16/6/91

THANKS in no small part to unrelenting pressure exerted by Reserve Bank governor Chris Stals, the great debate on our economic future has been joined in earnest. It is vast, diffuse, hard to define, but real.

Its most obvious manifestation so far has been the agreement, disclosed this week, between the National Union of Mineworkers (NUM) and the Anglo American Corporation which linked wages at the Ergo gold mine to performance — both profit and labour productivity.

Whatever Mr Cyril Ramaphosa may think of capitalists, the squeeze on the gold mines has taught him that labour and capital sink or swim together. In making this breakthrough, the mining industry may once again set a pattern.

The agreement is, however, a mere symptom of a vast process of adjustment, so complex that it cannot possibly be explored (or even defined) in a weekly newspaper column. The best I can do is try to sketch some crude outlines.

Accept as a starting point two assertions: before Dr Stals came on the scene, the value of the rand was allowed to decline in order to protect the gold mines against falling prices abroad or rising costs at home. The effects were inflationary but the Reserve Bank, daunted by the cost of fighting inflation, merely printed money to keep the economy afloat.

The result, of course, was to make inflation endemic, and this spawned a range of pernicious secondary effects, including subsidies to favoured industries (for example, farming, oil refining, arms manufacture, and so forth), import controls and tariffs, price controls, and all the regulatory paraphernalia of a centrally planned economy.

The result was economic stagnation, similar to but not as severe as Eastern Europe's. Meanwhile, businessmen soon learned it was better to borrow than to save (and to repay debts in devalued rands), and management became essentially a matter of raising prices faster than inflation.

There were other bad effects: investment went heavily into office buildings, art works and similar assets which could be acquired on credit, and the loans were essentially repaid by inflation. In the end, to exaggerate a little, one got the building or the painting free. Inflation became the mechanism to transfer wealth from the poor to the rich.

Worse, businessmen realised the key to success was to lobby the government for concessions, permits, protection, special favours. The process was hugely corrupting, and we have not yet uncovered all the scams by which, essentially, South Africa functioned. Mr Sol Kerzner was an unlucky victim, not a rare one.

Dr Stals changed the game. He redefined the Reserve Bank's role by dropping from its mission statement the previous reference to economic growth. The Bank now seeks only to defend the internal and external value of the rand.

IF this means that gold mines close down because their labour costs have risen too high, or because their management is fat and complacent, so be it. If it means that Harrismith must become a ghost town because the Frame group, crippled by strikes and labour troubles, closes the local factory, so be it. If it means debt-ridden farmers must leave the land, so be it.

Hardly anybody believes Dr Stals can stick to his guns. The forces ranged against him are immense: the politicians, the industrialists, the mines, the farmers, labour, the charity industry, and those who simply fear that, like President Hoover, he will provide the impulse to revive socialism.

Actually, many businesmen took the one percent cut in interest rates earlier this year as a sign that Dr Stals was losing his nerve. For what it is worth, I don't believe that; I believe he will keep the screws tight until the business community realises that the rules have changed, and that the cavalry (in the form of cheap and plentiful supplies of money from the Reserve Bank) will not this time come charging over the hill.

One of the arguments constantly thrown at his head is that tight money and high interest rates are responsible for unemployment. Most leading businessmen know that argument to be nonsense: if Dr Stals dropped interest rates tomorrow, the result might be runaway inflation, but the effect on employment would be negligible. Few businesses can double their work force, and anything less than that is irrelevant to the problem.

ANYWAY, the businessmen who carry on about joblessness are themselves often looking for new investments which are not labour intensive, simply because they are sick to the teeth of dealing with trouble on the shop floor — violence, absenteeism, sabotage, and the murder of loyal workers.

This is a simple truth about South Africa today: Big Business does not have the money, the management resources, or perhaps the skills to employ the army of workless created by the combination of high population growth and economic stagnation. They can't even generate the taxes to pay for a dole.

If unemployment is to be overcome, it will have to be by micro-development. (In Japan so much work is contracted out to families or small concerns that it was said, admittedly some time ago, that the average Japanese firm had five employees). Anyway, don't expect Anglo to come to the rescue; Anglo is fighting desperately just to keep its mines alive.

This situation has, naturally, spawned a variety of schemes to evade reality. Cosatu clings to the myth that there is a pool of wealth lying somewhere in a vault, waiting to be redistributed. In fact, the country having reached the point where a messenger in Johannesburg earning R1 400 a month is treading the heels of a teacher with four years' post-matric training, there's not much left to distribute to anybody.

From the more creative sections of the business community has come a *son et lumiere* show, essentially a sales pitch, which tells selected audiences South Africa is doomed unless they put money into a huge house-building programme. (It's old-fashioned huckstering: first you scare 'em witless, then you hit 'em). The idea is to "kick-start" the economy.

PERSONALLY, I think housing schemes work best if the money does NOT go through corporations but is channelled directly, as Jan Steyn is doing, to poor families to enable them to build their own shelter. Hernando de Soto's studies have shown that today's squatter settlements, left reasonably alone, will turn into *petit bourgeois* suburbs in 30 years or so.

This brings me back to Ergo. At least this one major employer and this one major union have had the guts to face reality: so long as Dr Stals stands firm, the only way to overcome poverty and unemployment is to become efficient. We live in a hard world, populated by predatory nations led by clever people, and those who don't compete go down, like the Russians.

The way to settle the South African economic debate is to believe Dr Stals, to call in the workers, and to devise together a strategy to prosper without help from the exchange rate, or the money supply, or the gold price, the Board of Trade, or the price fixer. If that can't be done, shut down the firm.

Believe me. Or, rather, believe Dr Stals.

High interest rates killing the goose . . . (49)

S/Times 16/6/91. (Buss Times)

By ERNEST GLAD, professor in the department of accounting at the Rand Afrikaans University

BUSINESSMEN may think that sanctions are the biggest threat to South Africa's economy, but the problem is much closer to home — it is in fact the Reserve Bank.

For about a decade now businessmen have had to endure one of the severest monetary policies — high interest rates.

They are the apparent magical wand with which the Reserve Bank has tried to cure all SA's economic problems.

The bank under the governorship of the late Gerhard de Kock and now Chris Stals, has unsuccessfully tried to control inflation with punitive interest rates.

The time has come seriously to question the adequancy and relevance of this policy. If Dr Stals wishes to control the money supply, he could certainly achieve that aim by imposing credit restrictions without destroying the economy in the process. The policy of high interest rates in the early 1980s did not succeed in bringing inflation down, nor will it do so now.

For the better part of the past two years SA has had the advantage of a rand strengthening against the dollar (losing ground only recently). That should have had a positive effect on inflation.

High interest rates have been in place for almost two years, but our inflation rate has shrunk only marginally. The cost to the country of this "experiment" by the Reserve Bank is incalculable. Thousands of businesses have been liquidated and many more thousands of people have lost their jobs.

This dangerous flirtation with high interest rates can at best be called an experiment because it cannot be guaranteed to bring inflation down.

The problem is that the bank is blinded by so-called economic theory and does not take into account inflation's realities.

Inflation is fuelled by high interest rates because interest is a cost factor in all business, like any other expense. An increase in interest cost cannot result in a cheaper product. Interest is one of the five major expense items in most businesses.

An arbitrary increase in such an important cost factor must have an equal effect on pricing strategies. Economists at the Reserve Bank must be naive to think that high interest cost in a business will not inevitably find its way through to the consumer in the form of higher prices.

Call it a vicious circle, a catch-22 situation or whatever, the fact of the matter is that high interest rates will not curb inflation without destroying the economy.

Another reality the bank does not take cognizance of is that inflation is ingrained the economy. It can be called the 15% syndrome and many businesses suffer from it. A study of budgeting and pricing practices of SA companies will show that many "budget" for inflation of about 15% and reflect it in pricing their products.

A good example is the motor industry with its regular as clockwork quarterly price increases of 3% to 4%.

Unless this frame of mind is changed, high interest rates will do little to lower prices and inflation.

Similarly, organised labour seeks pay rises of a minimum of 15% without regard to any increase in productivity or output. Labour leaders are notorious for their lack of concern about productivity — which should be the only fundamental reason for a wage demand.

Sanctions have actually become a blessing in disguise. Lifting them and import restrictions will show how uncompetitive SA labour is and may drive thousands more out of jobs. In an economic environment where only one in 10 potential job seekers finds suitable employment, the granting of wage increases without an accompanying boost in productivity must be regarded as a serious "crime" favouring inflation.

If the Government is serious about curbing inflation it should deal with its psychology and not punish businesses out of existence.

Most Western nations treasure their businesses and treat them almost as a material resource. It is an integral assumption of the capitalistic system that businesses create wealth and employment. In SA almost an opposite view seems to be held because businesses are also taxed out of existence.

It is not reasonable for a company to lose about half of its earnings to the State and not be allowed to provide for the replacement of its assets.

Business will not flourish if a suitable climate is not created. By this is understood affordable capital and labour, reasonable taxes, a proper infrastructure and a fairly stable political scene.

We know about the tremendous effort President De Klerk is making to bring about political stability, but it is all undone on the business front by the Reserve Bank's causing an untenable situation of unaffordable capital.

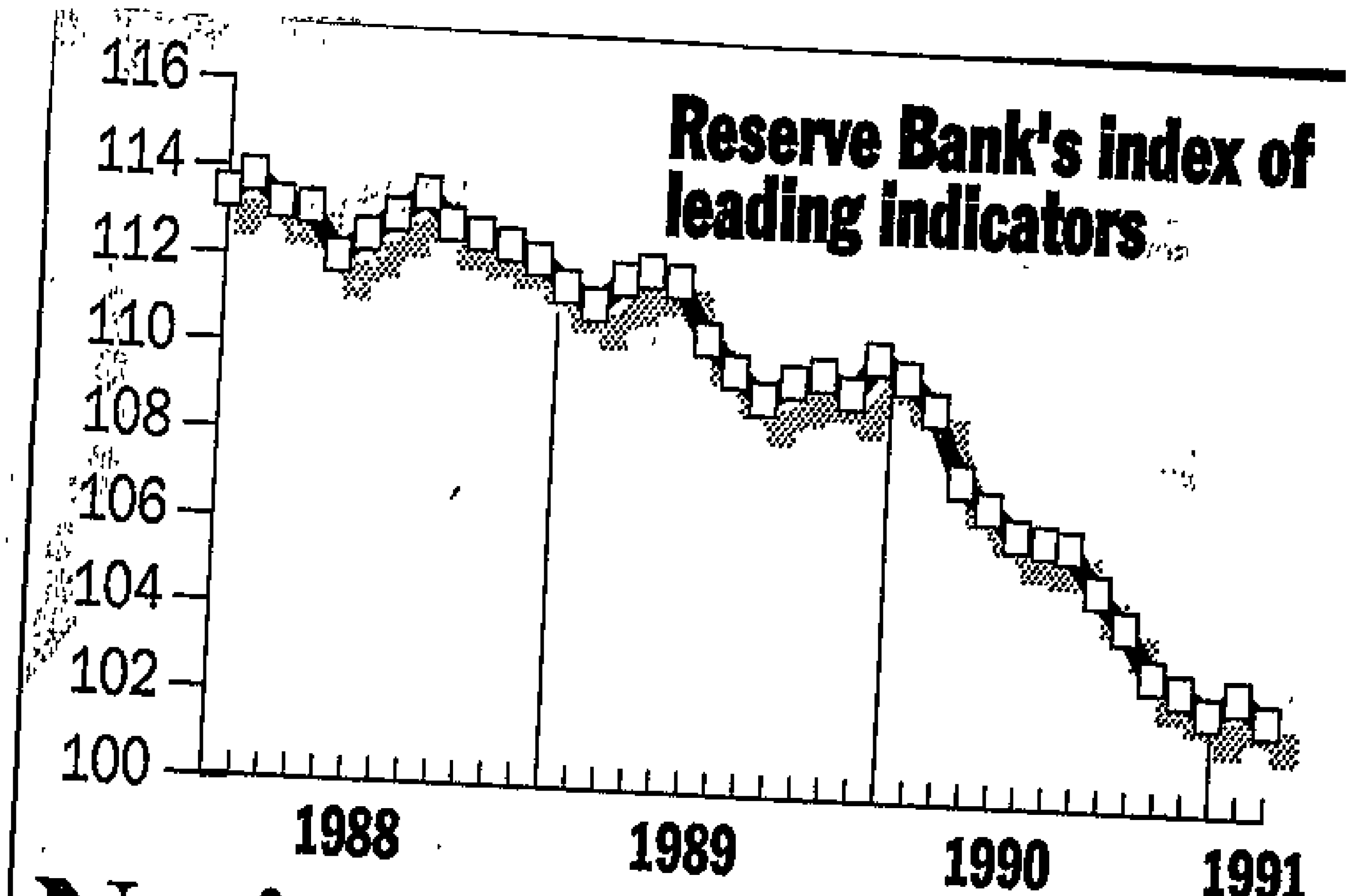
In the same way providers of capital can demand positive interest rates, users of capital should expect to earn a positive entreprenurial margin (ie, difference between return on assets and interest cost) for taking risks. Unfortunately competition prohibits businesses from making the kind of margin (39% to 40% net before interest I would expect) to achieve real growth and consequently less investment will be done.

The Minister of Finance has told businessmen to invest, but what does he expect? Businessmen are not so naive as to invest in an environment where the business climate is so severely negative. An endless list of victims (bankruptcies and lower profits) attest to these unsuccessful polices and now may be an opportune time to reconsider policies and strategies.

ERNEST GLAD: Reserve Bank guilty

I suggest that interest rates be brought in line with those of our major trading partners, but credit be heavily restricted. At the same time the underlying factors affecting inflation should be dealt with and brought under control.

Money supply is only one factor — not the sole factor as the Reserve Bank appears to think. The question is: how much longer can the economy bear the brunt of these policies and how long will it be before we suffer total collapse?



No indications yet of economic recovery

Star 17/6/91.

By Sven Lünsche

49

Judging from the Reserve Bank's index of leading indicators, the economy will remain at its current low for a further few months.

The index, which predicts the course of the economy with a time lag of a couple of months, has been falling steadily since 1988.

Bernie de Jager, assistant general manager (economics) at the Bank, says there is as yet no indication the economy is heading for a recovery, although the index of leading indicators is beginning to flatten out.

The index is compiled from a range of statistics which tend to show the trend in the economy. The statistics include monetary aggregates, foreign trade figures, JSE indices, production volumes, company profits and the gold price.

An upturn in the index usually precedes a recovery from an economic trough by four to six months. However, a decline from a peak in economic growth is usually only indicated nine to twelve months in advance.

If the index of leading indicators were to show a substantial upturn in March — according to Mr de Jager it fell slightly in February — the actual recovery would be expected between July and September.

In contrast to the leading indicators, the Reserve Bank's index of coincident indicators measures the actual course of economic growth and this has also not yet shown an upward trend.

According to the Reserve Bank's latest Quarterly Bulletin, the index fell from 120,4 in November last year to 119,9 in December and to 118,1 in January 1991.

ANC tracks targets of nationalisation

(49)

B/Day 17/6/91

LESLEY LAMBERT

CAPE TOWN — The ANC has conducted an investigation into the nationalisation of the pharmaceuticals industry and is considering the iron and steel and building materials industries for possible state control.

ANC economics spokesman Khetso Gordhan brought the issue back into debate at an ANC media briefing for parliamentary journalists at the weekend, when he announced that the organisation had identified the pharmaceutical and iron and steel industries for possible state control.

The ANC, he said, had already conducted a feasibility study into creating a state-controlled pharmaceutical utility.

It is believed the ANC is also considering the possibility of nationalising other industries which provide, or are involved in the provision of, basic services such as health, housing and electricity.

Apart from Iscor and Eskom, another sector said to be coming under ANC scrutiny is the building materials industry, which supplies goods that make up about 50% of the cost of new homes.

Gordhan said the ANC believed it would be necessary to introduce anti-trust legislation in SA to guard against monopolistic tendencies which existed in the country's economoy.

Tax was one form of redistribution being considered by the ANC. Gordhan said the organisation believed that the poor carried an unfair income tax burden, while the effective company rate was too low because of various allowances.

BILLY PADDOCK reports that top ANC constitutional advisers indicated at the briefing that the ANC was trying hard to devise innovative ways of bridging the gap between itself and government over its demand for an interim government.

The advisers hinted that the organisation was looking for ways around the impasse without softening its stance.

ANC constitutional committee member Kader Asmal said there could be no compromise on control over security forces, and elections for a constituent assembly had to be removed from the hands of government.

For the rest, however, rather than replace the entire government structure, the ANC might be prepared to accept some form of joint co-operation with Cabinet Ministers.

A senior government negotiator indicated yesterday that government and the ANC appeared to be moving closer to some form of compromise over "transitional arrangements".

Huge govt spending increase does not dampen budget target expectations

B Day 18/6/91

SHARON WOOD

GOVERNMENT spending soared by 23,9% in May because of increased expenditure on police, education and training, Finance Department director-general Gerhard Croeser said yesterday.

Speaking at a seminar hosted by the Johannesburg Economics Society and Sacob, he said the first two months of the fiscal year had seen huge spending increases but government was still confident about reaching the revised budget targets. In April government expenditure rose by 35% year-on-year.

But government borrowing appears to be under control. Croeser estimated "a small amount of R400m needs to be raised during the rest of the year, which will place no pressure on the markets".

Government had raised R4,5bn in cash and R2,7bn had already been sold to the market.

In addition, options for R1,5bn of stock had been exercised by investors, maturing in July, November and February.

Croeser's estimate for borrowings needed for the rest of this year relied on R7bn revenue from the Public Investors Commissioner (PIC), the same amount raised last year, and debt rollovers of R2,5bn.

Once investment restrictions on the state pension fund had been removed investment in property and equities would be done gradually, said Croeser.

"Obviously it is not our intention to disrupt the market and any flow of funds into equities or property would have to be very carefully handled.

"Markets can absorb only a small portion of the cash flows and government will still use the PIC for some time and diversify eventually," he said.

Croeser added: "The last factor which could fuel markets this year is if VAT pushes up the inflation rate this year.

"An IMF study says that at worst there will be a once-off rise in the rate of inflation, but I don't expect businessmen to push all input credits through to lower prices."

49 (85)

Deputy Reserve Bank Governor Jaap Meijer said expectations would be decisive in determining whether VAT had a once-off impact on inflation or an inflationary effect.

Inflationary expectations have replaced wage increases as the largest contributor to inflation.

In response to a question of whether a once-off increase in the inflation rate as a result of VAT would determine the direction of interest rates, Meijer said "the Re-

□ To Page 2

● MEIJER

● CROESER

Spending

B Day 18/6/91

49 (85)

□ From Page 1

serve Bank would consider the particular conditions at the time".

Croeser said he was concerned about the current state of the economy. "We can perform a first world operation but I am scared the patient will be killed in the process.

"With interest rates down at least we can maintain jobs and survive," he said.

Meijer was recently reported as saying a cut in interest rates this year would be unlikely.

But he said "an interest rate reduction before the end of the year is possible, provided it is linked with a meaningful fall in inflation".

Retaining price stability should be the thing everyone was working towards, he said.

	Population Group			
Orange Free State	12	41 552	2 312	7 910
Transvaal	3 672	154 277	7 654	38 566

Lung cancer: deaths

426. Mr M J ELLIS asked the Minister of National Health:

How many persons in each race group in each province died of lung cancer in 1990? B1110E

The MINISTER OF NATIONAL HEALTH:

As of 15 December 1989 lung cancer has no longer been listed as a notifiable medical condition. There are therefore no notifications of deaths because of this disease available for 1990.

Amounts spent

428. Mr R M BURROWS asked the Minister of Education and Training:

(a) What was the amount spent by his Department on (i) salaries of teachers and principles, (ii) salaries of administrative staff, (iii) salaries of inspectorate and executive officials, (iv) salaries of any other specified staff, (v) capital expenditure, (vi) supplies and services, (vii) equipment and (viii) other items and (b) what percentage of the total education expenditure by his Department in 1990 does each of the above amounts constitute? B1113E

The MINISTER OF EDUCATION AND TRAINING:

The information as requested in a(i) to (iv) is not readily available and a total amount for personnel expenditure is supplied:

	(a)	(b)
(i)—(iv)	R2 089 420 423	71,38%
(v)	R316 283 686	10,80%
(vi)	R172 270 023	5,88%
(vii)	R29 384 570	1,00%
(viii)	R320 231 776	10,94%

Note:

The accounts for the 1990/91 financial year have not been finally closed. The information is therefore based on the estimated expenditure.

Vote: Finance

431. Mr C UYS asked the Minister of Finance:†

(1) Whether, with regard to Vote No 12—Finance, he will furnish further information on the amount in interest of R12 738 512 000 appearing under the item "Commitments in respect of the State debts"; if not, why not; if so, what are the details of the (a) capital sum to which the interest relates and (b) amounts per foreign exchange unit;

(2) whether in respect of the above-mentioned vote he will furnish further information on the amount of R2 741 000 000 appearing under the item "Commitments in respect of loans by community councils"; if not, why not; if so, what are the details of the (a) capital sum to which the cost of concluding loans relates and (b) amounts per foreign exchange unit? B1136E

49

The MINISTER OF FINANCE:

(1) (a) The capital amount to which the interest relates to is as follows:

— State debt as at 31 March 1991:	R94 283 439 560,51
— Expected increase in State debt to finance the deficit before borrowing during the 1991/92 financial year:	R11 740 000 000,00
— Expected State debt as 31 March 1992:	R106 023 439 560,51

(b) The amounts per exchange unit are as follows:

— Internal debt:			R105 302 090 351,12
— Foreign debt at book value:			
USA Dollars	256 303 483 =	R381 735 446,30	
German Mark	250 000 000 =	R148 782 955,42	
Swiss Franc	141 349 065 =	R168 850 756,15	
European Currency Units (ECU)	20 946 000 =	R21 980 051,52	
		R721 349 209,39	R721 349 209,39
			R106 023 439 560,51

(2) (a) and (b) The amount of R2 741 000 000 does not appear under the Main division "Commitments in respect of loans by community councils". Abovementioned amount represents the estimated amount of the discount with which the gross amount to be borrowed by means of Government Stock issues will be reduced during the 1991/92 financial year. In accordance with section 20 of the Exchequer Act, 1975 (Act 66 of 1975) discount costs shall be deemed to be expenditure chargeable to the State Revenue Account and the nett amount so borrowed shall be increased by the amount of such costs in the State Revenue Account. Since the discount therefore realizes as an expenditure as well as an income in the State Revenue Account during a financial year, it is, for the sake of completeness, shown as expenditure under the item "Cost of raising loans" and deducted under the item "Discount" so that only the nett amount to be borrowed is eventually budgeted for in the State Revenue Account. 49

Commitments in respect of loans by community councils therefore only amounts to R73 496 000 whilst the capital amount to which this cost relates to will amount to R16 891 000 000 during the 1991/92 financial year. Seeing that the amounts will be borrowed locally the exchange unit will only be that applicable to the Rand Monetary area, i.e. Rand.

Vote: Manpower

435. Mr P J PAULUS asked the Minister of Manpower:†

Whether, with regard to Vote No 15—Manpower, he will subdivide the amount of R110 607 000 under Main Division 4—"Training", according to aims; if not, why not; if so, what are the relevant details? B1141E

The MINISTER OF MANPOWER:

Yes.

OBJECTIVE	BUDGET
National Training Board:	
Administration	R566 000
Internal Research	R782 000
External Research	R301 000
Regulation and promotion of training:	
Centres and schemes	R1 446 000
Financial assistance to certain schemes:	
South African Agricultural Union	R1 500 000
Cash Allowances	R3 350 000
Training in Labour Relations	R650 000
Rebate Training	R4 500 000
Manpower Development Fund	R1 000
Regulation of apprenticeship training	R4 392 000
Regulation of artisan training	R4 317 000
Training of worksekeers:	
Establishment and regulation	R3 719 000
Contributions to fund for training of unemployed persons	R75 000 000
Training in certain occupations	R1 000
Central Organisation for Trade Testing	R9 505 000
Administrative auxiliary services	R568 000
Training and development of personnel	R9 000
Total	R110 607 000

Special Defence Account: details of budget

450. Adv J J S PRINSLOO asked the Minister of Defence:†

Whether, with regard to Vote No 6—Defence Force, he will subdivide according to aims the amount of R4 173 538 under Main Division 7—"Special Defence Account" for the financial year ending 31 March 1992; if not, why not; if so, what are the relevant details? B1165E

Numsa set for crucial congress

(NUMSA) Star 19/6/91

By Brendan Templeton

The crucial issue of trade union participation in a future economy will be discussed at the national congress of the 286 300-strong National Union of Metalworkers (Numsa) which starts tomorrow.

It was reported earlier this year that the union was actively considering a "reconstruction accord" with the ANC which would strengthen the push towards socialism.

According to the SA Labour Bulletin, the accord would give unions a strong economic platform and ensure their militant independence. Once concluded, the accord would be used as a basis for negotiations with business.

Other issues for discussion at the four-day congress are the dismantling of apartheid, and strategies the union can adopt to effectively and democratically co-ordinate its rapidly burgeoning membership.

Deadlock

ANC deputy president Nelson Mandela will speak on destroying apartheid and building democracy.

Numsa said in a statement that its membership had nearly doubled since its 1987 launch when it had 131 000 members.

The congress comes at a time when the union is deadlocked in vital talks with employers in the key industrial sectors of engineering, auto assembly spares and tyre manufacturing, which employ more than 740 000 workers.

Numsa announced it intended to ballot its members for strike action if dispute meetings before the congress did not bear fruit.

Economic upswing in sight, says Du Plessis

Star 19/6/91

(49)

CAPE TOWN — South Africa's next economic upswing would begin at the end of this year or the beginning of next year, **Minister of Finance Barend du Plessis** said in Parliament yesterday.

Introducing the second-reading debate on the Budget, he said he could confidently predict this.

The core question was to what extent the country would get overseas financing.

The Conservative Party's allegations that South Africa had become a capital-exporting country in 1985 as a result of reform were untrue — it had been the result of apartheid.

"It is the throwing-off of apartheid which will place us back in international financing."

The ANC should also receive a "simple message": they were not morally qualified to expect the Government to create jobs and growth, and at the same time continue their plea for sanctions.

Barend du Plessis . . . growth phase certain.

Parliament

1991

Mr du Plessis said the downswing — which had lasted for 27 months — had not been as sharp as previous ones.

The country's foreign currency reserves were sufficient to cover two months' imports, but it needed at least three months' reserves before "we can think of letting the economy go into another growth phase".

The question was not whether there would be another growth phase, but when.

The Government had no plan to cause another growth phase with a State expenditure programme — this would be self-destructive.

There were several ceilings on South Africa's ability to revive the economy.

The ANC's "very dubious role" in the US Congress at present would have to be addressed by Parliament now.

Mr du Plessis also said statements by ANC deputy president Nelson Mandela to the European Parliament were irresponsible. — Sapa.

Putting 'the people' first

Star 19/6/91

(49) ~~(299)~~

Social benefits have been the "right" of the wealthy. JO-ANNE COLLINGE reports on a proposal to put the poorest foremost in a future social welfare policy.

REDISTRIBUTION of resources to those at the bottom of the socio-economic heap should lie at the heart of social welfare policy for a democratic South Africa, says University of the Witwatersrand lecturer Leila Patel.

"Social welfare should be a focus for action and be concerned with impacting on poverty and inequality ... Social welfare policies are the mechanisms used to distribute resources and promote development."

The theme of redistribution within a mixed economy is central to a detailed discussion paper on "developmental social welfare policies and programmes" prepared by Ms Patel for a conference to be held this weekend at Wits University by the professional organisation, Concerned Social Workers.

This paper is the result of three years of research on 457 "progressive", or grassroots, welfare projects — examining their aims, ideologies, the pattern of need to which they responded and the methods which they employed.

These projects were a reaction to the shortcomings of the Establishment welfare system — where the best services are still largely aimed at the most affluent (white) sector of society; where social security provision is explicitly racist; where the State plays a minimal role in addressing basic needs; and where the depredations of apartheid are ignored as social problems.

Ms Patel acknowledges that scarce resources and the pace of economic growth will inhibit a democratic South Africa implementing universal welfare programmes comparable to those in advanced industrial societies.

She proposes that universal services will be essentially preventive and promotive in character, "such as family planning and immunisation programmes — social legislation designed to protect the population".

Over and above that, in areas such as housing, land reform, education, taxation, commodity price control, transport, rural development and social security, there is an obligation to plan so that programmes have a maximum impact on mass poverty and inequality.

In this context, the principle of social equity is held out as an ultimate goal rather than an imminent reality. But that does not mean that immediate policy-making can afford to ignore this goal.

Indeed, it has particular implications in the transition from apartheid. The goal of social equity is not served by simply offering the same advantages to people who start with vastly different privileges, argues Ms Patel.

Furthermore, a redistributive welfare policy requires considerably greater Government intervention than in the past.

Ms Patel asserts it is up to the Government to take "overall responsibility for determining social welfare policy, for the setting of priorities and for evolving appropriate standards suited to local conditions".

But this does not mean the Government achieves this all alone — or that it undermines organisations already helping to meet these needs.

A specified range of services which cannot be undertaken by other social welfare sponsors must be carried out directly by the State.

But, in addition, the State could purchase services from the private and voluntary non-profit sectors; it could subsidise social services undertaken by other sponsors; it could introduce fiscal policies to support individuals providing for their own social security — for instance through health and retirement insurance or caring at home for the aged and disabled.

Ms Patel recognises that many sectors are already involved in welfare provision, including religious organisations, trade unions, employer bodies, co-operatives, youth and women's groups, and community welfare groups.

A democratic South Africa could do with more of this kind of "civil society" involvement, rather than less of it, argues Ms Patel. In the past, community programmes were not supported and remained outside the sphere of the formal welfare sector."

This model clearly allows for private social services — supplied by the market or through employers — to co-exist with an expanded State network.

Ms Patel acknowledges that this makes certain inroads on the ideal of equal provision for all.

It suggests a two-tier system which could increase social stigma, and divide the employed from the unemployed and those who receive benefits from others who do not.

"A social welfare policy should mediate this contradiction and attempt to find creative solutions to this problem through sponsorship of both community and work-place programmes," Ms Patel states.

Also, she points out, a leading Government role in welfare does not necessarily equate with centralisation. Stressing devolution of welfare functions to the regional and local government level, she insists that "local initiative, autonomy and resource generation that is so crucial to addressing social development priorities" should on no account be stifled. □

Leila Patel . . . redistribution involves more State intervention.

Upturn at end of year, says Barend

BDay 19/6/91 (49)

LESLEY LAMBERT

CAPE TOWN — Finance Minister Barend du Plessis said yesterday he could "confidently predict" that the economic upturn would begin at the end of the year or early in 1992.

But its duration would be curtailed and growth of more than 2,6% would not be attainable unless SA had access to IMF funds.

Du Plessis said in Parliament that the downturn had lasted longer than previous economic recessions — 27 months compared with the usual 17. But it had not been as severe, largely due to the sustained strength of private consumption.

Access to foreign funds and strong foreign reserves were major determinants of a new growth phase, Du Plessis said.

SA's foreign reserves were currently sufficient to cover two months' imports, but the country needed at least three months' reserves before it could move into a growth phase.

Once the economy had turned around, there were several factors which would place a ceiling on its revival and sustained long-term growth. These included the country's ability to attract foreign funding and compete in foreign markets, and ANC proposals for higher tax rates and a more liberal monetary policy, both of which would discourage foreign investment.

SA's shortage of entrepreneurs and its low level of productivity would have to be addressed. The country would also have to assure foreign investors that they could repatriate capital and not just dividends. It would only be able to do this with the backing of IMF funds.

● DU PLESSIS

"The next growth phase will begin shortly. But will we be able this time to exceed the point at which we have had to kill growth in the past because of a lack of IMF funding? Without assistance, we cannot exceed 2,6% growth per annum," Du Plessis said.

He made a plea to the US Congress to drop sanctions after Monday's repeal of the Population Registration Act and he lashed out at the CP and the ANC for jeopardising the lifting of sanctions.

Assurers asked to aid growth

B/Day 19/6/91 (49)

LIFE assurers had to work with government, business, organised labour and other politicians to ensure funds were invested in a way that promoted continued economic growth in the economy, said African Life chairman Adrian Arnott.

Speaking at the company's general meeting this week, Arnott said life assurers had an important responsibility to ensure continued growth in the economy.

"Long-term economic growth is essential if attempts by government to remedy devastation caused by the apartheid legislation on the lives of South Africans are to be successful."

Commenting on the the effects of sanctions, Arnott said if SA were to be successful in attracting investments from abroad, particularly against stiff competition from Eastern Europe, it would need to demonstrate that all in SA were committed to the new dispensation.

Speaking on AIDS, Arnott said that research had shown that education was still the best way of containing the disease.

"While government has a major role to play in this regard, it is vital that responsible leaders from all sections of the community voice their concern and urge that their constituents heed the warnings." — Sapa.

Economic upturn in sight

By LESLEY LAMBERT (49) CT 19/6/91

FINANCE MINISTER Barend du Plessis said yesterday he could "confidently predict" that the economic upturn would begin at the end of the year or early in 1992.

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He made a plea to the US Congress to drop sanctions imposed by the Comprehensive Anti-Apartheid Act following Monday's repeal of the Population Registration Act.

He lashed out at the CP and the ANC for jeopardising the lifting of sanctions.

Gold averages

Average London PM fix for year to Jun 17: $365,69 (R1054,29).

(DHRM), which also handled MS 101.

"Sasfin will now be able to grow its instalment finance business without resorting to increased equity capital or limited bank funding," said Sasfin MD Roland Sassoon.

institution was adhered to by using Mercantile Bank as an intermediary. Mercantile received an upfront, one-off fee, said Jacobs.

"We see this as an innovative step towards the securitisation of many other types of assets," she said.

Small firms 'vital to economy'

THEO RAWANA

THE growth in the number of British small companies to 2,5-million over the past 10 years had meant that 96% of all UK businesses were employing fewer than 20 people, British Small Business Minister Eric Forth said yesterday.

Addressing Nafcoc's National Industrial Chamber annual conference in Johannesburg, Forth said this was "a staggering increase of 373 000 or 100 additional businesses a day".

"In the 1980s firms which employed fewer than 20 people created more than 1-million jobs. In comparison, larger firms created half-a-million jobs over the same period.

"Small firms are an essential part of a healthy economy. They will produce industrial leaders of the future by maximising the range of choice available through market provision and challenge the dominance of existing market leaders," he added.

Sapa reports that businessman Gab Mokgoko said the battle for a better deal for black businessmen was not over despite the events which had changed the "old" SA over the past 30 years.

Mokgoko told the conference black manufacturers should improve their technical skills through association with other businesses and private research institutions and through technology transfers with other innovator businesses in SA or abroad.

Black businesses should refuse to remain small indefinitely, and should lobby government for a better deal and campaign for the creation of a department of small business.

Widen parties on economic team (49) DP

BILLY PADDOCK

CAPE TOWN — President F W de Klerk should seize the opportunity to broaden economic decision-making by inviting members of other parties, including the ANC, to serve on the Economic Advisory Council (EAC) at the end of the month, DP finance spokesman Ken Andrew said yesterday. BDay 20/6/91

In a statement he said: "The days in which decisions can be made unilaterally and then successfully implemented are over."

Any attempts to achieve stability and pursue objectives would fail unless they were based on social and economic contracts at all levels in the society.

The term of office of the EAC expires at the end of this month.

"We should have a new social and economic advisory council that includes the public and private sectors, organised labour, and representatives of consumers and the unemployed, and it should reflect all significant shades of opinion in our country," he said.

He said that because members of the EAC were invited in their individual capacities, there was no problem in having members on the council who were also members of the ANC's economic policy unit.

Such a council could play a role by helping to:

☐ Develop fiscal and monetary policies which are consistent and well-understood;

☐ Set appropriately time-related social and economic objectives;

☐ Formulate strategies to achieve such objectives; and

☐ Facilitate social and economic contracts throughout society.

Economy has potential to grow by 4,5 percent

Star 20/6/91

By David Canning (49)

DURBAN — The next upswing could see economic growth as high as 4,5 percent within a couple of years, says Dr Cees Brug gemans, group economist at First National Bank.

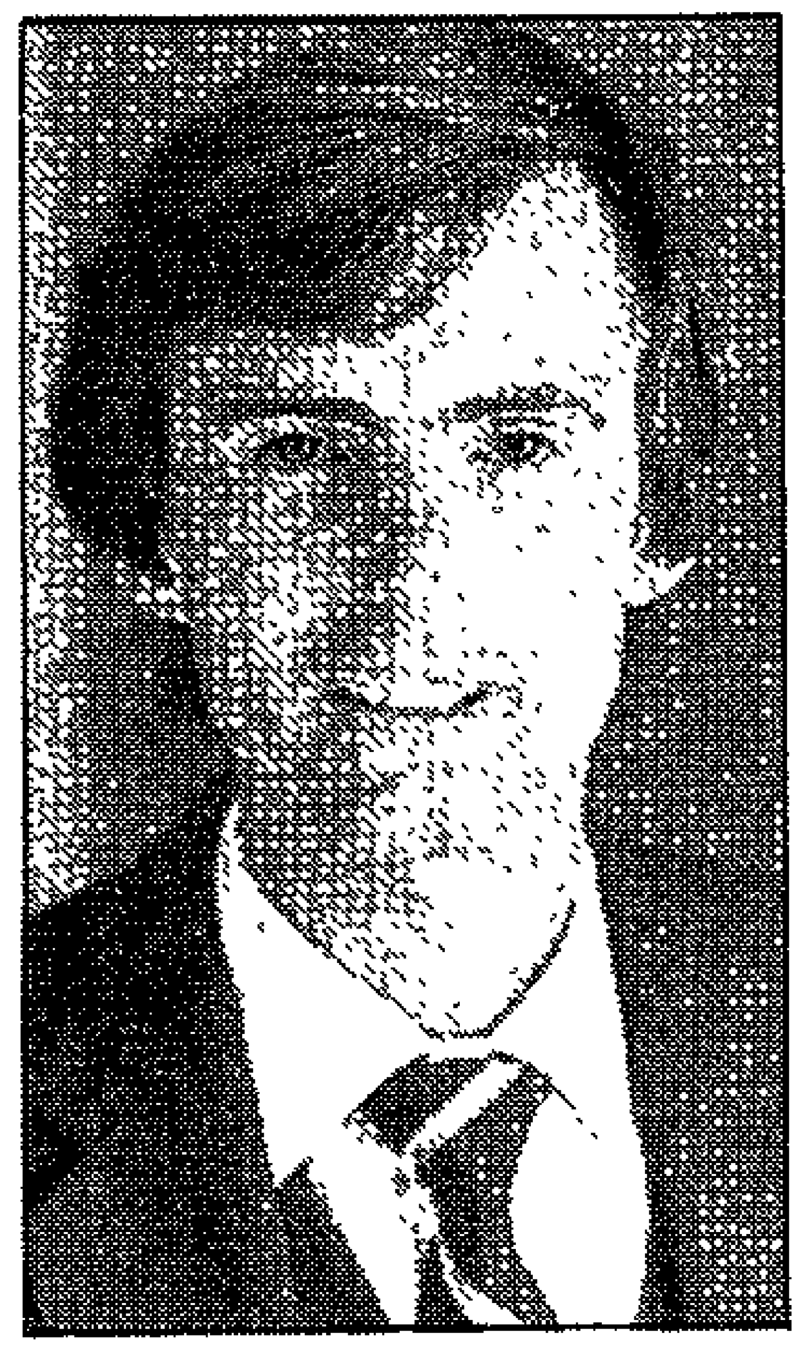
Dr Bruggemans, who spoke at the national convention of the SA Property Owners' Association in Durban yesterday, was generally optimistic about economic growth over the next two to three years.

He said the lower value of the rand against the dollar already was having a powerful effect on export earnings.

Exporters could expect the rand-dollar exchange to drop as low as R3,20 to R3,30 (compared with R2,50 to R2,60 at the begin ning of the current wave of dollar strength).

They could receive a windfall of around 25 percent from this direction — and the mining sector, in particular, was likely to be very grateful for the relief provided.

The role of the government sector should not be under-estimated either. Despite the recession, the wage bill of the civil service increased by 22,6 percent last year. Moreover, the rise in the current year was likely to be around 23 percent.



Cees Bruggemans . . . Rand-dollar exchange could drop as low as R3,20 to R3,30.

This helped to explain the resilience in consumer spending in certain areas.

A substantial degree of redistribution was taking place — of "robbing Peter to pay Paul."

The State's stimulatory role also could be seen in the rising level of borrowings.

The budget deficit, as a percentage of turnover, had risen from 1,6 percent to 2,6 percent last year — and is expected to be 3,4 percent this year — on target. Besides this, quite a lot of off-balance sheet items could occur.

Dr Bruggemans said business optimism now was justified on several grounds — national reserves were healthier and the Government would ensure the economy was in an upswing to intoxicate voters when they are asked to vote on a new constitution in two to three years time.

He estimated the Government could call on foreign and other reserves of R20 billion to sustain the upswing.

This included foreign reserves of R9 billion, oil stockpiles of R5 billion and other stockpiles of R1 billion.

The International Monetary Fund could extend facilities of up to R15 billion should SA reach its political milestones and go into deficit in its balance of payments "which is easy to do".

These facilities could help the authorities to prolong the next upswing phase of the economic cycle.

He believed that phase could see annual economic growth of 3,6 percent — with a peak of around 4,5 percent.

The JSE had been reflecting optimism about the upswing for some time and may even have overdone the enthusiasm — meaning a correction was on the cards.

The very bottom of the current recession, probably was reached early this year but it will take 12 to 18 months for businesses to start to feel the effects.

Turning to interest rates, Dr Bruggemans said the Reserve Bank could be expected to follow the "middle road" in handling interest rate cuts during the coming economic upswing.

He did not expect the central bank to cave in to political pressures — nor to be completely insensitive to business needs.

Businessmen and consumers should not expect rates to tumble at the same pace as they did in the last upswing as the bank would maintain its tight monetary policy in the battle against inflation.

However he did expect the bank to allow a one percent drop in rates about every six months — leading to a prime rate of about 17 percent by the end of next year.

The central bank now clearly was independent of government controls — evidenced in recent pleas from Treasury officials for interest rate cuts to be considered.

SA's challenge is economic — Wrighton

B/Day 20/6/91 (49)

MARCIA KLEIN

WHILE President de Klerk's political reforms were "undoubtedly irreversible", the challenge on the road to democracy was "far less political than economic", Premier chairman Peter Wrighton said in the group's annual report.

The SA economy needed to grow at a rate in excess of 3% a year for the country to have a chance of a successful future, and by delaying the return to growth "we are narrowing our window of opportunity during a dangerous turbulent time", he said.

In this regard, the increasing degree of accord between government, extra-parliamentary political organisations and business on important points of economic policy was encouraging.

All had emphasised growth, he said, with government and business focusing on the supply side and the ANC on demand-led growth through greater spending power of the masses.

The recognition by black political leadership of the important role of the private sector in a future economy indicated increasing realisation of the benefits of a market economy, Wrighton said.

Wrighton welcomed the reduction of company tax and the lowering of import surcharges and input tax credits on VAT on the purchase of capital and intermediate goods.

He said a source of concern was the continuing trend of declining investment, continuing strict monetary restraints to curb inflation, and unemployment reaching dangerous levels.

Despite adverse circumstances, Premier's 26% increase in earnings to R154m was "highly satisfactory", he said. The long-term target over a five-year period of exceeding inflation by at least 5% per annum (which was achieved in financial 1991) has been redefined to an annual compound growth rate over a five-year period of inflation plus a third.

A chance for Third World countries

B Day 20/6/91 (49)

IT'S WIDELY held that the force behind economic growth is increased national productivity.

It's also been shown that such productivity increases are affected by investment in, and successful adoption of modern technological methods in all segments of an economy, says Punch Line Columbia Training GM Jacqui Kabatznik.

Third World countries have battled for the growth found in developed countries, but she says changes have come with the knowledge revolution and the advent of the PC.

"Successful use of computer technology and new technological infrastructure can instantly place previously backward countries at the forefront of economic activities.

"There are huge installations set up to process paperwork, transactions and other functions of the service based sectors.

"Many organisations are moving these processing operations out of metropolitan areas into areas where labour is less expensive, yet educationally on a par with urban workforces.

"This is one area of opportunity for less developed nations.

Allows

"Communications technology allows these operations to take place anywhere in the world.

"There is thus no reason why less developed countries can't attract a share of this market," she says.

But for Third World countries to ~~take~~ advantage of the computer revolution, the knowledge and education component of the transfer of technology must take centre stage.

"All areas of computer literacy must be emphasised — from rudimentary keyboard skills to applications training and sophisticated programming.

"This is a new educational challenge.

"The developing nations have a rare opportunity to compete on a level playing field.

MONETARY POLICY (49)

MAPPED OUT FM 21/6/91

A useful indicator of the stance of monetary policy is the differential between the "natural" rate of interest and the actual rate, says UBS economist Hans Falkena in the latest *United Perspective.*

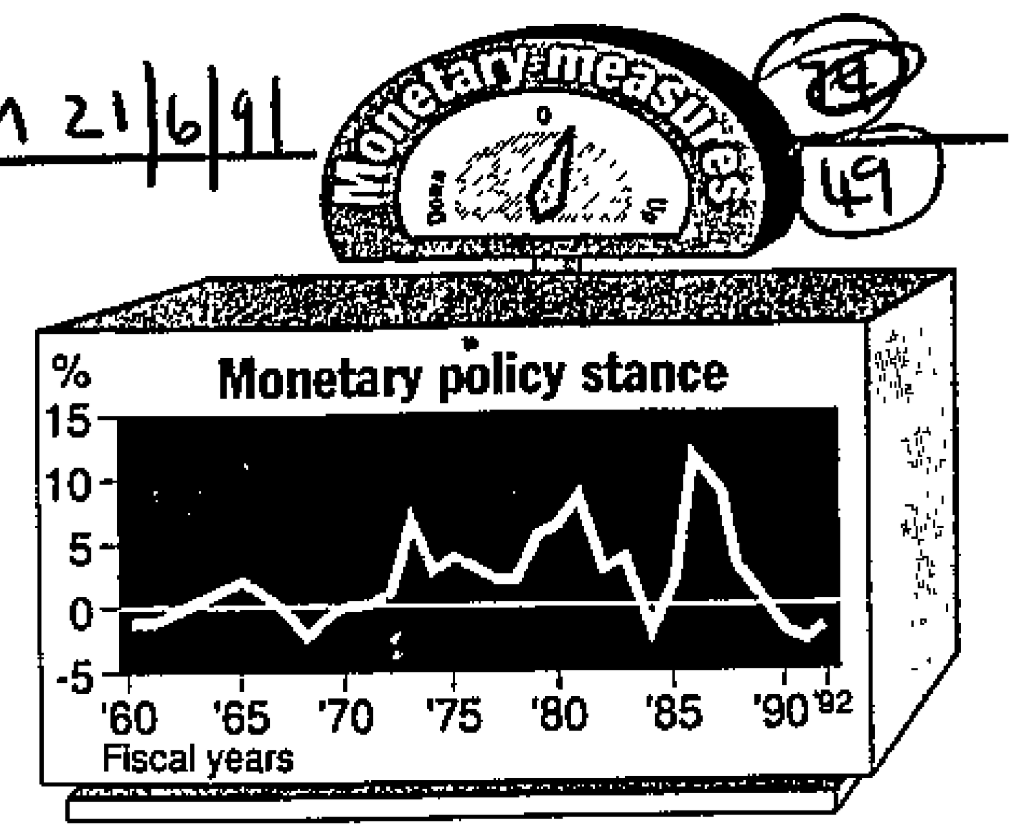
"The natural rate," he says, "should depend on profit expectations of entrepreneurs. For instance, the forward rate that balances the supply and demand for forward foreign exchange (in the absence of official interference in this market) is an acceptable proxy for the natural rate as it adequately reflects profit and inflation expectations of exporters and importers."

The actual rate should be either the Bank rate or a market rate such as that paid on bankers' acceptances. If the natural rate is lower than the actual rate, the differential is negative and monetary policy is restrictive; and if it is higher, the differential is positive and monetary policy is expansionary.

Falkena uses this differential to illustrate the stance of monetary policy since 1960 (see graph). In the period, policy has been con-

Continue →

FM 21/6/91 (49)



tractionary for only a limited number of comparatively short periods.

The change in the policy stance is also relevant, says Falkena. "This is defined as the impulse of monetary policy. A positive impulse implies that monetary policy becomes more expansionary or less restrictive. Conversely, a negative impulse indicates a tighter stance or a less expansionary one."

The significance of this "impulse measurement" is that the monetary authorities are more interested in the direction of a policy measure than in its absolute level.

"Since the early Seventies and up to about 1988 the successive impulses of monetary policy were extremely volatile.

Considering the high inflation rate and the far more subdued changes in the business cycle, this volatility indicates the erratic impact of monetary policy. Fortunately, since 1988, monetary policy has been more consistent as it becomes progressively tighter to address the inflation problem."

Falkena examines the consequences of an actual rate that is too low in relation to the natural rate. "If Bank rate is below its natural rate, you will have massive switching from foreign to domestic financing, which will blow up the money supply, in turn fuelling inflationary pressures in the economy." ■

No. 1398 **21 June 1991**

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APPLICATION OF ACT TO A COUNTRY TO WHICH IT DOES NOT EXTEND

I, David de Villiers Graaff, Deputy Minister of Trade and Industry and Tourism, acting on behalf and by direction of the Minister of Trade and Industry and Tourism, hereby provide, by virtue of the powers vested in him by section 37 (1) of the Copyright Act, 1978 (Act No. 98 of 1978), as amended, that the provisions of the above-mentioned Act shall apply to Honduras in the same manner as it applies to those countries in respect of which the provisions of the Act have already been made applicable.

This notice shall take effect on publication.

No. 1398 **21 Junie 1991**

WET OP OUTEURSREG, 1978
(WET No. 98 VAN 1978)

TOEPASSING OP 'N LAND WAT NIE DAARONDER VAL NIE

Ek, David de Villiers Graaff, Adjunk-minister van Handel en Nywerheid en Toerisme, handelende namens en in opdrag van die Minister van Handel en Nywerheid en Toerisme, bepaal hierby, kragtens die bevoegdheid hom verleen by artikel 37 (1) van die Wet op Outeursreg, 1978 (Wet No. 98 van 1978), soos gewysig, dat die bepalings van die Wet op Honduras van toepassing is op dieselfde wyse waarop dit van toepassing is op daardie lande ten opsigte waarvan die bepalings van die Wet reeds van toepassing gemaak is.

Hierdie kennisgewing tree in werking by publikasie.

DEPARTMENT OF WATER AFFAIRS AND FORESTRY

No. 1420 **21 June 1991**

PROHIBITION ON FIRES IN THE OPEN AIR: DISTRICTS OF LETABA AND PIETERSBURG

By virtue of the powers vested in me by section 25 (1) of the Forest Act, 1984 (Act No. 122 of 1984), to prohibit the making of fires in the open air by publication of a notice in the *Government Gazette* for such period as I may deem fit, I hereby give notice that the period during which the prohibition notice mentioned below will be in force, is hereby amended to be effective **from 1 August 1991 up to an including 31 October 1991:**

Notice 1254 dated 7 June 1991, published in *Government Gazette,* No. 13286 of the same date.

J. D. RAATH,
Deputy Director-General: Forestry.

DEPARTEMENT VAN WATERWESE EN BOSBOU

No. 1420 **6 Junie 1991**

VERBOD OP VURE IN DIE OPE LUG: DISTRIKTE LETABA EN PIETERSBURG

Kragtens die bevoegdheid my verleen by artikel 25 (1) van die Boswet, 1984 (Wet No. 122 van 1984), om die maak van vure in die ope lug by kennisgewing in die *Staatskoerant* te verbied vir sodanige tydperk as wat ek dienstig ag, gee ek hiermee kennis dat die tydperk waartydens die verbod soos in die ondergenoemde kennisgewing sal geld, hierby gewysig word om **vanaf 1 Augustus 1991 tot en met 31 Oktober 1991** van toepassing te wees:

Kennisgewing 1254 van 7 Junie 1991, gepubliseer in *Staatskoerant* No. 13286 van dieselfde datum.

J. D. RAATH,
Adjunk-direkteur-generaal: Bosbou.

GENERAL NOTICES • ALGEMENE KENNISGEWINGS

49

NOTICE 528 OF 1991

SOUTH AFRICAN RESERVE BANK

Statement of assets and liabilities on the 31st day of May 1991

	1991-05-31	1991-04-30	Change
Liabilities	R	R	R
Share capital	2 000 000,00	2 000 000,00	—
Reserve fund	77 831 863,11	77 831 863,11	—
Notes in circulation	10 111 635 208,00	9 997 800 500,00	113 834 708,00
Deposits:			
Government	4 639 640 653,45	3 254 921 588,33	1 384 719 065,12
Provincial administrations	552 995 909,32	587 637 223,43	(34 641 314,11)
Deposit-taking institutions	1 563 925 417,07	1 862 837 726,85	(298 912 309,78)
Other	95 366 227,43	535 157 824,85	(439 791 597,42)
Other liabilities	8 590 172 656,43	7 867 414 237,07	722 758 419,36
	R25 633 567 934,81	**24 185 600 963,64**	**1 447 966 971,17**

49

	1991-05-31	1991-04-30	Change
Assets			
Gold	4 439 751 567,65	4 344 634 707,84	95 116 859,81
Foreign assets	2 743 778 612,99	2 643 022 635,00	100 755 977,99
Total gold and foreign assets	**7 183 530 180,64**	**6 987 657 342,84**	**195 872 837,80**
Domestic assets:			
Discounted bills	2 395 450 000,00	1 784 850 000,00	610 600 000,00
Loans and advances:			
Government	—	—	—
Other	1 087 942 237,88	1 069 436 350,23	18 505 887,65
Securities:			
Government	970 857 420,84	530 997 270,94	439 860 149,90
Other	1 122 985 044,00	1 122 985 044,00	—
Other assets	12 872 803 051,45	12 689 674 955,63	183 128 095,82
	R25 633 567 934,81	**24 185 600 963,64**	**1 447 966 971,17**
Rand per fine ounce	904,53	889,27	15,26
Gold holdings in fine ounces	4 908 352	4 885 619	22 733

Pretoria, 7 June 1991.

C. J. SWANEPOEL,
General Manager.

KENNISGEWING 528 VAN 1991

SUID-AFRIKAANSE RESERWEBANK

Staat van bates en laste op die 31ste dag van Mei 1991

	1991-05-31	1991-04-30	Verandering
Laste	R	R	R
Aandelekapitaal	2 000 000,00	2 000 000,00	—
Reserwefonds	77 831 863,11	77 831 863,11	—
Note in omloop	10 111 635 208,00	9 997 800 500,00	113 834 708,00
Deposito's:			
Regering	4 639 640 653,45	3 254 921 588,33	1 384 719 065,12
Provinsiale administrasies	552 995 909,32	587 637 223,43	(34 641 314,11)
Depositonemende instellings	1 563 925 417,07	1 862 837 726,85	(298 912 309,78)
Ander	95 366 227,43	535 157 824,85	(439 791 597,42)
Ander laste	8 590 172 656,43	7 867 414 237,07	722 758 419,36
	R25 633 567 934,81	**24 185 600 963,64**	**1 447 966 971,17**
Bates			
Goud	4 439 751 567,65	4 344 634 707,84	95 116 859,81
Buitelandse bates	2 743 778 612,99	2 643 022 635,00	100 755 977,99
Totaal aan goud en buitelandse bates	**7 183 530 180,64**	**6 987 657 342,84**	**195 872 837,80**
Binnelandse bates:			
Gediskonteerde wissels	2 395 450 000,00	1 784 850 000,00	610 600 000,00
Lenings en voorskotte:			
Regering	—	—	—
Ander	1 087 942 237,88	1 069 436 350,23	18 505 887,65
Sekuriteite:			
Regering	970 857 420,84	530 997 270,94	439 860 149,90
Ander	1 122 985 044,00	1 122 985 044,00	—
Ander bates	12 872 803 051,45	12 689 674 955,63	183 128 095,82
	R25 633 567 934,81	**24 185 600 963,64**	**1 447 966 971,17**
Rand per fyn ons	904,53	889,27	15,26
Goudbesit in fyn onse	4 908 352	4 885 619	22 733

Pretoria, 7 Junie 1991.

C. J. SWANEPOEL,
Hoofbestuurder.

(21 June 1991)/(21 Junie 1991)

INTEREST RATES FM 21/6/91

OUT OF STEP (49)

The rate on the Eskom 11% moved over 16% at the close of business on Friday, for the first time since January. This benchmark rate has risen steadily from a low of 15,37% on February 19, reflecting declining confidence in political developments and a revival of inflationary expectations. It was given further impetus by sales of government stock of just over R3bn in April-May, the first two months of the fiscal year.

While investors are reluctant to lock into longer-term investments, they are seeking paper in the money market. Surplus funds coming from increasing foreign exchange reserves and government spending have reduced the shortage (despite central bank intervention) to under R2bn. This is well below a high of R2,3bn in January and the 1990 high of R4,8bn that January.

Short rates are propped up only by continual Reserve Bank operations to remove cash from the system. On Friday, the Bank sold R300m liquid RSAs (government stock of under three-year maturity), with an undertaking to buy back within 12 days (giving banks the opportunity to enter a reverse

Continued ->

FM 21/6/91

repurchase agreement.) The offer was oversubscribed, attracting tenders of R720m.

This is only the latest in a series of moves, which include offers of special Treasury bills and dollar swaps, which have flattened the slide in short rates. In recent weeks, rates on liquid bankers' acceptances (BAs) have remained around 16,75%-16,8% and on six-month certificates of deposit at about 17,3%.

The yield curve is still inverse (long-dated stock is yielding less than short-dated securities), as it has been since the end of 1989, after Bank Governor Chris Stals pushed Bank rate to 18%. The market's confidence in his anti-inflationary policy sent the Eskom 11% below 15,5%, while the rate on three-month BAs rose to around 18%.

Later (despite unwavering monetary policy) confidence waned and the BA rate moved down, blipped up twice in the second half of last year, and then fell to present levels. The Eskom 11% moved generally upward for most of 1990, falling steeply towards the end of the year, and resuming its upward path in February.

With rates back over 16% there may be a revival of institutional interest. ■

ARGUS 21/6/91

ANC plans using private assets

49

From JEREMY REES

DURBAN. — The private sector will be required to help fund the infrastructure for housing, schools, hospitals, roads, water, electricity and other services in the new South Africa, the Director International Affairs for the ANC, Mr Thabo Mbeki, told delegates at the South African Property Owners Association annual convention yesterday.

The new Government would be obliged to tap the vast sums available from such financial institutions as Old Mutual and Sanlam.

"The Government would prefer such funds to be made available on a voluntary basis and not through legislation," Mr Mbeki said.

State expenditure would also have to be reviewed — in particular the R10 billion now spent on defence.

"After all, there is no external threat from Swaziland or Lesotho or even Zimbabwe," he said.

It would also be necessary, although perhaps difficult, to trim expenditure on the tripartite Parliament and Own Affairs departments.

"I am also told there is a great deal of financial wastage in the failed decentralisation scheme on which a saving could be made."

It might be possible to obtain finance from local government sources, but this would be made difficult if, as is required, the surrounding areas of some cities were to be brought within the municipal boundaries.

Other ways of raising funds could include assistance internationally from the United States.

"We could save money by using to its best the infrastructure we have already in South Africa," he said.

The best recipe for SA is a mix of systems

WMail 21/6 - 27/6/91.

(49)

No to communism. No to capitalism. **ANTHONY HEARD** argues the case for social democracy

THE debate on the merits of communism, social democracy and other systems (*WM* June 14 to 20) should be pushed to its outer limits, and some consensus reached, before a new order emerges in South Africa.

This country has too many apartheid-inflicted wounds, passions and poverty to contemplate delaying the debate till a democratic order is upon us. If begun in a raggedy way at the non-racial hustings, the debate could turn to divisive conflict which would make current violence look tranquil by comparison.

Jeremy Cronin, in common with other communists — or "socialists", as Joe Slovo calls them — is obviously grappling intellectually with the cataclysmic collapse in the East Bloc. Condolences can be offered.

Yet, in his *WM* discussion, Cronin weighs in heavily against social democracy and manages little more than a euphemistic reference to the "failures of the Soviet system", as if it were a passing aberration. It is surely obvious that something seismic has been going on in the Soviet Union and its former satellites, demanding more than the energetic "public assessing" which he indicates is going on in the SACP.

In fact, it is difficult to see how anyone who was attached to the "old" communist philosophy can uphold it any more. Yet it dies hard, and apologies appear frequently in print. Ideological adjustments range from minor tactical ones to great leaps in the direction of liberal and social democracy, a leap Cronin is clearly reluctant to take.

Whatever theoretical or historical justification Cronin and others in the SACP can produce for soldiering on in the same ideological uniform, surely when they survey the debris around them on the ground, in their system, they appreciate that something fundamental has disappeared from their world.

They used to have to cope with the public-relations disasters of Stalinist repression. Hungary, Czechoslovakia, the Berlin Wall, and so on. Now the whole communist engine has gone into reverse thrust. The undignified spectacle is of Oliver Twist, begging bowl in hand before a fat-cat George Bush — a prospect not pleasing to those who believe in healthily-matched superpowers in the interests of world peace.

The dilemma is not unlike that in the 1930s when intellectuals in droves abandoned a presumed mortally-wounded capitalism in conditions of stock market crash and depression — and Joe Slovo justifiably reminded his rather Tory TV audience of this in the recent John Bishop road show.

It remains to be seen whether a Keynes will emerge to rescue communism; or a Tony Crosland who helped chart the course for post-war Labour in Britain. The damage seems too great for ideological rescue. I would wager that, like oil, this will turn out to be communism's one and only century of significance.

Cronin's history and theory apart, consider some hard facts on the ground:

Two of President Gorbachev's senior economic advisers, his chief aide Grigori Yavlinsky and Yevgeny Primakov, have written to the Group of Seven Western political leaders who will be meeting in London in July seeking aid in return for Soviet reform.

They say: "The Soviet economy finds itself surrounded by the obvious collapse of its monetary sphere, its consumer market, and its capital market."

I am no economist, but I would guess this means: economy kaput.

Among the many reforms suggested is this: "Implementation of a wide privatisation and de-monopolisation programme." There is talk of an "open economic system" integrated with the world economy. A genuflexion in the direction of liberalism and social democracy, surely?

Then, after noting the "wonderful" opportunity the July meeting in London offers to reach agreements in principle, an ominous note: "It will be difficult to predict further developments in our country if the momentum is lost."

That sounds uncannily like: country kaput.

And the Soviet need? The current draft figures call for $150-billion in trade credits and investments over five years.

On my calculation, that's nearly four Gulf wars, in cost. That is only the Soviet Union.

And the pain of recuperative treatment after block surgery? A 500-day Soviet plan leading to more than 11-million unemployed within a year.

All this, of itself, does not validate the rampant free-market system, where there is much self-congratulatory victory parading over communism's demise. Communism has collapsed. It did the job itself, almost single-handed.

If anything, the unacceptable face of capitalism delayed the process by making communism sound more acceptable, particularly to young people — and to oppressed blacks in South Africa.

In a country like South Africa, where three-quarters of the people are impoverished and justifiably expect compensation for apartheid, it would be folly to deal with the problem on a strictly capitalist basis. The rich would simply grow richer.

Some measure of mixed economy must emerge, with free-enterprise as extensive as possible, but with its rapacious excesses tamed by government intervention — including anti-monopoly laws, with fangs not gums. Massive new threats to the country, such as Aids and environmental disaster, simply cry out for intervention by the democratically-elected representatives of the people. That's what governments are for.

Call it what you like: social democracy, liberal/social democracy, mixed economy. The best recipe is a mix of systems, with ongoing debate about the extent of state intervention.

Terminology is unimportant when people are starving and depressed. What is important is the closing of the massive gaps in living standards, education, housing and quality of life. The bill is enormous. Dr Azar Jammine, head of the Econometrix think tank, estimates the overall cost at R20- to R30-billion each year for a full decade, to start closing the black/white gap in living standards.

It must be an all-round effort, everyone pushing in the scrum. Let the private sector use its skills and initiative to generate wealth. Let us not grudge people a better living who work hard on their own account, if they do not exploit others.

Let the Jan Steyns forge their remarkable alliances for IDT crash programmes, however miniscule his R2-billion appears compared with the above figures.

But let a democratic government protect the citizens and intervene when necessary, for example, breaking monopolies, cushioning the needy and starting what Namibia calls "development brigades" to train a generation who lost their youth in violence.

● Heard is a former *Cape Times* editor and author of *Cape of Storms* (Ravan R39-95).

BOOKS

Who still needs Marx and Lenin?

W Mail 21/6–27/6/91.

Is a bookstore which concentrates on Marxist literature still relevant? Jean Knoppersen, owner of the leftwing Phambili Books, wants to contribute to current critical debate, reports **FABIUS BURGER**

49

DOES anybody out there need Marx? Or read him, after East European and Russian communism has failed and all that's left is our own Joe Slovo, who wanders the land, a lonely but lively soul, assuring everyone that hard-core communism will still work?

These questions don't daunt Jean Knoppersen, owner of the leftwing Phambili Books in Johannesburg that actually has Marx, Engels and Lenin on the shelves. This persistence with tradition has left the shop open to some ...well, unkind jibes — from the Left, of all places — that his bookshop's got to be the last one left in the post-glasnost world that stocks books from Russia. The current joke: is keeping pre-glasnost books from Progress Publishers progress?

Even the South African Communist Party isn't that keen on bookshops, according to hearsay, preferring party members to stick to literature generated by the party. Bookshops can confuse the rank and file with too many conflicting ideas, while the leadership has to concentrate on a plethora of theories about the failure of communism.

Knoppersen's response: a hearty laugh. Talk to his buyers, he says. They're a very varied crowd, but those belonging to the SACP still buy Marx and Lenin: debates and politics need to be grounded in theory, and those writers remain the most insightful in analysing society in spite of the complex changes in Eastern Europe and the Soviet Union.

Karl Marx ... does anyone read him any more?

And surprise! Russian publishing's kept up with the debate, producing some of the most interesting theories on current communism and its crack-up. Their post-glasnost literature has found a new spirit of critical discussion in the Soviet's loss of a power base and the country's not having to prove or consolidate power anymore.

Phambili, says Knoppersen, wants to contribute to current critical debates. The Left is traditionally known for Debate. (Right-wingers, on the other hand, tend to thump dissidents over the head.)

Phambili, in fact, is now the distributor of a variety of Russian books, including Progress Publishers, that issues the standard works of Marx, Engels and Lenin; Reduga that publishes children's books; Aurora that prints art books, Novosti that specialises in social issues and non-fiction, and Mir and Nedra that do books on science and technology. Phambili will also stock various magazines, including the recently unbanned *New Times* — which now has a permanent correspondent based in Pretoria.

But the debate's not only Russian. Phambili also carries magazines like the radical American *Guardian*, and *International Socialism*, literature from local political organisations — including the SACP — and recent academic books on current developments in cultural theory, feminism, Eurocentrism, film and so on.

Phambili, with the Community Resource and Information Centre, is also part of the "Books for the Struggle" campaign started by students at Johns Hopkins University in Baltimore who won a R185 000 law suit earlier this year against rightwingers who, in 1986, firebombed a shanty town the students built on their campus to protest against apartheid. The campaign will supply books to community resource centres, youth and women's groups, trade unions, or any mass movement organisation in the liberation struggle.

And that's not all. The debate continues — in the bookshop at 22 Plein Street, Johannesburg. On Thursday, June 27, starting at 6.30pm, various speakers will discuss and debate the relevance of Marx, Engels and Lenin. On July 25, another debate will discuss gay issues in the new South Africa. Everyone's welcome. Inquiries can be made at Phambili Books (011) 29 4944.

Does all this activity mean a bright future for leftwing bookshops? Perhaps. Knoppersen's optimistic, and talking about a branch in Cape Town — if all this activity continues.

Time crunch for economy

ST Times 23/6/91 (Bus Times) (49)

By IAN SMITH

THE Nedcor/Old Mutual economic scenario for the new South Africa, playing to packed houses around the country, presents stark choices for a future government.

The hard-hitting presentation, which will not be published in full until September, begins by painting a grim picture of the country's economic future if present trends continue.

It ends by showing that growth and prosperity can be achieved if business, government and other influential bodies co-operate in striving for specified economic goals.

Banking group Nedcor and insurance giant Old Mutual poured some R2-million into the study that was carried out by 22 businessmen, economists and academics — including Professor Bruce Scott of Harvard University and French futurologist Pierrre Wach — representing the full political and economic spectrum from left to right.

Surprisingly the findings of the report are a consensus of their opinions. It bears the signature of each member of the panel that worked under the chairmanship of Perm Building Society chief executitve Bob Tucker.

Members of the Press at the presentations were forbidden to publish what they heard. But a Business Times reporter who did not attend has pieced together this article from conversations with several of the thousands of individuals who did.

The decision to present the scenario to selected audiences only has been criticised, but panel members say it has paid dividends by attracting business and political leaders to sit through the presentation in its entirety.

Another possible reason is that the presentation has been well-received by some left-wing organisations who would prefer that their relatively moderate views on economic policy not be made known at this stage.

The report begins by highlighting the country's unemployment that, it says, could rise from 5,4-million in 1989 to 6,7-million in 1995 in even the most optimistic of currently accepted economic growth projections.

It states that per capita income is falling at about 1% a year and that the government would have to double its entire expenditure budget to achieve immediate parity in social spending.

It concludes that the currently predicted economic performance cannot meet black expectations; there will be a continuing decline in white earnings; and, even so, whatever redistribution takes place will fail to stem disintegration of many black communities.

Transition

The report says history has shown that transition from an authoritarian to a democratic society cannot take place in the absence of strong economic performance.

Where transition has been successful, there has been a national compact between business, trade unions and government.

Most countries that have achieved economic success in recent years have had no economic resources to speak of — only strategies. In most cases, government intervention has been self-defeating. But the "right kind" of government intervention does work.

Key features of a successful economic strategy include competitive exchange rates; targeted industrial protection; emphasis on manufacturing; fiscal and monetary discipline; and investment rather than consumption-led spending.

The report says no country that has achieved successful economic reform has done so without an authoritarian government. Populist governments cannot enforce the discipline that is required.

It says after World War 2, US experts believed Japan would be a basket case for decades. Its labour was thought to be lazy and uneducated but the country achieved success by a change of will and a change of strategy.

The report says SA has an over-valued exchange rate, over-protection, consumption-led growth, a big public sector, inward-orientated manufacturing, high inflation and low productivity which have lost shares of world markets

However, it acknowledges that the economic strategy is changing.

SA now has positive interest rates, consumer subsidies are being phased out and there is more fiscal discipline.

It says the key players in SA are committed to negotiating political matters and that agreement on a new constitution is relatively close. Agreement on economic and social issues will be harder to achieve.

The first election under a new constitution is likely to take place after March 1995, the report says.

The panel believes that the price of gold is likely to be low over the long term, and there will be more retrenchments and cuts in investment at local mines. SA should not rely on gold in the long term for foreign exchange earnings or as a major provider of employment. The industry will probably be in decline until 1995.

It has been said that SA's route back into the world community lies through Africa. But, in reality, Africa's route back to the world economic community is through SA and it must now be Africa's engine for growth.

But SA must be seen to be different to avoid being lumped together with the rest of Africa.

A combination of mass housing and electrification projects is seen as offering the best prospect of a kick-start to the economy.

They would have visible benefits to blacks and have a high multiplier effect, generating activity for small business with low imports. They would also attract foreign development capital and boost business confidence.

The report proposes a plan to provide 200 000 low-cost houses and 200 000 serviced sites. Government would give the sites free while the private sector would provide R2-billion in loans of about R10 000 each at market rates.

This could come from a prescribed percentage of cash-flow of financial institutions.

Such a scheme could lead to positive growth in 1992/1993 and create 200 000 jobs.

It says Eskom and industry are capable of electrifying one million houses a year. R2-billion would be needed for this which would bring growth in 1992/93/94 and 250 000 extra jobs.

It proposes free compulsory education for all in primary school and suggests that the private sector help with job-orientated secondary education.

It suggests a job corps to give training, jobs and discipline to young blacks. The corps should be voluntary, non-military and pay small wages to those in it who could work on the housing and electrification projects.

Incomes

The report states that these projects must and could work within inflation and BOP constraints.

As a second phase of economic development, manufacturing must change from inward to outward-orientation and that manufacturing exports must increase, possibly with help from the IDC.

The report says with an inflow of foreign capital and improved productivity, SA can achieve 5% growth a year for the rest of the decade.

With this scenario we can have our cake and eat it — wealth redistribution can take place while white incomes continue to rise.

The report emphasises the need to tackle economic issues before the political problems have been resolved because there is very little time left.

AS EASTERN EUROPE MOVES BACKWARD INTO THE FUTURE . . .

FRANCIS FUKUYAMA warns that socialism — like illiteracy and superstition — have to be overcome if South Africa is to succeed

Will South Africa move forward into the past?

S/Times 23/6/91.

(49)

SOUTH AFRICA, which is moving towards full democracy, possesses three things eastern Europe is desperately seeking: a functioning market economy, a democratic tradition (albeit limited to whites) and a civil society.

On the other hand, most of the former communist world has one advantage not shared by SA: an almost universal abhorrence of the socialist system and a broad consensus on the need to replace it with democracy and free markets.

The economic thinking of the ANC has been in a deep freeze for several decades. What is thawing is a mixture of orthodox Marxism and a kind of 50s Keynesianism exemplified by the slogan "growth through redistribution".

The winds of *perestroika*, so strong in eastern Europe, have not reached SA. According to Joe Slovo, head of the ANC's close ally, the SA Communist Party, socialism — despite having failed everywhere else in the world — will be built correctly for the first time in SA.

Nightmare

As the political parties — both black and white — prepare to hammer out a new constitution based on one man, one vote, three possible futures await SA.

The first scenario, and most optimistic, is that the future SA will be something like Germany — that is, the developed part of the country will peacefully absorb the less developed part and, while suffering a temporary drop in living standards, will ultimately bring it up to its level.

At the opposite end of the spectrum is the nightmare of Lebanon, with uncontrolled civil strife and violence among ethnic populations.

In between is a Latin American model, where decline is not so much political as economic: massive increases in public spending followed by hyperinflation, leading to a situation like that of Brazil (if one is optimistic) or Peru (if one is pessimistic).

Of these different futures, the least probable is the German model. Indeed, the Germans themselves are discovering that absorbing their formerly communist neighbours, who share a common language, ethnicity and culture, is going to be far more costly and difficult than they initially thought.

SA's five million whites simply do not have the resources to bring 30-million blacks up to the level of a modern First World country.

The township violence suggests the second scenario is more likely — that SA will come to resemble Lebanon. This is the fate that has befallen two ex-colonies, Angola and Mozambique, with truly horrific results.

Though many of the same ingredients exist in SA, many whites are surprisingly confident that they can avoid the political free-fall that characterised Angola and Mozambique.

First, the whites know they are the best-armed and most cohesive tribe in southern Africa; if push comes to shove, they are positioned to defend themselves and could send the black economy into a rapid and abysmal tail-spin.

Following the collapse of communism, the international climate is also much more favourable for a peaceful transition than when Angola and Mozambique gained their independence in the 70s.

Third, many white South Africans are confident that, despite the troubling policy positions taken by the ANC, there is a flexibility and lack of fanaticism in black political culture that will make it possible for the radicals to be "brought along" to support a core of Western liberal economic and political institutions.

If a future SA will resemble neither Germany nor Lebanon, and if its economy remains too strong for it to sink into African poverty in the short term, the question becomes which Latin American country it will take after.

Promises

For, if it seems just possible that SA can skirt a political maelstrom of instability and violence, it is hard to see how it can avoid long-term economic deterioration.

The starting point for this deterioration is the undeniable need for the redistribution of wealth within the country.

The problem is that any large-scale attempt to right this economic wrong over a short period of time would undermine the basis for wealth creation that is the only hope for black SA.

Were the ANC to attempt to implement its current economic programme today, it would begin by massively increasing public spending on those social services that were so lackin ; for blacks in apartheid SA.

The ANC has a rather naive belief in how much foreign capital it can attract, based in part on over-zealous promises by Western sympathisers.

Like others around the world, its leaders believe in the Cargo Cult of the 90s, the mythical Japanese investor or American foundation that will bring capital to SA once its industries have been "democratised". In fact, financing would have to be largely internal.

One of the most urgent tasks for the ANC or any future black government of SA will be to prevent an exodus of skills.

However unfair the current degree of white property ownership, and however insulted and injured the black population has been by the apartheid system, the future economic prospects of SA will depend to a large extent on whether the whites can be persuaded to stay on in a non-racial, post-apartheid democracy.

The same sort of bitter irony also characterises the Soviet Union and eastern Europe, where former communist managers and party bosses are ending up as the region's entrepreneurs and businessmen because they have the know-how necessary to make the economy work.

[illegible] ed to stay unless the new government undertakes to protect their property rights and to ensure their physical security.

It is hard to overstate the potential economic disaster for SA were a white exodus to occur. The rest of sub-Saharan Africa has been moving backward economically at a breathtaking pace for most of the past decade.

While SA's per capita gross national product has also been falling, the rate of decline is nowhere near that of the rest of the continent: absolute GNP for the six most populous economies of sub-Saharan Africa fell at an average rate of 0,8 percent a year between 1981 and 1987, while per capita GNP fell at a rate of about four percent a year.

Africa's cities have been de-industrialising, its roads and communications systems collap- ing and its environment underg- ing rapid degradation.

This region's 450-million pe ple now produce about as mu wealth as Belgium's 10-milli and many parts of Africa a poorer than when they gai their independence.

Assets

Sadly, it would appear th colonialism, far from having be responsible for Africa's pover was in fact a major source skills and infrastructure and th region has become worse off ec nomically the further from co nialism is has moved.

This is not meant to justi

QUESTION 3 (27 marks)

The bookkeeper of Profiles Sporting Equipment has prepared the following financial statements at 28 February 1990:

Profiles Sporting Equipment

Balance sheet at 28 February 1990

	R	R	R
CAPITAL EMPLOYED			
Owner's equity			
Capital balance - 1 March 1989			19 000
Add: Contribution 30 June 1989			10 000
			29 000
Add: net profit			3 530
			32 530
Accrued expenses			
			24 250

either colonialism or apartheid, but only to be realistic about the economic dangers facing this part of Africa.

Brazilians say of themselves that their land has such natural assets that they can repeatedly mess up economic policy and still not starve: SA, for all its mineral wealth, does not have this kind of margin for error.

The best long-term guarantee for stable democracy in a future SA would be for the black population to undergo the same process of social evolution as the Afrikaners experienced earlier in the century — from poor, illiterate farmers to literate blue-collar industrial workers to college-educated white-collar managers and professionals.

SA's problem is that the forces of economic modernisation have only begun to operate on the much larger black community, whose starting point was in any case considerably behind that of the Afrikaners.

In many townships, it is impossible to re-create even the sweatshops of Hong Kong, since potential seamstresses cannot read the instructions on their sewing machines.

The architects of the apartheid system have themselves to blame for much of this state of affairs, since apartheid sought to obstruct the social modernisation of the black community.

This was worsened, however, by the politicisation of the past 15 years. Blacks have retreated significantly in social terms: there is an entire generation of township "comrades" who refused what education they were offered and are now part of a semi-criminal underclass. For this, the ANC must share the blame.

The main obstacle to black social modernisation in the future may well be the belief in socialism on the part of the ANC and its communist allies. Capitalism, if left to itself under a system of truly equal political rights, will tend to modernise SA society and bring about what Tocqueville called an "equality of condition".

Unplanned and without resort to coercion, capitalism fosters an enormous social revolution, tearing people away from traditional attachments and forms of authority and bringing about a new order in which education, skill and work, rather than race or tribe, determine a person's status.

Obstacle

Socialism has always presented itself as a higher and more progressive form of social organisation than capitalism. But in the contemporary world, socialism has been revealed to be an obstacle to social and economic modernisation — the hallmark of a certain kind of backwardness that needs to be overcome, just like illiteracy and superstition.

The countries of eastern Europe are moving rapidly backward into the future, undoing the legacy of 40 years of dictatorship and socialist planning. Let us hope that SA, as it makes the necessary transition to democracy, does not move forward into the past.

☐ *Mr Fukuyama, formerly with the US State Department, is the author of The End of History and The Last Man, which will be published in January by Free Press. This article appeared in the Wall Street Journal.*

Strict monetary policy is starting to work — expert

B/Day 24/6/91

49

188

Business Day Reporter

GOVERNMENT's strict monetary policy appears to be starting to work, says Sanlam chief economist Johan Louw.

In his latest economic survey, Louw says indications are that SA consumers have been living more within their means since the end of last year. And the rate at which personal debt increases has declined sharply.

However, he still feels special measures are needed to correct structural problems — specifically to establish a healthier relationship between spending and saving.

This problem is worsened by the process of income redistribution, as it is placing upward pressure on consumption and, at the same time, adversely affecting personal saving.

Louw considers it appropriate that government is maintaining positive real interest rates and continuing efforts to reduce inflation to a more acceptable level.

The downturn in the SA economy has lasted almost 28 months and is not expected to bottom out before late this year or early next year. This will make the current downswing about twice as long as the average since the Second World War.

Preliminary figures for the first quarter this year indicate that the real gross domestic product has declined for the sixth quarter in succession. This means SA has been in a recession since the last quarter of 1989. But the non-agricultural sectors of the economy have not experienced a true recession even now, says Louw; real economic growth rates in these sectors have not been negative for two consecutive quarters.

On the face of it, the current downturn is reasonably moderate. This is related to the relatively small decline in real spending on goods and services. But, because the recession has lasted so long, it is beginning to have serious consequences for many people and companies.

Concerning inflation, it would appear that the rate will remain high in the months to come, and could even accelerate. A year-on-year increase in the consumer price index of just under 15% is expected for the end of the year. Approximately the same rate is foreseen for the full year.

For 1992, the inflation rate is expected to come down slowly, to about 12% by the end of the year.

Blow for retirement planning

B/Day 25/6/91.

LINDA ENSOR

CAPE TOWN — A last minute change to the Income Tax Act promulgated last week fundamentally tampers with the vested rights of those planning for their retirement, Life Offices Assocation tax committee convenor and Old Mutual's legal advisor Abri Meiring said in an interview.

He said the change had come as a surprise to the industry especially in the light of a categoric government undertaking that changes to the taxation of retirement benefits, as recommended by the Margo Commission, should not adversely affect the vested rights of people providing for their retirement. This was seen as being necessary to promote self-provision for retirement.

The sudden deletion of section 7A (4) of the Act withdrew the provision allowing those who receive a gratuity payment at the time of their retirement to spread the taxable portion thereof over three years.

Whereas previously the first R30 000 of a retirement gratuity was exempt and the tax obligation on the balance was lowered by spreading the tax liability over three years, the entire balance over R30 000 will now be taxed at the time of receipt.

Apart from the loss of the "time value of money" Meiring said the situation would be aggravated because the tax rate would be based on income received in the year of retirement which was normally higher.

The amendment takes effect from August 1 but there is a provision to allow people who have exercised the option before that date to continue to benefit from the 3-year spread.

However, he said: "The long existing plans of people providing for adequate retirement income will be thrown out and the closer they are to retirement, the more difficult they will find it to rectify the position."

An Inland Revenue spokesman said the change had been introduced to streamline the tax system and make SITE more effective.

He said that in terms of an existing provision of the Act a person receiving a gratuity on retirement would benefit by having the gratuity taxed at a lower rate. The gratuity would be taxed separately.

In addition, the first R30 000 of any retirement gratuity would be exempt from tax.

Nationalise, says Saccawu

B/Day 25/6/91

THE 100 000-strong SA Commercial, Catering and Allied Workers' Union (Saccawu) advocated extensive nationalisation without compensation at its third national congress held at the weekend in Johannesburg.

Yesterday Saccawu said it resolved that health, transport and utilities should be nationalised without compensation and banks and other financial institutions should be nationalised.

There should also be "socialisation of the means of production, distribution and exchange".

The union also resolved to remain independent of any political party and to prohibit its top officials from being office-bearers in other organisations. 49

The union said independence from other organisations, the state and "bosses" was in order to position its forces "for a socialist revolution". — Sapa.

Taxman gets VAT's initial phase rolling

GERALD REILLY B/Day 25/6/91

PRETORIA — The first major practical step for the introduction of VAT from September 30 — Operation Vendor Registration — was launched yesterday.

Inland Revenue operational control chief director Chris Dampers said yesterday more than 500 000 forms had been posted to vendors with the warning that they had to be returned within 21 days.

Preparations for the introduction of the new tax were virtually complete, he said.

The department had appointed 780 additional staff, more than 600 of whom would go to the inspectorate staff. A further 386 new workers still had to be appointed. Most would be used to strengthen the inspectorate.

Dempers said the additional cost of nearly 1 200 new staff members would be more than compensated for by the more efficient collection of VAT.

The department was confident that with intensive policing, revenue drainage through loopholes, as experienced with GST, would be plugged.

Dempers said large-scale tax evasion was rife in the GST system. Inspectors had recovered more than R400m in unpaid tax in one year.

The department was confident opportunities for evasion would be reduced to a minimum. But internationally the total elimination of evasions had been found to be impossible.

A more sophisticated audit system for VAT inspections would make evasion extremely difficult and, taking into account penalties, extremely hazardous.

No sign of recovery, says Reserve Bank

CT 25/6/91

JOHANNESBURG. — SA's economy, sapped by weak world gold prices, shows no sign of recovering soon from a slowdown lasting more than two years, the Reserve Bank said.

"Available statistics are as yet not indicating any turnaround in the near future," the Bank said in its quarterly bulletin.

It said the current downswing in the economy had lasted 27 months, far longer than the average cyclical slowdown since 1940 of 17 months.

The economy, measured by real gross domestic product, shrank by an annualised 1% in the first quarter of 1991 after a similar contraction for the whole of 1990, it said.

In spite of its duration, the current downswing has been relatively mild, especially compared with the previous slowdowns in 1981/3 and 1984/6, the Bank said.

"However, recently a slightly sharper and more dispersed downturn in economic activity became discernible," it added.

This was probably largely because of lower economic growth in certain industrialised countries, which resulted in a levelling-off in the growth of SA exports, it said.

"Fortunately, this downturn in world economic growth is generally expected not to last very long," it declared.

Moreover, substantial destocking in the fourth quarter of 1990 was followed by a considerably smaller fall in inventories in the first quarter of this year.

It said the current downswing had been relatively mild because much of it coincided with prolonged growth in the world economy resulting in continuous and fairly vigorous expansion in the volume of local exports.

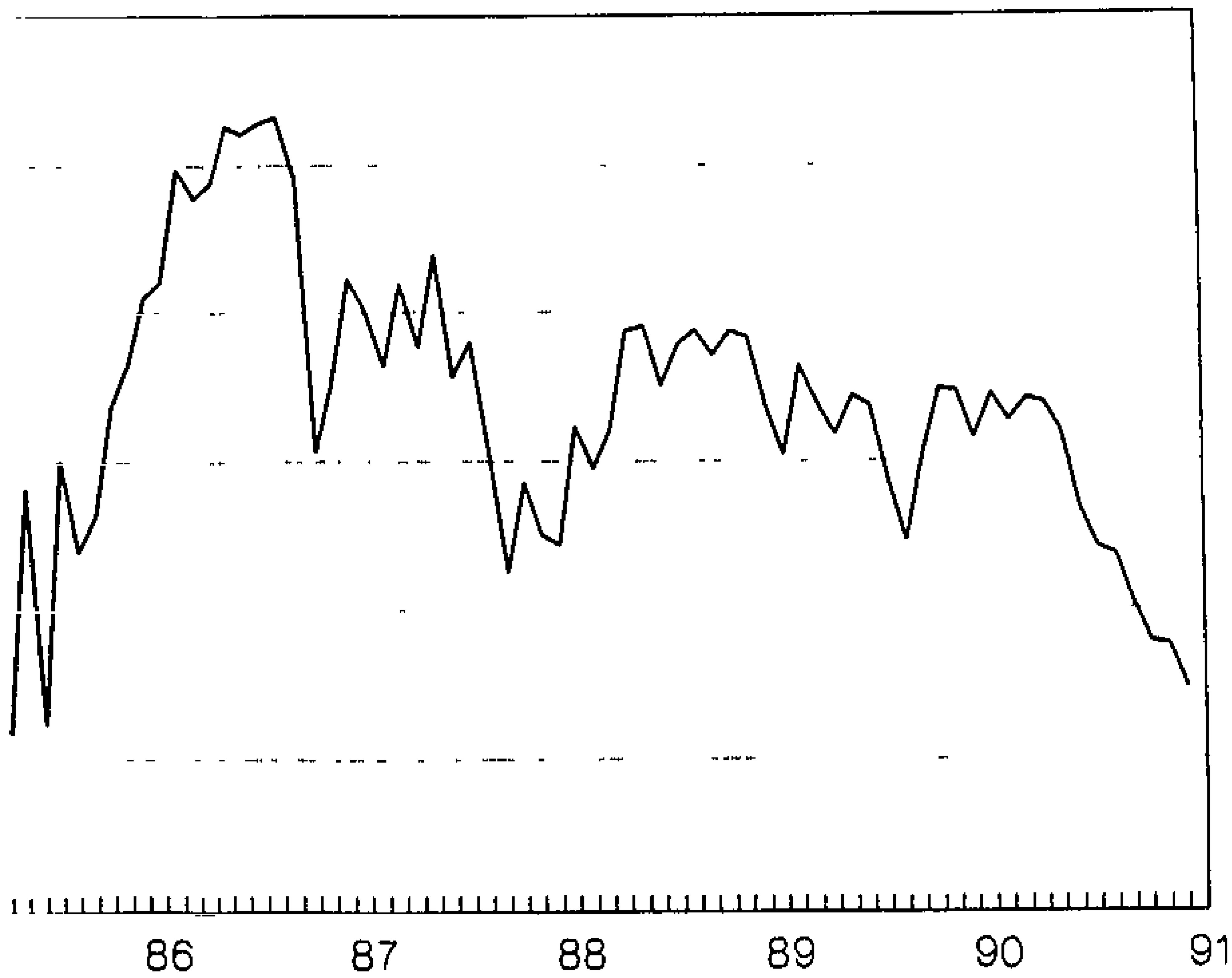
In addition, real private consumption and real fixed investment expenditure had remained fairly buoyant.

The further decline in the economy in the first quarter occurred mainly in mining, manufacturing, and wholesale and retail trading. real output by the construction industry also fell.

Small increases in output were registered in the real value added by agriculture, financial services, general government and transport enterprises.

Falls in manufacturing output were recorded mainly in clothing, non-metallic mineral products, base metals, and machinery and transport equipment. Production of food, paper and printing and chemical products rose. — Reuter

FINANCIAL RAND DISCOUNT



financial rand discount to the commercial rand plunged to about 14 percent in the
· The narrowing gap is owing to an increased demand for financial rands by for-
weakening of the commercial rand against the dollar, says Sanlam, which forecasts
uld fall even further. But the financial rand will not be abolished before South Africa
rmal relations with the international financial community and gains access to IMF
loans again.

Economy falling still, says bank

49

AEG 25/6/91

From DEREK TOMMEY

JOHANNESBURG. — The recession, which is proving to be more stubborn than any since the war, is intensifying, says the Reserve Bank in its quarterly bulletin.

However the bank claims the recession is one of the mildest South Africa has experienced in the past 50 years.

But apart from adding that the downturn in world economic growth is not expected to last very long, the Bank has no view on South Africa's prospects.

Overall, the picture painted of the SA economy is one of gloomy depression.

The Bank reports that the economy has now been contracting for about 27 months.

However in this 27-month period the economy has contracted by only 5,5 percent, compared with 20,5 percent in the corresponding period of the 1984-86 downswing, and 19 percent from the peak to the trough of the 1981-83 downswing.

It says the relative mildness of the current recession is the result, to a large extent, of much of it taking place at a time when the rest of the world was experiencing vigorous growth and South African exports were rising.

Another reason is that South Africans have not stopped spending.

This has been the result of relatively high wage increases and of a redistribution of income to free-spending lower-income groups.

It is also the result, in the Bank's own words, of "the unwillingness of consumers to accept lower living standards".

Another reason given for the high level of spending is the replacement demand for durable goods such as fridges, stoves and furniture.

However the bank says that recently there has been a slightly sharper and more dispersed downturn in the economy.

It blames this on lower exports, owing to the downturn in the world economy, to a slowdown in the rise in personal spending as incomes contract, to the low level of savings, to the reluctance of individuals to borrow more, and to a cutback in black spending caused by violence in townships.

But while personal spending is dropping, Government spending has been rising.

It rose at an annual rate of 16 percent in the December quarter last year and by 19,5 percent in the first quarter of this year.

The current account of the balance of payments fell from a seasonally adjusted annualised rate of R9,7 billion in the fourth quarter of last year to R1,5 billion in the first quarter of this year.

However the Reserve Bank says this was partly related to the crisis in the Middle East.

A fairer comparison would be the surplus of R5,6 billion in the two quarters to March with the R4,2 billion surplus in the third quarter of 1990.

One item of good news reported by the Bank is that there has been a substantial capital inflow this year.

In spite of repaying nearly all its foreign liabilities related to reserves, the Bank's total gold and foreign cash holdings increased by R1,4 billion in the first quarter to R8,7 billion.

Most of this gain has been retained because the drop in April and May was only R99 million.

The improvement in the balance of payments led to a more stable rand exchange rate, although it depreciated against a strong dollar.

But this contributed to the financial rand discount narrowing from 25 percent to 14,1 percent.

On the labour front the outlook remains bleak.

OPINION

Patrick Laurence looks at the ANC's economic manifesto to be debated next week

The money struggle continues

Star 26/6/91.

(49) (128)

RACIAL income inequality is so large that it is a threat to the survival of capitalism in South Africa, writes Michael McGrath, professor of economics at the University of Natal.

His statement, made shortly before President F W de Klerk's momentous speech of February 2 1990, has been thrown more sharply into focus by events of the last 18 months.

The legalisation of the African National Congress, the South African Communist Party and the Pan-Africanist Congress have put the issue of racial inequality firmly on the agenda for the immediate rather than distant future.

The Centre for Policy Studies sums up the situation succinctly when it says of the "new climate of negotiation" initiated by President de Klerk: "... if anything, it has sharpened and intensified ideological claims and counter-claims about the future economy and constitution".

Sounds of the ideological battle have reverberated in the past months. The latest echoes have been triggered by Labour Research Service calculations that the directors of South Africa's top 100 companies earn, on the average, R3 540 a week against an average labourer's wage of less than R180 a week.

The directors of JCI are at or near the top of the pyramid, according to the Labour Research Service.

They earn a little over R11 000 a week, 70 times more than the weekly wage of just under R160 paid to grade four workers at JCI gold mines.

These figures have been disputed, of course.

JCI chairman Pat Retief rejects them as "deliberate distortion".

But, while there may be debate about the precise details of the income disparity in South Africa, there is no doubt that it is a stark feature of the socio-economic landscape and that, in broad terms, these inequalities coincide with race.

As Laurence Harris, professor of economics at the School of Oriental and African Studies at the University of London, observes: "The inequalities are exemplified by the fact that in 1987 whites made up only 14 percent of the population while receiving 57 percent of the total personal income."

Using the Gini coefficient as a measure of inequality, South Africa has a greater inequality than any country in the world for which statistics on household and family income are available.

Apartheid has enabled a tiny elite to appropriate a disproportionate share of the personal wealth.

The richest five percent own 88 percent of South Africa's personal wealth.

One further figure, cited by the Centre for Policy Studies in its publication, "Transition to Democracy", should be quoted: in 1917 the per capita income of blacks was less than a tenth of that of whites; 70 years later it was still under a tenth, having dropped from just over nine percent in 1917 to under nine percent in 1987.

These figures do not take account of informal sector earnings, which, according to Servaas van der Berg of Stellenbosch University, would push per capita earnings for blacks in 1987 to nearly 13 percent of those of whites.

But, as the Centre for Policy Studies puts it, informal earnings do not fundamentally alter skewered income levels "though it may make a difference to many black families at survival level".

The situation has been aggravated for at least a decade by the low economic growth rate.

Since 1980 South Africa's GDP (gross domestic product) has grown by 1,5 percent on average or more slowly than the population growth rate.

One consequence has been increased unemployment (the work force is growing by 2,6 percent a year) and a commensurate rise in social stress and social volatility.

Except perhaps for those on the ultra-Right, everyone from President de Klerk downwards agrees that the problem is grave and that there is an urgent need to address it.

Political settlement cannot be pursued, Mr de Klerk has said, as if the vast socio-economic problems do not exist.

It is against this background that the ANC's draft economic manifesto, prepared for consideration at the organisation's watershed national conference next week, should be assessed.

Its general orientation is reflected in the slogan: "Forward to a democratic mixed economy".

It encapsulates the ANC's bid to steer a middle course between capitalism and socialism.

The preamble, noting the inequalities and stagnation of South Africa's economy, says: "The fundamental framework of our economic policy is that of a mixed economy based on principles of democracy. We are convinced that neither a commandist central planning system nor an unfettered free market system can provide adequate solutions to the problems confronting us."

The manifesto thus does not propose wholesale nationalisation of the economy as a means of eliminating inequality, a step which carries the risk of impoverishing everyone, except for the apparatchiki who will run the show.

The ANC's economists share one point in common with their counterparts who advise South Africa's corporate moguls and its policy makers: the conviction that economic growth is a prerequisite to solving the problems.

"Without significant growth in a restructured economy we will not be able to address the pressing problems of poverty and inequality confronting our people," the manifesto proclaims. The operative word is "restructured".

The manifesto elucidates: "Growth in democratic South Africa must be oriented towards satisfying the basic need of the majority and empowering those who are disadvantaged and deprived."

The commitment to maintaining a private sector and encouraging private enterprise within it is similarly qualified.

The manifesto states bluntly that the "continuing trend in recent years towards conglomeration is not compatible with a democratic economic system".

It proposes three remedies: a more equitable ownership pattern in the private sector (a proposal likely to send shivers up the metaphorical spines of the corporations which, the manifesto asserts, dominate the economy); affirmative action to redress imbalances in race and gender in their employment practices; and anti-trust and anti-monopoly legislation.

These proposals dovetail with a commitment to some nationalisation. The ANC does not regard "nationalisation" as a dirty word.

The manifesto talks about public sector production to meet society's needs and not simply for profit and speaks positively of public corporations in transport, housing, electricity supply, water provision and telecommunications.

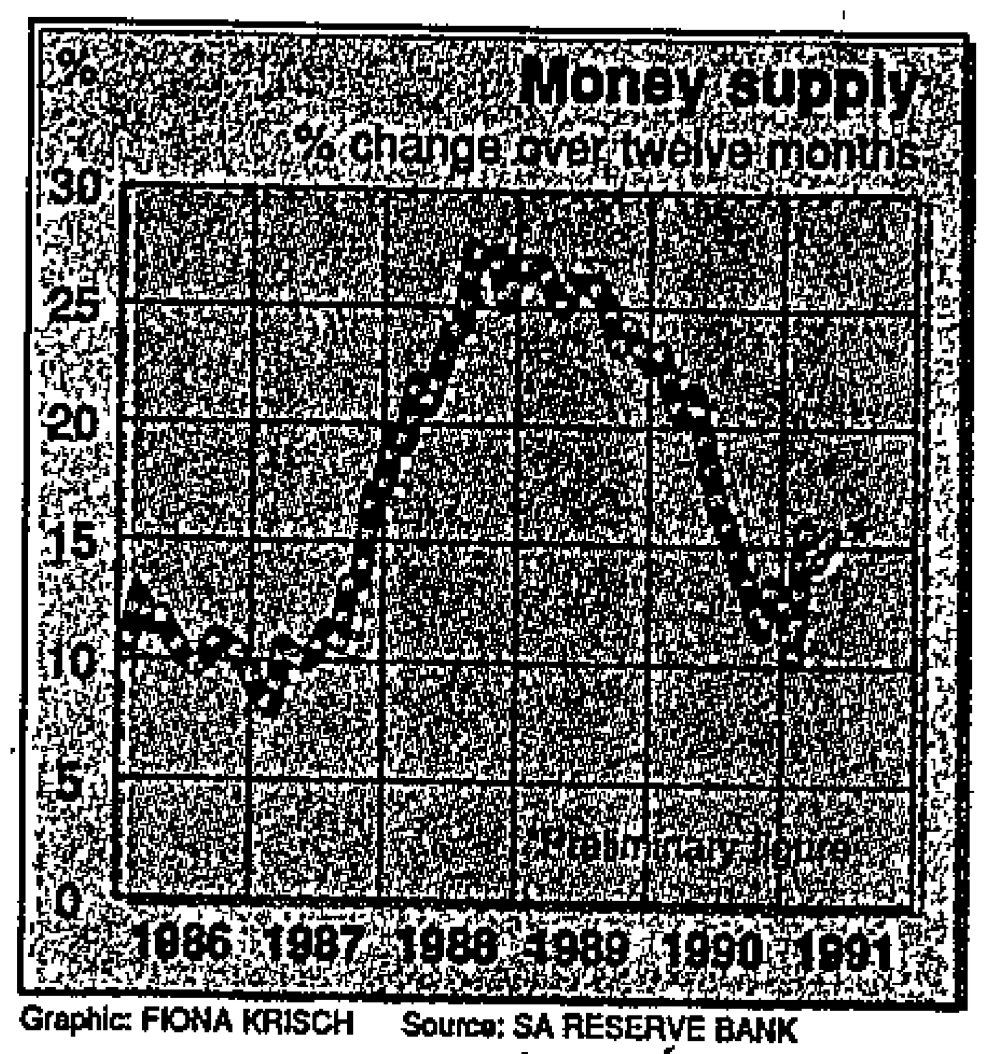
It raises the vista of an expanding public sector, declaring: "Where the balance of evidence suggests that it would be advantageous, particular enterprises will be incorporated on a case-by-case basis into the public sector."

Incorporation may take place through nationalisation, purchase or the establishment of new state enterprises, the manifesto explains.

A reassurance follows: "In all such cases a future democratic government will bear in mind the need to maintain confidence and bind itself to proceeding according to constitutional principles."

Observers from the corporate boardrooms will see the manifesto as one providing for creeping nationalisation.

But hardliners at the ANC conference will undoubtedly see it as a pusillanimous and fatal compromise with capitalism. Ideological battle has indeed been joined. □



Graphic: FIONA KRISCH Source: SA RESERVE BANK

Money supply up 15,1% for May

BDay 26/6/91

SHARON WOOD

TECHNICAL factors continued to inflate money supply growth, which rose by a preliminary 15,1% year-on-year in May, up from April's 14,5%.

Reserve Bank figures released yesterday showed the figure used by the Bank to guide monetary policy — growth in seasonally adjusted M3 from the fourth quarter of 1990 — rose by 22,01% in May. This was slightly higher than April's 21,75% growth.

Economists said although money supply growth remained outside the Bank guideline of 8%-12%, there was no cause for alarm. The effects of reintermediation made the money supply figures largely meaningless and it was difficult to determine the underlying trend.

Distortions in the money supply statistics from the new Deposit-Taking Institutions Act requirements, implemented in February this year, will fall away only in February 1992.

Preliminary seasonally adjusted M3 money supply rose to R174,9bn from R171,9bn in April.

Although money supply continued to rise in May there were firm indications of a slowdown in the general demand for credit. Credit extended by the banking sector to the private sector fell by 1,2% in April and hire-purchase credit dropped by 4%.

Nedbank chief economist Edward Osborn said it was disappointing that the year-on-year rate of increase in M3 was above 15%, but encouraging that April's preliminary figure was revised to 14,5% from 15%.

● Comment: Page 10

Hopes for lower interest rates dashed

Money supply growth rises

(49) CT 26/6/91

By AUDREY D'ANGELO
Business Editor

ANY hopes that interest rates would come down soon were dashed yesterday by the money supply figures for May — which showed that the broadly defined M3 was growing at a rate of 15,14% compared with 14,52% in April.

This is above the Reserve Bank's target of between 8% and 12%. It follows Monday's announcement that the consumer price index (CPI) rose in May to 15,2% from 14,6% in April.

But both Old Mutual chief economist David Mohr and Sanlam chief economist Johan Louw expect a 1% drop in bank rate at the end of the year, even if the inflation rate is still in the region of 15% by then.

Both said yesterday that they did not think a 1% drop in interest rates would be inflationary at this stage, but that the Reserve Bank could not give a signal that it was giving up the fight against inflation.

Ockie Stuart, director of the Stellenbosch Bureau for Economic Research, agreed with this.

But, he said, the introduction of value added tax (VAT) in October would probably cause a surge of 2% in the CPI and the Reserve Bank Governor, Chris Stals, was unlikely to cut the bank rate soon after that.

The introduction in October of a 0,75% turnover tax on financial institutions would also be a disincentive to lowering interest rates.

Louw said the signs were that government was worried about rising unemployment and the number of small businesses going insolvent, and would not allow interest rates to stay at their present levels at the end of the year.

By then he thought the rate of growth in the money supply would have slowed and reserves of gold and foreign exchange would have improved.

"I don't think there is much point in maintaining interest rates at their present levels for much longer. We are experiencing cost-push inflation, not demand inflation."

Mohr said he considered the money supply figures had been distorted by the Deposit Taking Institutions Act. He pointed out that the growth rate in hire-purchase had come down from 15% in April to 8% April.

"The money supply figures rule out any cut in interest rates in the short term. But we have to question whether they give an indication of what is happening in the real economy.

"The underlying trend in the economy is one of weakness."

However, Mohr said, he saw no danger of "overkill" of the economy at this stage.

Stuart said he thought holding interest rates at their present levels served no useful purpose. They should come down by 1% or 2% to avert the danger of "overkill".

But this would damage the credibility of the fight against inflation.

He expected the inflation rate in any case to surge by 2%, from about 14% to 16%, when VAT was introduced in October.

Stals gaining support for his tough monetary stance

(49)

By Magnus Heystek
Finance Editor

SOS 21/6/91

Economists have come out in full support of the monetary authorities' tough stance on inflation — even if it means continuing high interest rates.

"We believe the current measures to contain the inflation rate are appropriate, even though it means that interest rates will remain higher for a longer period of time," says Johan Louw, chief economist at Sanlam.

The resolute stance taken by Dr Chris Stals, Governor of the Reserve Bank, in his battle against inflation, again rose to the fore when an inflation figure of 15,2 percent was announced earlier this week.

The shock news prompted many local businessmen and commentators to suggest that the monetarist approach to licking inflation was not working and that other measures were needed.

In recent months, several organisations, including the Chamber of Business, have called for a reduction in interest rates in an effort to stimulate growth.

However, several economists have said there is no trade-off between growth and high inflation.

Rumours of a rift between the Department of Finance and the Reserve Bank have been quashed in the wake of statements attributed to Finance Minister Barend du Plessis in Durban on Tuesday night.

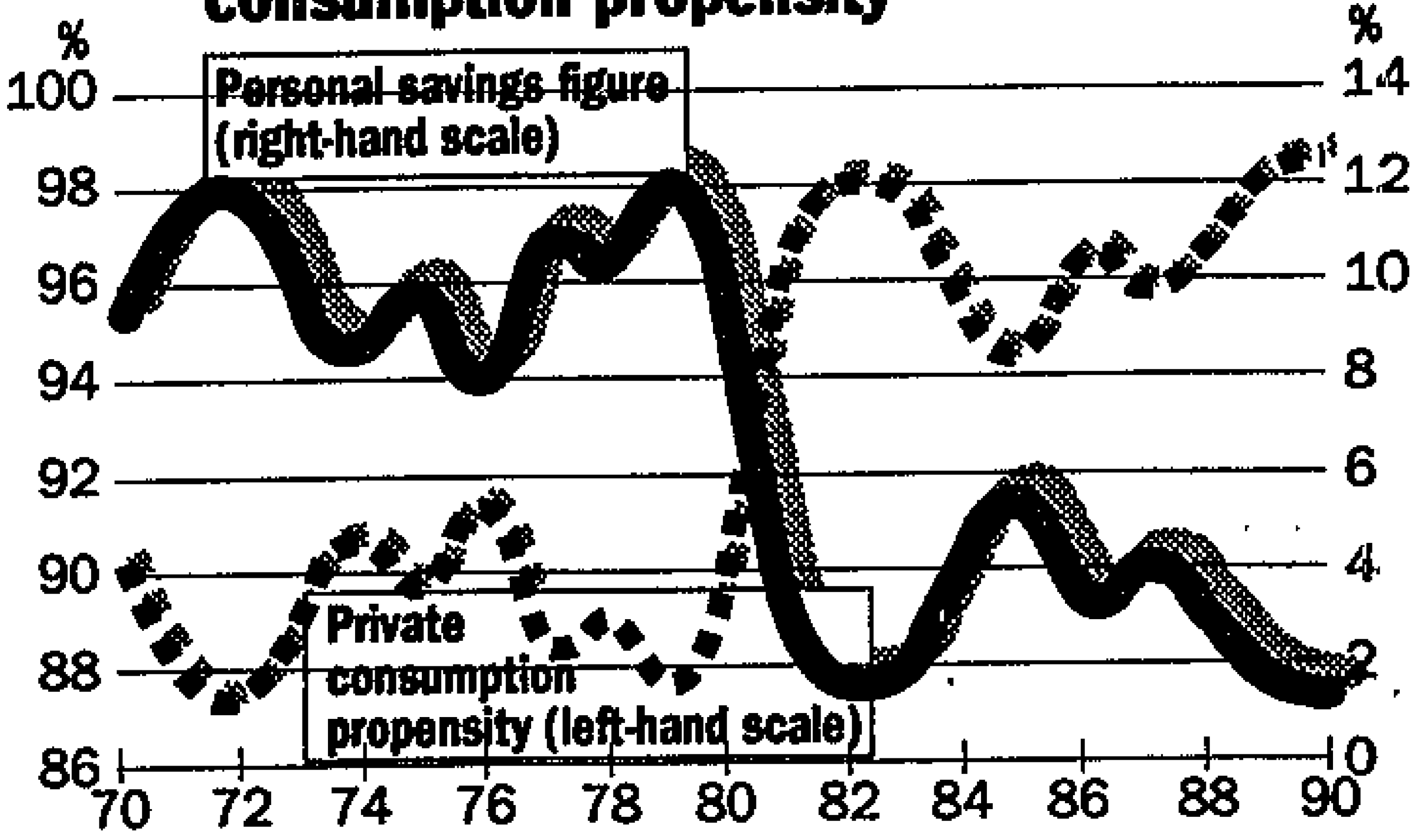
Speaking at the opening of the new Reserve Bank building in Durban, he said: "We cannot manipulate interest rate patterns. It would be violation of the efficiency of monetary policy.

"There will always be tension between politics and sound monetary policy, but there has got to be a very real independence seated in the monetary authority."

Private sector commentators have been voicing their concern about the apparent ineffectiveness of the policy of high and real interest rates to reduce inflation.

But others have countered that without a tight monetary policy, inflation would have been over 20 percent by now.

Personal savings figure and private consumption propensity



Spending pattern

Mr Louw says a major factor militating against a premature drop in interest rates is the sharp rise in the consumption propensity of consumers in recent years.

South Africans have become increasingly consumption-oriented, particularly since 1980.

This has led, among other things, to a sharp decline in the level of personal savings.

According to Reserve Bank figures, private consumption propensity (defined as private sector consumption expenditure in relation to personal disposal income) amounted to about 89 percent in the period 1971 to 1980.

In the Eighties this proportion increased to 97 percent — its highest level ever.

It resulted in the surplus funds of the individual being eroded, which, in turn, had a negative effect on personal savings (see graph).

This increased propensity to consumption is closely related to the high inflation rate South Africa has experienced since the late 1970s.

Other factors contributing to the trend have been the narrowing wage gap, the increasing tax burden of individuals and the fact that interest rates were, until fairly recently, negative.

Mr Louw says the authorities' strict monetary policies are only now starting to bear fruit.

The growth rate of personal credit extension declined sharply in the fourth quarter of last year.

But several structural problems remain and steps will have to be taken to correct the imbalance between consumption and savings, a factor compounded by the current redistribution of income.

Financial disparity outlives race laws

Sowetan 27/6/91

DISCRIMINATORY laws have been erased from the statute books, but South Africa's most entrenched form of segregation remains: economic apartheid.

For the average black in an overcrowded township, the past two years of President FW de Klerk's term have been distinguished by a prolonged recession, 15-percent inflation and crime escalating out of control.

De Klerk's widely praised political reforms mean, among other things, that blacks are no longer restricted to living in ramshackle townships or rural homelands.

But such changes are meaningless to the majority who can't afford a standard four-room township home that costs the equivalent of R28,000. Homes in working-class white suburbs in Johannesburg start at around R112,000.

A cartoon this week in the *Star* showed two ladies talking about the recent abolition of the last segregation laws: "Apartheid was such an ugly word," said one. "Now it's just the haves and the have-nots."

If De Klerk continues with his political reforms, blacks could have the vote and control of the government in about three years. But the legacy of economic apartheid will last for decades no matter who runs the country.

"South Africa's 5 million whites simply do not have the resources to bring 30 million blacks up to the level of a modern First World country," Francis Fukuyama, a former US State Department official wrote in the *Sunday Times*, South Africa's largest-circulation newspaper.

South African blacks have an annual per capita income of more than R2,800 one of the highest figures on an impoverished continent. But it is only a fraction of what their white compatriots have.

For the past decade, black incomes have been rising faster than those of whites and a black middle class is emerging.

It is most evident in the urban marketplace, which is probably the most integrated part of South African society. In downtown Johannesburg, bank tellers, waiters, taxi drivers and shop clerks are as likely to be black as white. Department stores and supermarkets must cater to black shoppers if they are to survive.

But in most institutions, from schools to housing to health care, apartheid has constructed extreme inequities and inefficiencies that will have to be restructured to end white domination and ease black poverty.

For example, in all the larger cities, black neighborhoods have been established far from downtown. Commuting to work often takes hours and claims a huge chunk of blacks' paychecks.

De Klerk stresses that improved economic opportunities for blacks are as important as political reforms. But his government already is spending beyond its means to support a bureaucracy that employs one of every three working whites.

"Insistent lobbies are demanding more spending for housing the homeless can't afford, health services the country can't pay for, and wages that will put us out of business," wrote Ken Owen, editor of the *Sunday Times*. "How shall we divide the spoils?"

49

De Klerk says his government will not impose integration or affirmative action programmes that have been tried with mixed results in the US.

Voluntary association and market forces will determine the pace of integration in all fields, the government says.

Blacks argue that this effectively gives whites veto power over integration and will continue to limit black opportunities, though in more subtle ways than apartheid.

White public schools have been permitted to integrate since January, but only if 72 percent of the white parents approve.

About 100 white schools in Johannesburg, Cape Town and Durban have voted to accept children of other races, but some 2,000 nationwide remain segregated.

The most immediate concern for many blacks is not integration, but improved facilities. At black schools, many students are turned away because there already are 60 or more students in a class.

Housing is critically short in black areas, and for years government housing policy included bulldozing shacks erected illegally on vacant land. - *Sapa-AP*.

191

The FSB paints a different picture. The 15% commission is a business acquisition cost paid by the underwriter to the intermediary. It is invisible to the consumer. A fee is different and should, a spokesman says, be pointed out in writing as a separate item.

For underwriters, regulated commissions are convenient and easily budgeted. But the system fails to address the anomaly that corporate brokers and parochial operations are — notionally — rewarded in the same structure.

For the rest, there is little new in the latest draft Short-Term Bill. It eliminates the proposal for underwriters to offer 50% of their reinsurance programmes to the seven local professional reinsurers.

That had been seen by underwriters as a hand-out for the reinsurance market and potentially inflationary.

Reinsurers, however, will not after all be forced to separate life and short-term business into separate companies. Five of the seven are composites and may continue to operate as such. *Bryan Deans.*

FM 28/6/91

ECONOMIC INDICATORS 49

SUMMING UP

Domestic markets have had a lot to absorb this week: the sudden fall in the gold price from US$365,20/oz to $360,90 between London's Monday fixes; the release of key economic statistics and figures on the Exchequer account in the first two months of the fiscal year; and publication of the Reserve Bank *Quarterly Bulletin.*

Despite the improved monthly surplus on the trade account, the net effect of the news was bearish, taking the top off the recent crest in share prices and sending up interest rates, even in the money market which has had the benefit of strong spending by government. In April-May, Exchequer issues of R15,4bn were up 28% on those months of the previous year. Revenue, on the other hand, at R9,5bn, is less than 11% up on last year.

The bulletin records that first-quarter GDP fell 0,9%, the shrinkage came in the trade balance, with exports falling 21,7% and imports rising 34,9%. As a result the surplus on the current account was down to R1,5bn from R9,7bn in the fourth quarter. GDE, on the other hand, was up 18,5%, due to a slowing in inventory decumulation, a 1,1% increase in private consumption and a 19,5% increase in government consumption. (All figures are seasonally adjusted and annualised.)

Between the end of February and the end of May, the broad monetary aggregate M3 grew by a seasonally adjusted 2,8%. Annualised, this amounts to 12%, just within the Bank's 8%-12% guidelines.

This is a better indicator of underlying growth than the year-on-year rate, as M3 was sharply boosted by technical factors in February, when the Deposit-Taking Institutions Act came into effect, bringing in cer-

FM 28/6/91

tain transactions that previously did not form part of the money supply. Credit extended by all monetary institutions at the end of April amounted to R175,3bn, down on the R175,9bn at the end of March and the R175,5bn at the end of February.

In the 12 months to May, M3 grew an estimated 15,14% to R173,8bn. Annualised growth from the base of the current target year is a seasonally adjusted R174,9bn. Equivalent figures for April, now revised, show growth of 14,52% and 21,75%. In the 12 months to April, M2 grew 17,56%, M1, 11,8% and M1A, 15,11%.

Figures released by the Central Statistical Service (CSS) show inflation jumped 0,6 of a percentage point to reach 15,2% year-on-year in May, the highest since November. The seasonally adjusted monthly increase in the consumer price index (CPI) was 1,6%.

The three-month moving average, which has declined since November, was up 1,2 percentage points to 15%. Food price rises remain rampant — the index rose 17,5% year-on-year.

CSS is to revise weightings used in computing CPI. These are based on a survey of household expenditure patterns, made every five years. The new weightings will come into force in the August CPI, to be published in September.

From Customs & Excise come figures which show export growth in the first five months of this year was strongest in the category of miscellaneous manufactured articles — 61,1% up on the same period of 1990. This was followed by plastics and rubber (47,3%), building materials (42,8%), live animals (37%) and vehicles and transport equipment (32,8%).

Each of these categories is a small proportion of exports but together they're significant. Other unclassified goods (mainly gold and platinum-group metals), which constitute 42% of the total, rose by only 10,9%. The long-term international trend is for industrial products, particularly capital-intensive manufactured goods, to gain market share at the expense of raw materials.

Main influence

In the plastics sector, according to Fergusson Bros energy analyst Richard Price, the main influence was Sasol's polypropylene surplus — the local market can absorb only 25% of production and the rest is exported.

Other industries are also exporting surplus produce to sustain production. An example is the depressed building industry, which Safto economic consultant Gad Ariovitch believes is exporting largely to Africa.

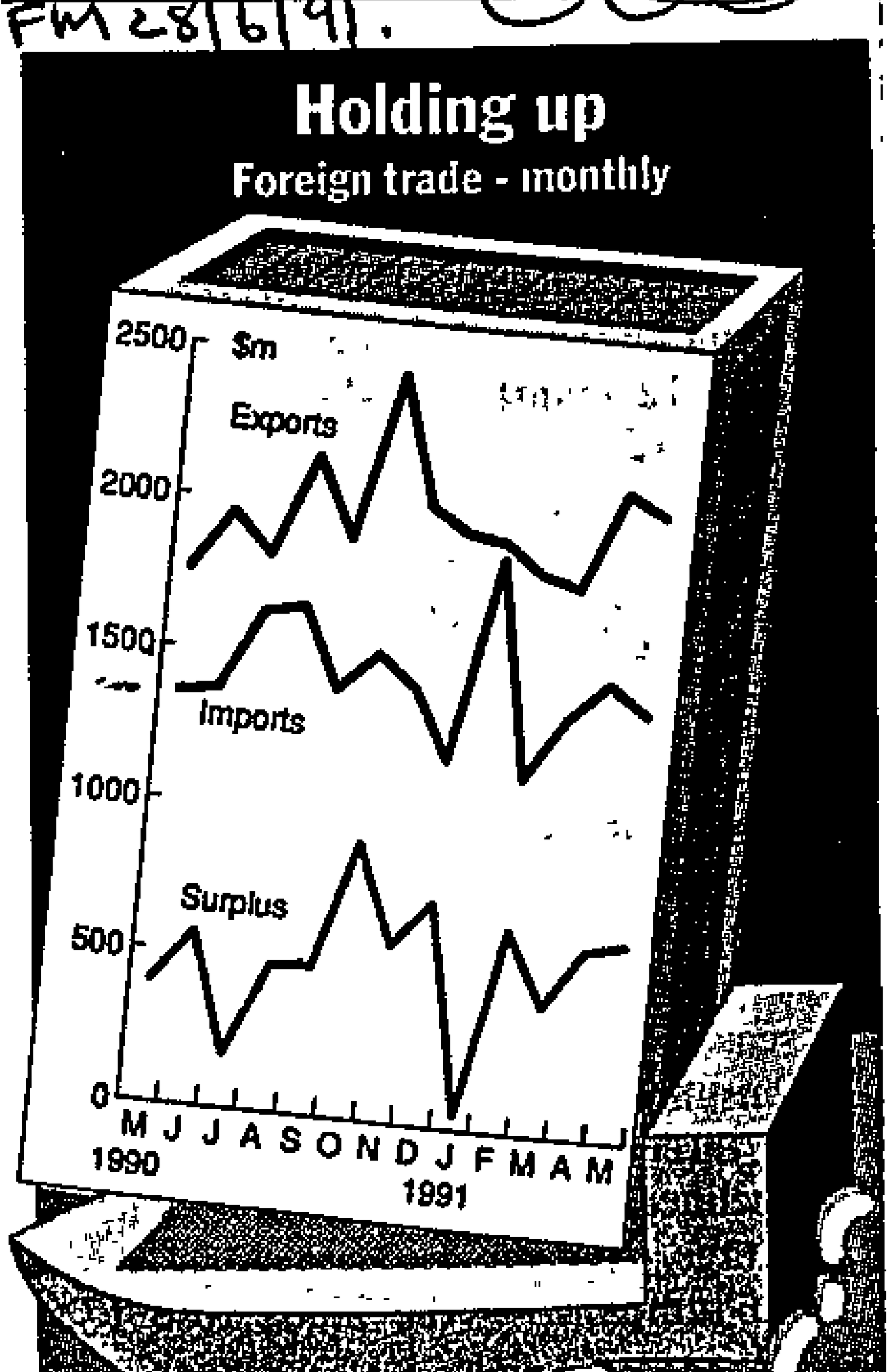
Improved live animal exports, he says, reflect distress selling in the face of prolonged drought.

There are three reasons for strong growth in exports of vehicles and transport equipment; Ariovitch says competitiveness has improved in the transport industry; foreign motor companies are allowing exports from SA subsidiaries; and manufacturers are taking advantage of export incentives.

Continue →

ECONOMY & FINANCE 49

FM 28/6/91.



☐ May's trade surplus rose to R1,83bn ($650m) compared to R1,71bn ($630m) in April, largely due to lower imports of R3,95bn ($1,42bn) after April's R4,14bn ($1,51bn). Exports were little changed at R5,78bn ($2,07bn) from April's R5,85bn ($2,13bn). The cumulative surplus for the year to May is R9,78bn ($3,50bn). ■

No, Mr Heard, a mixed economy isn't the answer

WMail 28/6-4/7/91

South Africa needs to champion the cause of freedom in an open society, not a watered-down form of freedom in the form of a mixed economy

By HANS MIDDELMAN 49

ANTHONY Heard says "no" to communism (*WM* June 27) and offers ironic condolences to Jeremy Cronin (*WM* June 21) and other socialists who are grappling with the "cataclysmic collapse" of the East Bloc. The command economy, organised from the centre, with everyone at least an employee of the state and receiving what the state deems appropriate, is clearly no longer on for anybody.

Heard also says "no" to capitalism. The "rampant free-market system" with its "infamous excesses", monopolies and other forms of exploitation is not on either. Its ugly face puts us off. If we dealt with our problems on a "strictly capitalist basis", says Heard, the rich would simply grow poor and the poor, presumably poorer.

So, the best recipe for us in South Africa is a "mix of systems", going under various names of which "social democracy" seems the most popular. Heard sees the mixed economy he has in mind as one in which free enterprise will be "as extensive as possible" but tamed of its excesses by government intervention. He adds that threats such as Aids and environmental disaster "cry out for intervention by the democratically elected representatives of the people" which no-one disputes.

All economies in fact, are to some extent mixed. In a free market society the state must necessarily perform certain functions to facilitate production and exchange. At the other extreme, even the most committed of economic planners concede that one can't run away from a central office: there will always be a private sector struggling for life.

In South Africa a "mixed economy" has brought us to our present sad pass. Separate development is probably the world's most notorious example of state intervention in an economy. In addition we have state corporations — including that most wasteful enterprise Mossgas, the collective marketing of agricultural products, the protection of "deserving" industries and the vast number of control measures of one kind or another. The job reservation provisions in our labour legislation have now been discarded, but could be revived by a new dispensation as part of its mixed economy, in order to implement "affirmative action" as "compensation for apartheid". So one must beware when advocating a mixed economy.

This is the first problem I have with Heard's call for a mixed economy: it commits one to nothing specific. It's like being at sea with an idea where one is going but anxious to be somewhere else, with the danger that one is likely to land on the rocks. To change the metaphor, Heard passes the ball to Slovo, inviting him to run with it but not too far or too fast.

There are substantial objections to advocating a mixed economy. The first is the implication that market forces are inadequate to create wealth for "the people" unless they are directed or controlled by politicians who establish priorities and guidelines. This is usually known as "restructuring the economy". The economy will, in fact, restructure itself as people, free of the restraints of apartheid and regulations aimed at prohibiting vested interests, find and exploit opportunities to improve their lot. All sorts of activities are now under way that few people see and nobody monitors; but advocates of the mixed economy fail to understand restructuring or economic growth in this "organic" sense. No, they say, we (the people) must be up and doing, "controlling" the process if not initiating it, lest the proceeds go to the fat cats.

Allied to this notion is the view that, unless the state "intervenes", the process of closing the massive gaps in living standards between rich and poor will be too slow. We are here up against what Hayek calls "the fatal conceit, the belief that planners can achieve better results than the market left to itself".

Calls for mixed economy are also strongly motivated by the feeling that the primary concern in devising an economic policy should be the redistribution of wealth and income. Some time ago a group of ANC and Cosatu economists put out a statement saying that the "current state strategy" of seeking to create employment through deregulation and privatisation was not a solution and should be opposed. They clearly did not want economic freedom. What they wanted was for the state to become a different set of politicians — to pursue a different set of policy objectives.

The main policy objective was a redistribution of wealth and economic power, to be achieved not through a process of economic growth but as a prior requirement for economic growth. The cart would somehow push the horse.

In this view of things, nationalisation must then inevitably play a part: and the market must be superseded as the main mechanism for deciding the pattern of production, so as to meet "basic needs" instead of market demand.

Heard does not go along with this, which is the talk of democratic socialists, rather than social democrats. But, again, to advocate a mix of systems tends to sell the pass.

What we should be saying — very loudly and clearly — is that the only road to social upliftment in South Africa, as elsewhere, is through an open society in which individuals interact freely in the light of what they see will serve their interests best. This implies a market economy, not a "system" specially devised for us.

To the extent that we try to incorporate "command elements" with the object of increasing the flow of goods or services, or to make the process fit preconceived notions of how the wealth should be distributed, we fatally impair the process. We reduce the wealth available for distribution, and retard the amelioration of poverty. To mention only one aspect of the matter; how are we to attract capital from abroad into an economy dominated by politicians (acting in the name of the people or "the public") who are pursuing social objectives in the market place?

It should be self-evident, but alas is not, that income must be produced before it can be distributed. If the "new South Africa" is to come anywhere near satisfying the aspirations of the millions who have been deprived and who justifiably want — in the words of the Freedom Charter — education, housing, food, medical care, comfort and security, we need an efficient economy to generate the necessary wealth.

Jeremy Cronin with his enlightening distinction between democratic socialism and social democracy ("capitalism with a conscience") would ruin us all if he had his way; and so would Joe Slovo, although perhaps more slowly. Those of us, including Anthony Heard, who accept the failure of colonialism, should champion the cause of freedom in an open society, not a watered-down variety of it in the form of a "mixed economy".

●Hans Middelman, a retired Cape Town businessman, is a writer on constitutional and economic affairs and a recipient of an honorary Doctorate of Laws from UCT.

Manufacturers blamed

W/Mail 28/6 - 4/7/91 (49)

THE African National Congress' draft economic policy ditches "growth through redistribution" but seems to hold on to a concept crucial to that plan.

The document repeats the assertion that South Africa's economic problems stem from the wrong industrialisation policy.

It says a manufacturing industry has grown up oriented primarily towards providing "luxury consumption goods for the wealthy minority".

Nedcor chief economist Edward Osborn says this could only apply to the top end of the motor manufacturing industry.

He points out the industries already exist to manufacture basic goods, and they have been responding to the shift in consumption patterns from whites to blacks.

There are not many obvious areas left for setting up new manufacturing industries. However, redistribution would increase the degree of demand for manufactured goods.

The draft economic policy document reiterates previous criticism of the manufacturing sector: "The manufacturing sector has failed to become internationally competitive.

"It makes little contribution to foreign exchange earnings, but depends to a very great extent on imported machinery and equipment paid for out of foreign exchange earned by mineral exports."

Unionists at odds over transition to socialism

49

WM 286 - 4/7/91

A socialist reconstruction of the South African economy, including nationalisation and worker control of major industries, were among the resolutions passed at two top union congresses this weekend.

By DREW FORREST

SKIRMISHES between "one-stage" and "two-stage" socialists on a future economy marked the congresses of two key Congress of South African Trade Unions affiliates at the weekend.

At national congresses in Johannesburg, the National Union of Metalworkers (Numsa) and the South African Commercial Catering and Allied Workers' Union (Saccawu) passed resolutions backing socialist reconstruction.

Declaring that only socialism could cure South Africa's social and economic ills, Numsa called for debate throughout the union on the development of a working class programme and for Cosatu to convene a conference of all socialist organisations for this purpose.

Saccawu urged worker planning and control of the economy, socialisation of production, distribution and exchange and public ownership of health, transport and utilities. Nationalisation should be without compensation, delegates resolved.

Sources say a minority of Numsa delegates, mainly from its southern Natal region, argued that economic restructuring could not take place within a capitalist framework. The majority view was that a period of transition was required.

A Numsa resolution on economic restructuring calls for nationalisation of the economy's "commanding heights" and land, as well as worker control of factories, farms, banks and mines.

But it also foresees a role for foreign investment in post-apartheid South Africa, urging the development of an investment code. Resolutions also indirectly back negotiations with employers and the state on retrenchments, demand bosses and the government recognise a duty to train and urge tripartite national talks on adult education.

Delegates from Saccawu's powerful Johannesburg branch, in which the Trotskyist Workers Organisation for Socialist Action (Wosa) is influential, also argued against a transitional mixed economy, sources say.

On the "two hats" issue, Numsa's congress endorsed an earlier central committee decision allowing staff to participate in the structures of political organisations, provided that work standards, accountability and discipline expected by the union do not suffer.

An attempt to "sneak" a ban on overlapping "full-time or nearly full-time" positions into a resolution on the tripartite alliance was rejected, sources say.

Although the alliance was seen as having weaknesses, including lack of consultation and clear leadership, delegates resolved that Numsa should build alliance structures at all levels.

"The question is, where do you draw the line?" a source said. "In the Wits, Border and Eastern Cape regions, many Numsa organisers and stewards hold local positions in the ANC and Communist Party."

Sources say Johannesburg delegates at Saccawu's congress originally pressed for a ban on overlapping office-bearers, later diluting this to national office-bearers.

The congress agreed the Saccawu general secretary could not be a national office-bearer in another organisation. Otherwise, dual leaderships were approved, but union structures will monitor efficiency and accountability.

It is understood Johannesburg delegates also proposed the broadening of the alliance to include Wosa, Azapo and the Pan Africanist Congress, in line with a controversial branch congress resolution last year. Because of lack of time, no decision was taken on this and another resolution urging the building of alliance structures.

● The Numsa congress endorsed the holding of strike ballots in the engineering, tyre and auto assembly sectors, where the union has declared disputes in central wage talks.

In the engineering sector, mediation has been suspended to allow employers and unions to report to their constituencies. A statement by the Independent Mediation Service said progress had been made in mediation, which would resume if the parties agreed to it.

Sapa reports the Inkatha-linked United Workers' Union of South Africa (Uwusa) warned on Wednesday that planned industrial action by Numsa would promote violence.

Uwusa public relations officer DR Senakgomo said his union was not opposed to Numsa carrying out its engineering strike ballot, provided that Uwusa members and those not in favour of the action were not "disturbed".

Uwusa, he said, would not support the threatened strike and urged its members to continue working.

End of the Nusas 'nuisance'

WMail 28/6-4/7/91.

As the National Union of South African Students bows out this week, PORTIA MAURICE traces the remarkable men and women who led it through its troubled history

TWENTY or so years ago, a group of Afrikaans businessmen reportedly offered R25 000 to white students who dared form a conservative rival to the National Union of South African Students.

Former prime minister John Vorster in 1963 dubbed it a "cancer in the life of the nation" which he threatened to "deal with in my own time". He didn't live to execute the deed but next week, 67 years after its inception, the resilient white student movement bows out on its own initiative.

It will merge with the black South African National Students Congress (Sansco) later this year.

Nusas was forever at the butt end of state harassment for activities which, certainly in the early years, could by no means be regarded as a threat to national security. Its liberal political stance was regarded as cheeky by the white establishment.

When, in 1978, for example, the Students' Representative Council at the University of Cape Town rejected two motions of condolence with the bereaved family of then state president Nico Diedrichs, the wrath of the academic fraternity came down on them, with calls for disciplinary action against the radicals.

Afrikaans and English-speaking students really battled in those early days — although it is ironic that Nusas was founded in 1924 by an Orange Free State University (then the Grey University College) student, Leo Marquard. He was inspired by angry international post-war sentiment and succeeded as president by his brother Dawie, after six years. Both of them are now deceased, and the oldest surviving Nusas president is retired judge Louis van Winsen (81) — chairman of the SA Media Council until a year ago.

Other Nusas leading lights are spread far and wide, although most have remained to tell the tale. Perhaps the best-known of the next decade of presidents is Professor Philip Tobias (1948-51), long-time head of the Anatomy Department at Wits University Medical School. Patricia Arnett, first female president (1951-53), later married her successor, Michael O'Dowd, now chairman of the Anglo American and De Beers Chairman's Fund.

Judge John Didcott, reputed to be among the most kind-hearted in the country, was then at UCT and took over the reins in 1954 — just before the massive security clampdown and government moves to segregate education racially. His successor was the late advocate Ernie Wentzel.

Organisationally, Nusas remained fairly aloof of the Congress Alliance at the time but galvanised massive protest action against the Extension of University Education and Fort Hare Transfer Bills — delayed through pressure but eventually railroaded through parliament in 1959.

Then the fireworks really began. Nusas was barred access to its black members (since the 1940s) at Fort Hare University, which had been designated a "Xhosa zone" amidst huge dissatisfaction. The powers-that-be were doing all they could to cut the head off the threat of multi-racialism beginning to dawn at universities.

A wave of bannings and detentions shot through the 1960s — the big "reds under the bed" scare. In 1965, Vorster made good his threat to remove "listed communists" from universities — among them Professors Eddie Roux at Wits and Jack Simons at UCT. Nusas president Ian Robertson — now lecturing in the US — was banned in 1966, ostensibly because he invited US senator Robert Kennedy on a local tour, and Jonty Driver (1963/64) was heavily censured by the UCT Student Assembly when he dared suggest that Nusas become "the student wing of the liberation movement". (49)

Academics and student leaders who resorted to sabotage in the cells of the African Resistance Movement (ARM) — to escape the organisational vacuum of the period — were caught and brought to trial that same year. Ex-president Adrian Leftwich, one of ARM's central activists, turned state witness and later left the country.

By and large, the 1960s generation of Nusas presidents left to seek greener pastures — part of a general "brain drain" of academics from that era. Margaret Marshall (1967) is a prominent Boston lawyer, and John Daniel (1968) works at Zed Press publishing house in England. Daniel took over from first-time Rhodes president John Sprack, who was stripped of his South African citizenship two days after election, and deported months later. Duncan Innes — academic and currently editor of Innes Labour Briefs — remains, as does 1965 president Maeder Osler, who lives on a farm in the Karoo.

On his return from a motorcade to the Union Buildings in 1968, Wits student Neville Curtis and others were seized by Pretoria University students, and taken to a university residence where their heads were shaved and they were made to jump in and out of hot and cold showers. Curtis, who was Nusas president 1970/71, became a prominent anti-apartheid activist in Australia, and now works on rural development and environmental issues there.

He was among eight Nusas office bearers banned in 1973 — on the same day as the first Schlebusch Commission report on Nusas was released. Among them too was leading Johannesburg advocate Paul Pretorius, then president of the organisation. The commission had little other practical effect, but years later Nusas was to be declared an "affected organisation" — and barred from overseas funding.

The 1970s generation of Nusas presidents had a penchant for the law, by strange coincidence. Legal Resource Centre attorney Geoff Budlender, Independent Mediation Services director Charles Nupen, Delmas trial advocate Karel Tip and civil rights lawyer Nicholas Haysom grappled — at different points — with the black consciousness challenge, the 1973 Durban wave of strikes and the dark days of October 1977 when organisations and publications were banned. In between, London journalist Mike Stent and Auret van Heerden — now working for the International Labour Organisation in Geneva — headed Nusas.

Student rebellion in France 1968 and the formation of the black South African Students Organisation in 1969 — which dovetailed with the whitening of Nusas — stimulated a reorientation towards a more structured and militant approach.

Nusas was the only student movement to survive the October 1977 clampdown, and was forced to occupy more public space. It wallowed in a deep trough though when Tip took over — a wave of right-wing and moderate SRCs had been elected in the aftermath

FORMER NUSAS LEADERS ... Philip Tobias, Nicholas Haysom and Kate Philip requested to be written into the program.

a) The operating system which is purchased should log all access attempts.

b) The O.S. should log all program changes.

c) Program library and files should be pass-ward protected.

d) System utilities such as EDIT should have their more dangerous functions dis-abled. Certainly, access to manuals should be strictly controlled, and restricted.

All of the facilities above are available in various forms in many operating systems.

of the 1976 uprising.

Damaged by the Schlebusch Commission, which said Nusas was run by "a group of radicals living in communes and promoting confrontational politics", and campaigns to discredit them, student leaders fought hard to win the confidence of white students. Glenn Moss, Eddie Webster, Tip and others were acquitted after a year-long Suppression of Communism show-trial in 1976, sparked by a campaign to release political prisoners.

"At the time (of black consciousness) we were distressed that our principle of non-racialism was being challenged, but on hindsight it played an important role in underlining the depth of grievance of black students," Tip told *The Weekly Mail*.

Andrew Boraine — now surveying urban development issues at Planact — led Nusas in the direction of non-racialism and alliance politics in the early 1980s. "There was more space for everyone and Nusas became part of the broader political community," said Boraine, defining the decade.

For the most part, his contemporaries have joined the "struggle industry" of service organisations and trade unions. Exceptions are lawyers Jonty Joffe (1981/82) — currently studying at Harvard University — and Brendan Barry.

1983/84 president Kate Philip organises co-operatives in the National Union of Mineworkers, Steve Kromberg (1987/88) lectures in African Literature at Wits University, Lindsey Falkov is a freelance economics consultant and Erika Elk (1990) works in the media department of the National Land Committee.

The year of unbannings and reform-from-above threw up new issues for Nusas, says Elk, and prompted the moves towards a merger with Sansco. Current president and Wits student Steve Silver hands over to a new tradition in student politics.

important in a small company with division of duty problems.

d) Try and ensure that controls such as completeness test, limit tests, reason-ableness tests, field size tests and any other relevant tests, as well as run to run controls are programmed in. These will provide many of the non-dis-cretionary preventive and detective con-trols necessary.

e) Documentation must be retained, and kept up to date.

f) Audit trails must be provided wherever applicable.

PYRAMIDS OF INTEREST

FM 28/6/91 (49)

There is growing interest across the political spectrum in a social contract in which key political and economic leaders agree on policies to underpin democracy in SA. This article is extracted from a paper by Steven Friedman, a senior research officer at Wits University Centre for Policy Studies.

Consent for social and economic policy cannot be created from the top. It must be built from the bottom.

A social contract is not a magic formula: it is a way of including interests which are too strong to be ignored in decisions which they have the power to frustrate. Its prospects will be shaped by the extent to which both the current elite and the future one accommodate organised interests, and on those interests' ability to develop organisation strong enough to ensure consent for the compromises they negotiate.

The immediate test of a contract's prospects will be whether the demands of those organised interests which now demand inclusion are accommodated in ways which increase stability and underpin democracy.

At present, the unions are the strongest candidate. The test will be employer willingness to share power in industry and address social demands — and the current State's willingness to enact compromises which unions negotiate. Later, a majority government's recognition of union independence and its ability to enact agreements negotiated between labour and capital without freezing out other interests will be crucial.

Willingness by employers and the current State to share power will not ensure worker support for compromise soon. But, if negotiated compromises achieve concrete gains, support may build over time.

The inclusion of other interests will be far more difficult. One arena that will test progress is the extent to which negotiation produces interim local government structures which offer all interests a say in city decisions and in the shape of the post-apartheid city. Progress is most advanced in cities in which "township" representatives are best organised — in Soweto and Alexandra, for example.

The willingness of white local authorities to concede redistribution — and of civics to open access for excluded interests — will be crucial. These agreements cannot create substantive compromises which accommodate all interests — they can offer a framework in which this is possible.

Grassroots interest organisation may be strengthened in a number of ways. Development will be vital, since vast inequalities are obstacles to both organisation and compromise. But development will have to be negotiated and this may create a process in which interests can organise in a context where compromise offers tangible gains. Negotiated development also allows grassroots interests to regain power over their environment in ways which reward organisation.

There is growing interest in this idea: initiatives such as the Independent Development Trust and the Private Sector Initiative command resources and are committed to negotiating development with grassroots interests. These processes may create conditions for a more inclusive social contract. But the mere willingness to negotiate with community leaders will not build strong grassroots interest organisations. Development is likely to do that only if those who initiate it insist on dealing with the full spectrum of community interests.

Negotiators who command resources will have to insist that those with whom they negotiate must show constituency support, and that no interests which could be included are excluded. This will depend on the attitude of the bargaining parties: on business or other establishment negotiators' willingness to insist on representative bargaining, and on community groups' preparedness to allow the inclusion of other interests. If some interests are excluded, development could trigger far more of the violence it is meant to prevent.

Negotiating developments in this way will not ensure the emergence of strong grassroots interest organisations quickly. But it may be a vital starting point since it does not require leaders to bind their constituents to a restraint which they may be unable to achieve. It also offers interests which have enjoyed no access to decisions an opportunity to wield power in a way which will require them to respond to a constituency — and to confront the choices which development decisions require. It may become a form of empowerment in which interests develop the strength and skills they need to negotiate binding compromises.

A further test is provided by negotiations on a new constitution. These will also require a parallel negotiation process on new education, health and housing policies. If these discussions are broadened to include interest leadership, interest organisations may begin to develop the expertise and strength they need to influence — and to commit their constituencies to — a new order.

Finally, the law could create mechanisms which make it easier for weaker consumer interests to organise. Consumers of public services — shack dwellers, tenants, commuters — are rarely strong enough to win demands by pure organisation. Legislated minimum standards of housing, transport and other services are often the only way in which they can enforce interests. But these are rarely enforced by legal fiat because even when minimum standards exist, consumers have to organise to police them. If achievable minimum standards are legislated in these areas, interest organisation among excluded groups would be strengthened.

A social contract cannot create compromise. It can only formalise it. The conditions for it are yet to be built and startling successes will not be achieved quickly. If the current elite wants a compromise, it may have to surrender many of its prerogatives and address social inequalities more vigorously — and in ways which encourage interest formation. Both business and government — which proclaims a desire to build alliances with black interests — have the capacity to influence the shape of the post-apartheid order by increasing the rewards for accountable interest groups who wish to negotiate. ■

ECONOMIC OUTLOOK FM 28/6/91

A BOOM WITHOUT A BUST? (49)

DON'T ASK WHEN THE UPTURN WILL START, BUT HOW LONG IT CAN GO ON

After 28 months of the current downswing, and seven quarters of recession, the economy is sending mixed signals about the next turn in the business cycle. That it will happen is beyond doubt but precisely when and, indeed, whether it will be sustained, remain problematical.

Some of the developments which usually precede the cyclical trough are already in place. "The note issue," says UCT's Brian Kantor, "consistently leads the earnings cycle and it stopped declining in December." (See graph.) Other important indications of an upturn are that: foreign reserves are building up; the rate on bankers' acceptances, a key market rate, has been drifting since October; industrial share prices are booming; and sales of cars, after falling since August 1989, are slightly up in the first five months this year on last year.

This last, once a leading indicator, but now regarded as a coinciding one, says Econometrix's Tony Twine, is signalling that the downturn is already flattening.

On the other hand, there has been no fall in official interest rates nor an improvement in the terms of trade (export prices rising faster than import prices). "There has never been an upturn," according to Rand Merchant Bank economist Rudolf Gouws, "until both these have occurred."

Not surprisingly, there is a range of predictions about when the upturn will come. Finance Minister Barend du Plessis places it in the last quarter of the year or early in 1992. Many economists see this as unduly optimistic. UBS economist Hans Falkena has pushed back his projected date for the start of a recovery from November to the second quarter of next year. This may be a question of differing perceptions of what constitutes an upturn. Quarter-on-quarter figures in the Reserve Bank *Quarterly Bulletin*, for instance, will show an upturn before the year-on-year rate, because they emphasise recent trends.

The inconsistency the indicators are showing owes something to the unusual nature of this recession. The traditional cyclical pattern was disrupted, first by political turbulence and economic isolation through the Eighties, then by the political transition which started at the end of the decade.

The first event disrupted the flow of savings into real fixed investment, resulting in high liquidity which was unable to seek investment opportunities in safer economies because of exchange control. This inflated domestic share prices.

The second unleashed a surge of consumer confidence, which is uncharacteristic of a recession. Blacks, who have the greatest need to spend their income, are earning proportionately more than five years ago. These new consumers are less sensitive to the interest rate cycle, having come in at the top of it. So this is the flattest (though longest) recession in SA's history, and is almost certainly flatter than official figures indicate because they do not take into account the contribution of the informal sector.

In the circumstances, the indicators are open to reinterpretation. It could be argued, for instance, that rising share prices are no longer a reliable pointer to the strength of the real economy — any tentative improvement is magnified out of all proportion to the strength of the original stimulus because there are so few investment options.

It could equally be argued, says Simpson McKie economist Graham Boyd, that monetary conditions have already eased — without any change in monetary policy or fall in official interest rates, "because the weaker rand-dollar exchange rate has contributed to an overall surplus on the balance of payments (rising net reserves — gross reserves minus liabilities), adding to liquidity."

Though these reinterpretations are no more consistent than the original in plotting our position in the cycle, they do establish that what the economy does *not* need is a kick-start. Along with other events, such as the population's increasing propensity to consume and the huge rundown in inventories over the past 18 months, there is no shortage of pent-up demand.

What is needed is the wherewithal to fund supply. The impetus for recovery, says Martin & Co economist Carmen Maynard, will probably come from exports.

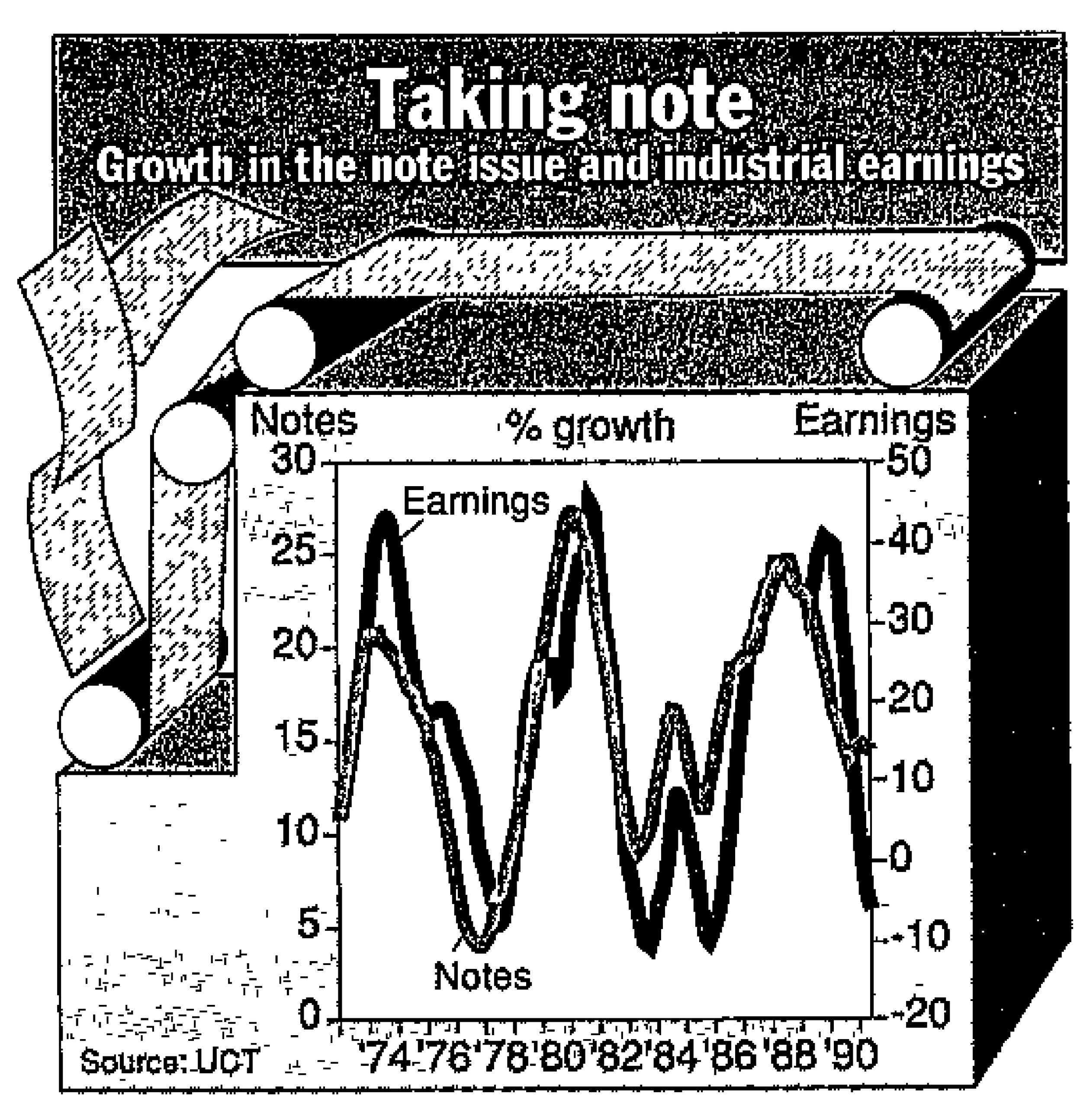
This can arise in one of three ways: "Higher volumes, higher dollar commodity prices or a lower rand. Though the rand has fallen 11% against the dollar (in which most of our exports are denominated) so far this year, both world demand and commodity prices in dollars remain weak." She suggests these will improve late this year, or in 1992, bringing growth of around 2%-2,5% in SA next year and further growth in 1993.

Though the fall in the rand's value against the dollar confers some benefits, these are not as enduring as those from higher prices in foreign currencies and greater volumes, which increase dollar earnings.

Says Boyd: "There is a critical difference between liquidity induced internally and liquidity that comes from outside. Increasing credit demand creates additional assets, but each is matched by a liability. A rise in foreign reserves brings additional assets that are not matched by a corresponding liability — and ultimately has a more powerful effect on economic activity."

To sustain recovery, when it comes, SA will need:

- ☐ Increased domestic savings — only a change in inflationary expectations is likely to achieve this;
- ☐ Increased foreign funds — the prospects are better than at any time in the past seven years. The reducing discount on the financial rand (it is now only 14%, having been over 52% at its height in 1986) is proof that capital flight has been halted, as is the R2,9bn run-up in reserves in 1990;
- ☐ Access to IMF funding to counterbalance the current account deficits which almost inevitably accompany strong growth;
- ☐ An orderly run-up to a negotiated settlement and a smooth transition to a new political dispensation;
- ☐ A reassurance from politicians who are likely to be influential in a future government that there will be a positive environment for business initiatives; and
- ☐ A successful adjustment to the reduced earning power of gold.



At a time of political, social and economic transformation, SA also has to cope with a shrinkage in demand for its primary product. Our earlier prosperity and economic policy formation was predicated on gold having an intrinsic value other than its industrial uses. The discovery of gold-bearing reefs, particularly in the Witwatersrand

continue →

in 1886, put the country on a trajectory that took it out of an agrarian and into the industrial age in 40 years.

Gold mining was the base on which a massive superstructure of secondary and tertiary industry was built. It created demand for an array of goods and services, and generated foreign exchange which funded capital investment in all sectors.

The high point came in 1980, when a gold boom pushed the price of the metal over US$800. A decade of disenchantment followed, in which the value traditionally assigned to gold subsided. Lack of investor interest in the past few years as inflation in the Western economies declined has kept the dollar price of gold at disappointing levels. By last year, a static rand price and rising costs had created a crisis in the industry, which will be felt throughout the economy.

The average rand gold price last year, says retiring Chamber of Mines president Clive Knobbs, was R991,88 — just 30c higher than in 1988 and R8 lower than in 1989. He says: "This virtual stagnation meant in real terms the price this May was about 33% less than three years ago." But, because of inflation and declining ore grades, there was no "significant reduction" in working costs.

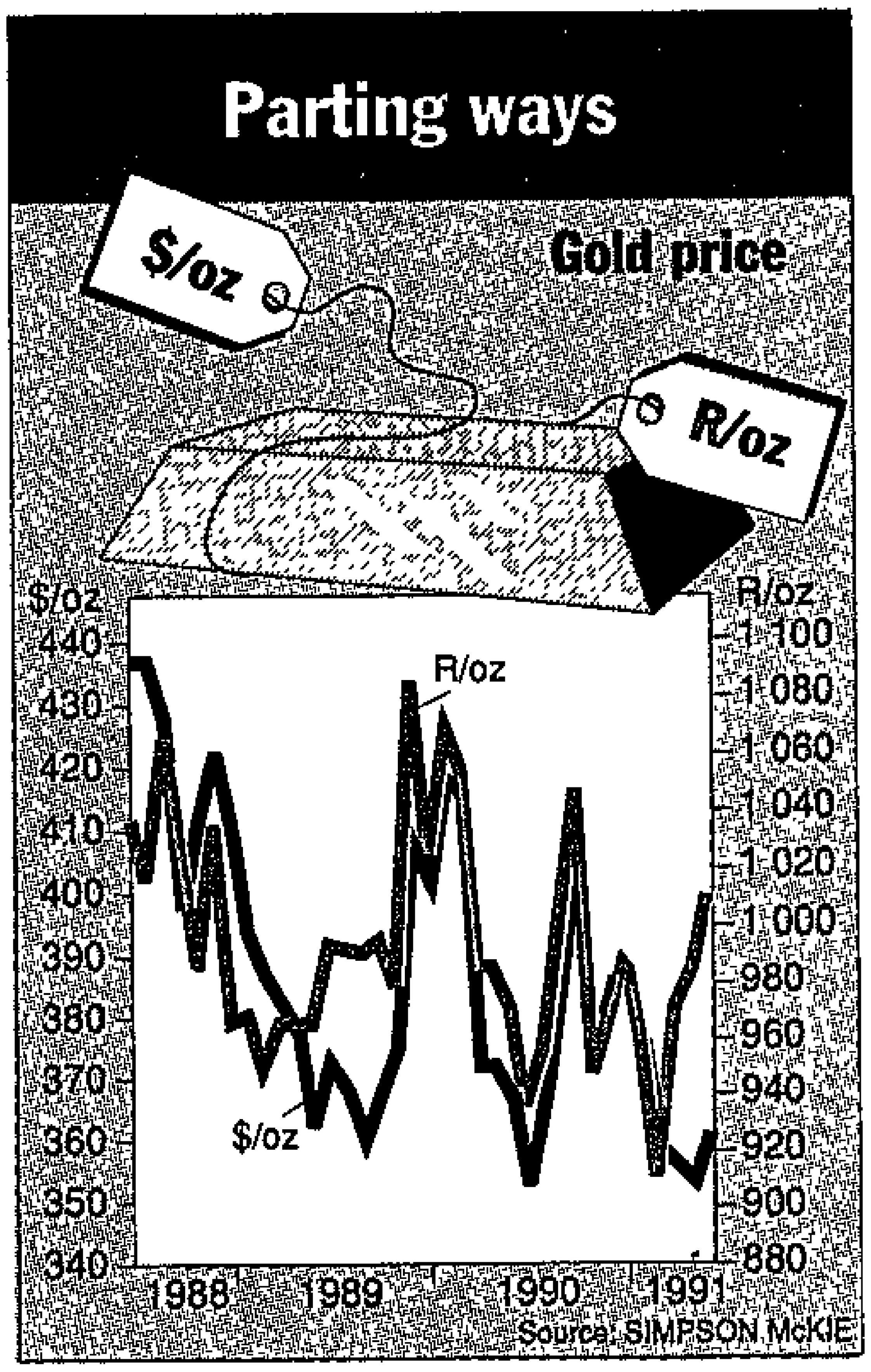
The result: pre-tax profit of gold mines which are members of the chamber amounted to R4,2bn — R1,2bn down on 1989 and almost R2,8bn down on 1988.

The consequences in 1990 include:

- ☐ The loss of 50 000 jobs;
- ☐ A 42% fall in the State's share of profits;
- ☐ A 6% drop in capital expenditure; and
- ☐ A 32% decline in dividends.

Ten chamber gold mines are now making losses and four are marginal; between them they employ about 25% of the gold mining industry's labour force.

They contributed over 4% of total export earnings last year, says Knobbs. Were they to close 88 000 jobs would be lost in mining and probably a further 48 000 in service or mining-related industries.



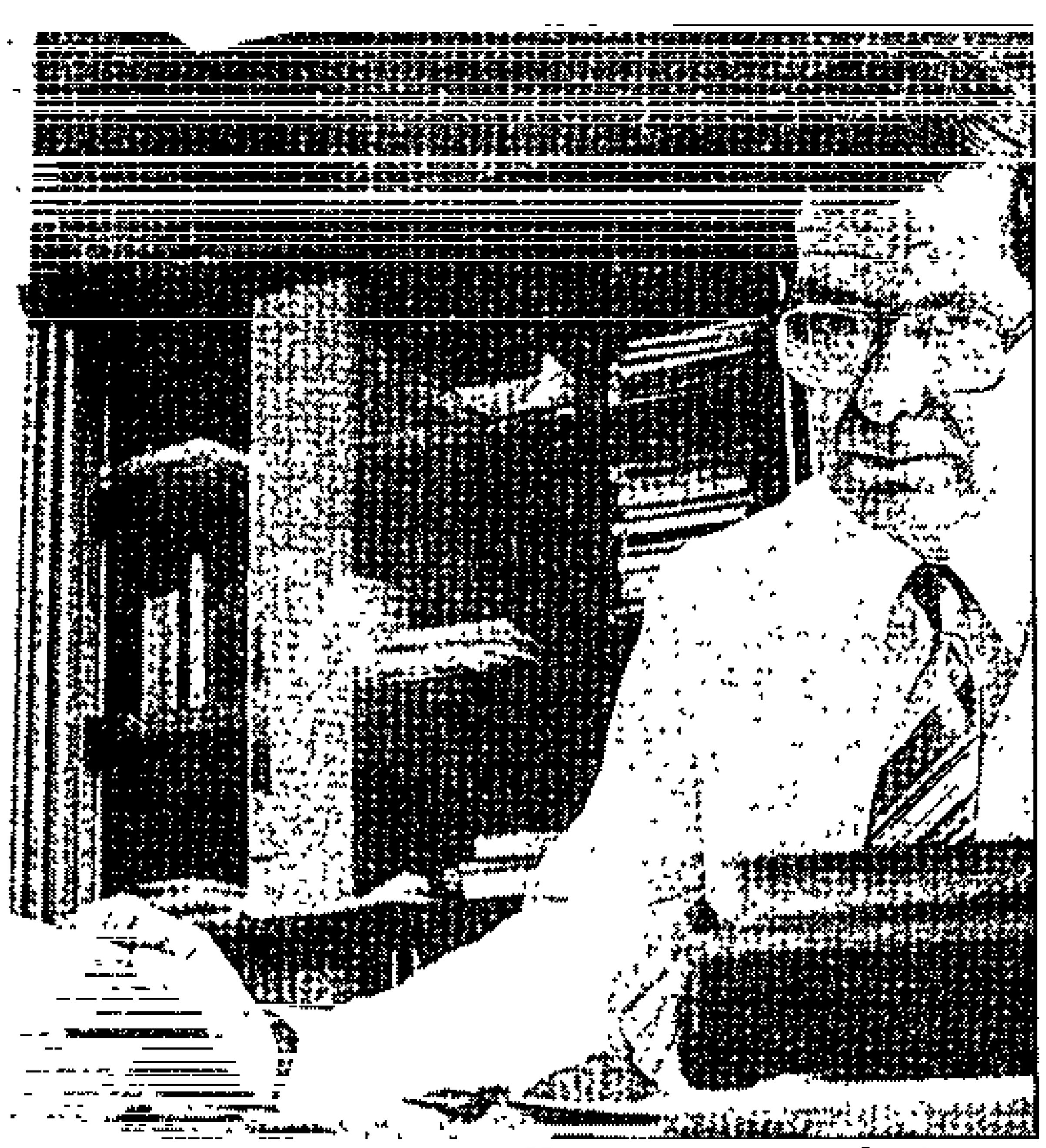
Fortunately, this is a worst-case scenario. Simpson McKie analyst Rod Yaldwyn says only a few small mines are at immediate risk. Last year's operating costs, he points out, were boosted by one-off retrenchment payments. This is out of the way but the benefits of rationalisation have still to materialise.

Gold mining's immediate outlook has become less negative than during the bleak 1990, he says, largely because of the rand's decline against the dollar, which has already brought relief. Boyd expects the dollar to rise to R3,10 by next year, against its present level of under R2,90. If he proves correct and gold remains around the level of $365/oz or so, the rand price would be well over R1 100. Even now it is above R1 000. This will ease the sectoral adjustment.

There is little likelihood that gold will ever regain its former status. Inevitably, says Knobbs, "the gold mining industry will contract further." But corrective measures are minimising the damage: jewellery demand continues to grow and "there is every indication that supplies of newly mined gold will start to fall from 1991, reversing a 10-year upward trend."

Chamber of Mines senior economist Francois Viruly suggests beneficiation may stabilise revenue from gold. "While we produce about 35% of Western world gold, we do only 0,62% of world fabrication. So there is scope for expansion in this direction."

But while gold and other mining will always play a major part in the economy, development of the manufacturing sector would temper the cyclical swings. As the contribution of gold to export earnings shrinks, the importance of other sectors grows. In the Eighties, the contribution of gold to export revenues fell from around 50% to 32%, the contribution of other mining rose from 25% to 33%, and of manufacturing from 18% to around 30%.



Reserve Bank's Meijer ... *no substitute for the old-fashioned virtues*

Unfortunately, the performance of manufacturing in the past decade was dismal — it shrank in real terms. It is to be hoped that the Nineties will see a marked improvement. At least there are two factors going for it.

"After the rundown in inventories," says Kantor, "replacement has to take place." This will give an immediate boost.

Longer-term benefits will come when capital formation accelerates. This usually happens when a recovery is well under way. In the last expansion the improvement was minimal, though it did reverse a seven-year declining trend in fixed investment in manufacturing. But this did little to increase capital stock in that sector because most went into replacing ageing plant and equipment.

What is needed to restore capital expenditure to the levels seen in the Seventies is confidence that SA will have some political stability, and consistent application of sensible economic policy.

If progress is made on the political front, the next upturn will have a longer lifespan than the last, because it will no longer be essential to maintain a surplus on the current account to fund debt repayments. Next time the economy gets into top gear, SA will be in a position to finance a deficit on the current account and the authorities will not be forced to cut short the expansion to create a surplus to repay foreign debt.

The remaining constraint (a substantial one) will be inflation. But inflation will not break out of control if the forthcoming upturn is not demand-led — output must increase along with demand. This is where the role of monetary policy has to be critically examined. It cannot trigger growth.

Says Reserve Bank Deputy Governor Jaap Meijer: "Monetary policy is powerless to make us rich. Mismanaged money will make us poorer than we need to be and may eventually cause a breakdown of the economic system and the social order. Well-managed money — though indispenable for a healthy economy — will not by itself make us prosperous. It will not substitute for the true sources of our wealth which are still the old-fashoned virtues of hard work, entrepreneurial energy and ability, thrift, inventiveness and a judicious willingness to take risks."

This is a turning point in our history. Never before has SA been so dependent on the application of appropriate economic policy. We can no longer rely on gold to make up for economic mismanagement. The margin for error is too fine. This means allowing Reserve Bank Governor Chris Stals to do his job — to protect the value of the currency. What matters is not when the boom will come as much as whether appropriate policy will let it be sustained. ■

Your investments 10 years down the line

Star 29/6/91

49

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Money Matters

MAGNUS HEYSTEK

SO how will Aids affect your investments in the Nineties and thereafter?

This was the subject of Financially Speaking on Radio 702 last week.

My guest in the studio was Keith Edelston from the Aids Economic Research Unit (AERU) and the reaction from the public was, in one word, staggering.

The lines were jammed for two hours as a worried public speculated on how Aids could possibly affect their investments.

And judging from comments made by Mr Edelston, they have reason to be worry.

Although I had only met Mr Edelston on the night of the programme, I have been sharing the same concerns for quite a while.

Investments particularly vulnerable to an Aids-induced recession and even depression are pension funds, retirement annuities and endowment policies.

By nature, they are long-term investments and are the most exposed to any economic catastrophe such as Aids.

Companies involved in mass housing, for instance, like producers of cement, bricks etc, can expect to see their markets shrink as the population growth stalls and then starts shrinking.

Consumer-orientated companies will also find their market shrinking.

Others, however, like manufacturers of medical health care products might benefit provided the people have the ability to pay for their services.

Mr Edelston's advice regarding retirement annuities and endowment policies was forthright — so forthright that I was accused by a life assurance company the next day of being irresponsible to host such a programme.

Any new ten-year endownent policy being taken out today will feel the full impact of the Aids-recession. And as it is locked in for ten years, he does not suggest this as a viable investment medium. Ten years is simply too long to tie one's money up.

The same goes for retirement annuities and even pension funds that have to provide an income sometime in the future. For people with existing contracts his suggestion was not to increase contributions, but to make investments into other, more liquid investments like cash deposits, unit trusts, government gilts and semi-gilts.

The advantage of these investments is that they can be cashed in immediately, something that is not always available with the other investments mentioned.

However, at no stage did Edelston advise people to cancel their investment policies. That would be very costly indeed, he said.

Shares would most probably be a good bet for the next three to four years. Thereafter the stock market will start reflecting the affects of Aids. And for most companies it will mean a downward correction.

Gold shares will also be affected as gold mining production drops as a result of labour shortages. This could lead to higher gold prices but the shares won't fully reflect this increase. Rather go for gold already above the ground — in the form of Krugerrands and other gold coins, he suggests.

Am I irresponsible in publishing these comments? I think not. Ignoring a potentially disastrous investment environment would be ten times more irresponsible.

Aids poses major threat to economy

Star 29/6/91. (49)

INVESTORS should increasingly start considering the potential impact of Aids on their investments.

If Aids does precipitate a major recession and possibly even a depression by the middle of this decade it will have a major impact on the future returns of investments made today.

This is the warning of two eminent researchers who predict that an Aids-induced economic recession would have serious repercussions on the traditional investment instruments like ten-year endowment policies, certain sections of the property market as well as several sections of the Johannesburg Stock Exchange.

In Durban Jane Wiltshire, corporate planning manager of Tongaat-Hulett has warned that Aids could precipitate a major recession later this decade which would divert money into disease-related areas and restrict spending as sufferers are denied credit and are obliged to rely on cash and savings.

According to Ms Wiltshire the disease is likely to start making itself felt in South Africa by the year 1995 when the maximum infection rate is reached and significant numbers of people are either ill or have died

"A credit economy is based on future earnings, so it makes sense that where future earnings are uncertain, their value will be discounted," she says.

A switch to cash and savings would cause money supply to contract, causing a "major recession" and changing the inflationary trend in the economy to a deflationary one

Ms Wiltshire adds that Aids is likely to reverse the current over-supply of labour in "the not too-distant future".

"It is likely that the population will peak some time early in the second half of the nineties and then decline as the number of child-bearing women are drastically reduced. The number of deaths will reach a peak in the late nineties".

Companies with the flexibility to mechanise would avoid the worst effect of a declining labour force, but labour intensive businesses would have a major problem.

It is the diversion of resources into treating and caring for Aids patients in the medium term that will have the most serious effect. Not only willmore have to be spent on treatment and funerals, but the economy will suffer from the reduced productivity of sufferers

MAGNUS HEYSTEK
Finance Editor

In Johannesburg Mr Keith Edelston, who heads the Aids Economic Research Unit has come up with even more forbidding findings.

He says the number of black workers is likely to shrink substantially in the current decade if the Aids pattern continues. From a peak of around 40 million blacks and coloured people in 1996 the numbers could fall to around 13,6 million by the year 2007, or thereabouts.

Projections made by the AERU indicate that South Africa's natural increase in population will most probably be halted by the year 1998, and decline thereafter.

At the turn of the century this country could be burdened by more than seven million Aids cases. The worst year promises to be 2001, with an estimated 6,77 million people dying in that year.

Thereafter the number of Aids cases will decline and the population will level out at around 13 million.

This will have serious effects on the economic levels in the country.

"When Aids reduces worker numbers to the point at which their ability to produce is reduced, earnings will fall and people will have less disposable income with which to satisfy their needs. This will lead to reduced turnover, a decline in profits and if the trend goes to far, many businesses will fold

"Long before that happens, however, something else will have a powerful effect. Aids makes people sick, and they then need medical treatment Thus spending patterns will change. As more disposable income is diverted into increased medical spending on drugs and hospital care, so there will be less to spend on other things, such as holidays and petrol for the car."

This is already happening in countries like Malawi and Zambia where copper production is falling rapidly. While affected labour currently can still be replaced by drawing from the pool of unemployed workers, this is done at great cost to productivity and training levels. Mr Edelston expects much the same to happen in South Africa.

But how will Aids affect your investment decision? In my Money Matters column on this page I try to present the picture as how Mr Edelston and others see it.

Money supply heads down despite jump

S/Times (Bus Times) (49)

By DIRK TIEMANN 30/6/91

THE money-supply trend, a major determinant of inflation, is heading down in spite of the huge "technical jump" in the first quarter of this year.

The broad money supply (M3), including cheque, short, medium and long-term deposits, was boosted by R9-billion in February when the Deposit-taking Institutions Act required banks to place on their balance sheets credit they are granted in the form of repurchase agreements.

The year-on-year rate of increase in money supply for May is 15,1% — up from April's 14,5%. The Reserve Bank says that if increased on-balance sheet financing is excluded the money-supply figure from February to April increased by only 9,4% on a seasonally adjusted and annualised basis.

This is well down on the annual money-supply growth of 27,5% in August 1988.

The bank says it will be difficult to measure a "pure figure" for money supply because the DTI Act will involve a lengthy phasing-in. The total money-supply (M3) trend is down, but there is a lag of at least six months before there will be any impact on price levels.

Domestic credit extension figures have also been distorted by bringing previously off-balance sheet financing on the balance sheet.

Credit was down from 30,2% in October 1988 to 12,9% in January 1991. It accelerated by 19% in February and 19,2% in March.

Hire-purchase credit and leasing rose by only 0,4% a month in the first quarter of 1991.

S/Times (Bus Times) 20/6/91

Subsidy

Mortgage advances grew strongly in the first quarter of 1991. An increase in government employees' mortgage loans qualifying for interest subsidy, active promotion of such loans by financial institutions and slower repayments of capital supported the growth.

A Reserve Bank economist says the increase in mortgage finance was also supported by short-term debt, such as overdrafts, being added to housing bonds to avoid liquidations.