ECONOMY — 1992

SEPT. — OCT.

Changing foreign policy debated

By Kaizer Nyatsumba 49
Political Reporter

STAR 1/9/92

A democratic South Africa's foreign policy — which will be greatly influenced by the country's commercial and economic interests — would have to be radically different from the Government's present policy, while retaining some of its best values, a conference in Johannesburg heard yesterday.

Giving their reports at the end of the four-day conference on "South Africa and the world: a new vision", five commissions which dealt with various aspects of a future government's foreign policy said a number of things would have to change.

Commission rapporteurs said the new foreign service — which had to integrate the existing service with the international affairs departments of the ANC and PAC — would have to be truly representative

'Blackmail' attacked

STAR 1/9/92

The National Party has condemned "an ominous indication" that the ANC is "blackmailing" foreign industrialists by promising not to nationalise them if they give it money

The deputy head of the ANC's foreign affairs department, Aziz Pahad, has denied a Sunday Times report that ANC leader Nelson Mandela promised Swedish firm Atlas Copco privileged treatment when industry was nationalised.

NP secretary-general Stoffel van der Merwe noted that the Sunday Times said its sources insisted that Mr Mandela made such a statement during May. — Political Correspondent.

Five were stationed in African countries allocated to fund the exhibition

A construction crew at the weekend erected a sculpture at Everard Read Contemporary, a new art gallery which opens in Rosebank on Saturday. Johannesburg artist Robert Weinek created the concept for the sculpture, which consists of six trees. Working on the project with him are Simon Stone, who created the mosaics, Joachim Schonfeldt, Barend de Wet, Guy du Toit and David Roussouw. The tallest trees, about 16m, are linked by giant branches which have been wrapped in neon light. A mechanical wire spans the trees supporting a metal trapeze artist which rolls up and down the wire.
Picture ROBERT BOTHA

Economic growth stressed

41

ADRIAN HADLAND

GENERATING economic growth in Johannesburg would be a key factor in framing urban planning policies, the city council agreed last week.

All the council's future projects would be evaluated according to a new set of five strategic criteria.

These included the project's potential for generating economic growth, the alleviation of homelessness, and care for the environment, said city planning director Japie Hugo.

The other two criteria were the economic integration of the city, through densification and inner-city development, and the streamlining of planning legislation and bureaucracy, he said.

"With limited resources available to the city, we will be evaluating all actions and projects to determine whether they will be making a meaningful contribution to the five strategic issues," Hugo said.

"We can't be all things to all people and must prioritise our plans in order to handle mass urbanisation and natural population growth in a context of economic recession."

In a report approved by the council last week, it was stated that the gearing of all planning policies to the five strategic criteria would "ensure the relevance and appropriateness of the planning department's work and hence maximise both its effectiveness and its credibility to the end-user".

Hugo said because of years of apartheid-based planning policies, SA cities compared unfavourably with major international cities in terms of economic integration and viability.

"The World Bank has said that for the SA economy to work, the cities must work as economic units, they must be economically functional.

"We have a situation where the average black commuter pays a greater percentage of his income on transport than on housing, and Johannesburg is the only major city in the world where the last high-rise residential project, Ponte Tower, was constructed more than 20 years ago"

The five strategic criteria were aimed at encouraging Johannesburg's economic and social viability, Hugo said.

Armscor shows world its hardware

SUSAN RUSSELL

ABOUT 300 international guests, some of them buyers, are expected to attend an Armscor exhibition in Johannesburg during November. BDAY 1/9/92

Armscor said at the weekend that its decision to display its wares came at a time when the SA defence industry faced new political and economic realities.

There was a need to shift research and development, and production and supply to international market demands.

Armscor had also been actively exploring commercial opportunities for a broad range of products. It had succeeded in developing a number of combat-tested specialist armaments, and a number of other products had proved successful internationally.

Despite an overtraded arms market, Armscor believed it still had a significant advantage over competitors.

The Defence Exposition of SA '92 will take place from November 17-21 at Nasrec. The local defence industry will be represented by all major contractors.

A total of 150 exhibitors from the armaments industry will display 18 different themes including artillery, armour, infantry/air-droppable systems, special forces, law enforcement equipment, telecommunications, electronic warfare and air defence systems.

Panic button

'Labour not a political pawn'

BARLOW Rand chairman Warren Clewlow last night warned against using the unskilled labour pool as a "political pawn" as it was weakening the economy at "the worst possible time".

The country needed to depoliticise law and order, education and housing and the work force, Clewlow told the National Productivity Institute's awards ceremony.

SA was in a sombre mood with economic and political issues in the forefront. People were living in difficult times, with price increases becoming a way of life. The violence and uncertainty that went with political change was compounded by increased retrenchments necessary for survival, he said.

For SA to be more successful it would have to change from a mining-dominated to a more manufacturing orientated economy. While manufacturing in major world economies had grown over the years by some 5%, SA, as a supplier of raw materials, was supplying a market which had declined by 3,5%. The change to becoming a manufacturer was a slow process, with fierce global competition.

Another inherent disadvantage, said Clewlow, was that industries had been built mainly on the Reef "to be close to the mines", when key exporting industry should be located nearer to ports.

He urged politicians to "rise above and put aside their differences", and return to negotiations.

(49)

The six recipients of gold awards were: National Petroleum Refiners (Natref); Randfontein Estates Gold Mining; Robertsons — Prospecton, Durban; HL & H Tree Improvement Centre, White River; and Eskom (northern Cape region). — Sapa.

Clewlow sees a new SA as the Japan of Africa

(49)

STAR 1/9/92

South Africa is the gateway to Southern Africa and a time must come according to Barlow Rand chairman, Warren Clewlow, when the country will start to play the role of "the Japan of the African continent".

In notes prepared for delivery at the annual National Productivity Institute's awards last night Mr Clewlow said that South Africa was in a sombre mood with economic and political issues in the forefront.

He said people were living in difficult times where inflation seemed to go on and regular price increases becoming a way of life.

This along with increased retrenchments by businesses to survive was compounded by the violence and uncertainty that went with political change.

Mr Clewlow stressed that for South Africa to be more successful in the future it would have to change from a mining dominated to a more manufacturing orientated economy.

He pointed to the fact that while manfacturing in major world economies had grown over the years by some five per cent, South Africa, as a supplier of raw materials, was supplying a market which had declined by 3,5 percent.

Mr Clewlow also questioned the economic cost of politics and policy saying it was unhealthy to use the large base of unskilled labour as "a pawn in the political power play" which was weakening the economy "at the worst possible time for the country."

Mr Clewlow said South Africa was starting to see the effect of a new direction in channelling the unproductive element of expenditure into more cost effective and appropriate areas.

But, this he said would take time to be effective and in the meantime the economy would have to carry the heavy burden.

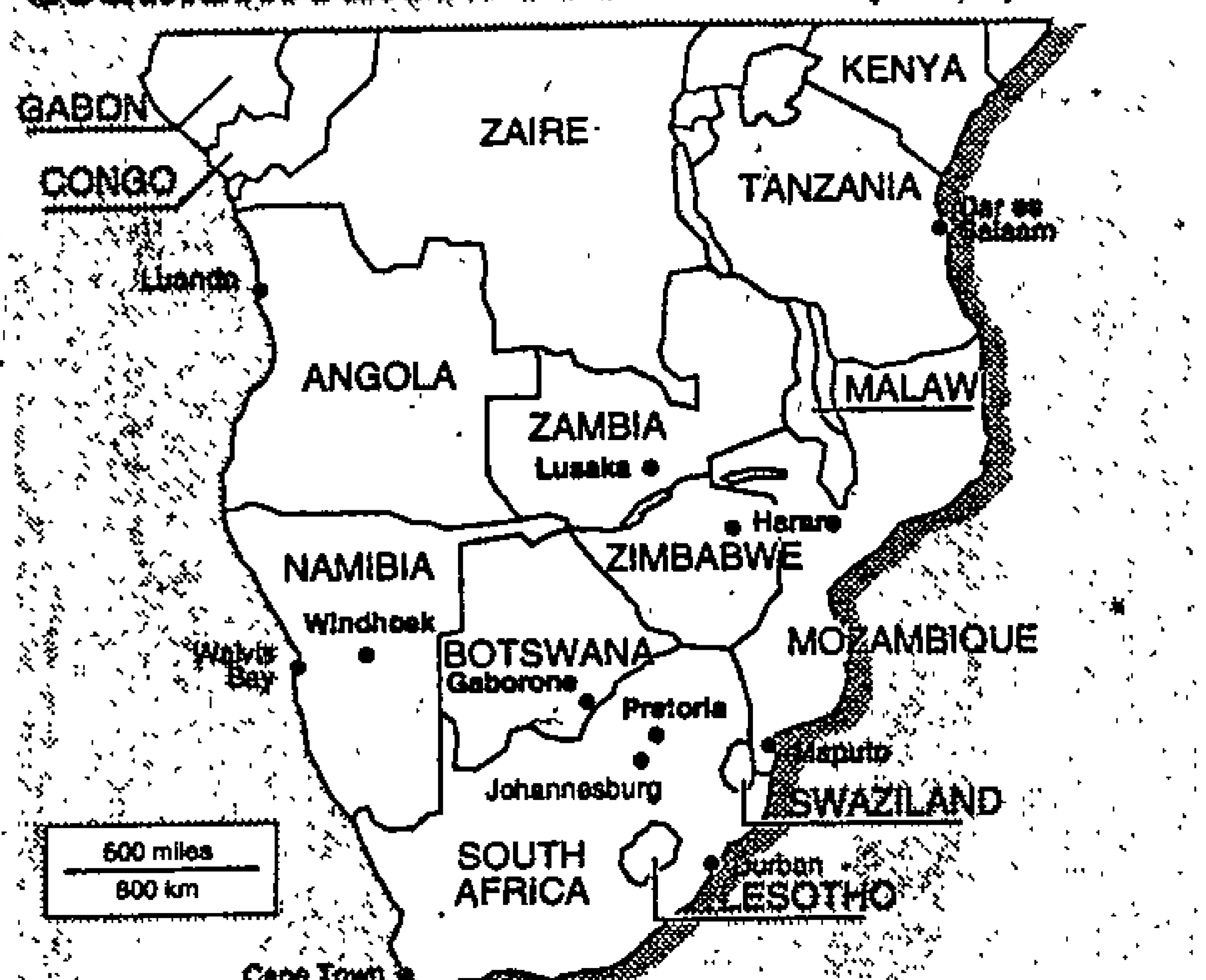
Mr Clewlow highlighted the advantages favouring South Africa as the powerhouse of Sub-Saharan Africa.

These included the country's infrastructure, market economy, sophisticated formal business sector, good agricultural sector, the international success of some South African companies and competent economic policy makers.

SA cannot flourish in isolation

STAR 1/9/92 (49)

Southern Africa economies (1989)



	Population (m)	Total GNP ($m)	GNP per capita ($)
Angola	9,70	6.014	620
Botswana	1.22	1.947	1,600
Lesotho	1.72	0.809	470
Malawi	8.23	1.481	180
Mozambique	15.36	1.229	80
Namibia	1.30	1.525	1,173
Swaziland	0.76	0.685	900
Tanzania	25.63	3.075	120
Zambia	7.84	3.056	390
Zimbabwe	9.57	6.219	650
South Africa	34.93	85.916	2,460

Source: University of Natal

Economic need has concentrated political minds in southern Africa where seven countries are co-operating in the handling of 8,2 million tons of maize imported into the region, which has been devastated by one of the worst droughts this century.

At the heart of the scheme is Spoornet, the state-run South African rail company, enjoying a level of regional co-operation which would have been unthinkable during the apartheid years.

Although co-operation over the shipments was prompted by fears in some areas of possible starvation, it is also a sign of it being more acceptable for South Africa's neighbours — Lesotho, Swaziland, Zimbabwe, Botswana, Zambia and Malawi — to be seen doing business with it now that a transition to democracy is under way.

This raises the question of what steps South Africa should take to integrate itself formally into the region and what sort of economic assistance the international community can offer.

At the heart of these issues lies one broad plank of consensus: The southern African region will prosper or perish as a unit.

Although differences in wealth and resources between countries mean that there will not be an even rate of progress or failure, it is inconceivable that South Africa will flourish in splendid isolation or that its neighbours will progress without it.

South Africa is well aware, in the phrase of Dr Anton Rupert, the famous tobacco entrepreneur: If your neighbour doesn't eat, you don't sleep peacefully.

Already there are 27 000 Mozambican refugees living in the eastern Transvaal, victims of drought and civil war. Refugees are also filtering into the northern Transvaal from Zimbabwe.

Not only does this sort of inflow strain limited resources, but the economic fragility of South Africa's neighbours also limits what ought to be important markets.

Capital scarcity

According to a study by the London-based Overseas Development Institute (ODI), Africa accounts for only 7 percent of South Africa's exports, with a quarter of this going to Zimbabwe.

Aside from trade and humanitarian concerns, regional politicians are also aware that, in an era of capital scarcity, they have a lot of work to do if they are to garner even a fraction of international capital flows, very little of which currently come to Africa.

The main obstacles to foreign investment in the region are problems of political instability, economic decay and a dilapidated infrastructure.

Peace, however, is only the first step. The extent to which governments will subsequently be able to forge a framework of economic co-operation remains to be seen.

The potential for regional integration is also complicated by South Africa's dominant position whereby its gross national product exceeds the combined GNP of the 20 member countries of the two regional trade groupings — the Preferential Trade Area (PTA) and the Southern African Development Community (SADC), the new version of SADCC — By about 40 percent.

Conventional wisdom suggests that greater economic convergence is necessary for successful integration.

In their more sanguine moments, South Africa's neighbours look on it as a market for their goods, and a source of funds for projects which other international investors or governments won't fund. Underlying that, however, is an anxiety that normalisation of South Africa's political situation may be to their disadvantage.

Thus the ODI special report, which investigates the possibility of granting financial and trade privileges to South Africa, found that the most common reaction outside South Africa when the possibility of European Community preferences was raised was incredulity.

The report finds, however, that the gains from preferential trade regimes with the EC would be small because the bulk of South Africa's exports are metals and minerals, which face low barriers. — Financial Times.

ANC seeks economists to draft policy

HILARY GUSH

THE ANC has embarked on a major recruitment drive to appoint eight economists to the organisation's department of economic planning.

Spokesman Carl Niehaus said the drive was aimed at developing the ANC's economic policy guidelines and co-ordinating its network of researchers and allied organisations. BDAY 1/9/92

Two of the organisation's economists, Max Sisulu and Viv McMenamin, have left to study abroad on scholarships.

A third, Bongiwe Njobe, has joined a private research foundation. Economist Tito Mboweni said they would be replaced and five other economists were to be appointed.

The new posts to be filled include a mining and energy economist, a financial economist and a contact economist to monitor the International Monetary Fund (IMF) and World Bank. An economist to develop the organisation's science and technology policy would also be recruited.

Mboweni said new staff would work closely with existing research groups and "throw their weight behind the development of the ANC's economic policy".

In the department's service division a data processor, land issues co-ordinator and an official to deal with documentation were needed.

Mboweni said so far applications for the positions had been keen and at least five of the eight posts would be filled soon.

BUSINESS DAY, Tuesday, September 1 1992

Standard discourages devaluation of rand

(49)

B/DAY 1/9/92

SHARON WOOD

A RAND devaluation was not necessary, given SA's current account surplus and comfortable debt management position, Standard Bank said in the latest issue of its Economic Review.

The bank was responding to the furious debate which has emerged in recent months about whether the Reserve Bank was following an appropriate exchange rate policy.

"Taking into account SA's generally improved export performance ... and exemplary foreign debt management, it is hard to concur with the view that the trade-weighted value of the rand ought to be made to depreciate as a matter of policy," it said.

A realistic exchange rate policy was a key starting point for structural adjustment of the economy.

There were two exchange rate policy options available to the Reserve Bank.

The first was to facilitate export price competitiveness, with the nominal effective exchange rate depreciating by the full inflation differential between SA and its trading partner.

The second was exchange rate management aimed at containing inflation.

The Standard Bank argued the Reserve Bank had generally been able to achieve a balance between the two.

"Devaluation is a policy instrument used by seriously distorted developing economies to enhance export competitiveness and to ration imports, often drastically, because they cannot service or repay foreign debt obligations."

In addition, the bank said, if SA exporters felt short-changed by a strong-rand policy, they chose to ignore that this had been partly compensated, at the taxpayers' expense, through the general export incentive scheme (GEIS) and VAT exemptions on exports.

"Moreover, the policy was precisely designed to force exporters to become more efficient by improving their labour and capital productivity," it added.

Standard Bank set out two other key requirements to begin a structural adjustment programme.

These were monetary and fiscal restraint and the political will to undertake significant economic reform.

Challenge

Monetary restraint had been a success but fiscal policy remained too expansionary and was at odds with macroeconomic balance, it said.

Political consensus was necessary for the successful implementation of structural adjustment, it added. "The tepid support given by the government to economic reform and the ambivalent attitude of important political players — notably the ANC — to markets underscores the policy challenge facing the economy."

Standard Bank believed the Economic Forum could be a useful instrument for discussing and "marketing" policy recommendations.

Blueprint for prosperity

STAR 11/9/92 (49)

An economic and tax convention "Blueprint for Prosperity, will be held at the Johannesburg Sun on October 8, where ideas will be exchanged between organised business, organised labour and the major political parties.

The forum will bring together speakers from the ANC, IFP, DP, government, NAFCOC, Sacob, Fabcos, AHI, Cosatu and the private sector and is being sponsored by Southern Life and The Star.

Martin Sweet, assistant general manager, legal and tax services, Southern Life, said: "The poor performance of the South African economy is cause for great concern.

"Mr Mandela and others have called on big business to find ways of breaking the present economic deadlock. The response of Southern Life and The Star was to back a forum for debate where key players in the political, economic and business environment could exchange ideas.

"Economic issues need to be addressed urgently. We cannot wait for the political reform process to run its course. A sound economic performance before, during and after any such political transition is the cornerstone of any stable democracy.

"Political liberation must be underpinned by economic stability if we are to prosper and make foreign investment more than just a pipe dream. There can be no democracy without economic growth.

"Now, more than ever, we need to build bridges and to direct the enormous potential of our country.

"It is the settling of differences and the discussion of the future with a common purpose that will enable South Africa to take its place as a major player, not only on the African continent, but also in the world.

"Blueprint for Prosperity" aims to bring together people with divergent viewpoints on economic issues in order to discuss their proposals.

Mr Sweet said the future economic policy had to be developed according to an equitable system for a new South Africa, and any system decided upon only after consultation with all interested groups.

"The convention speakers will also discuss future tax scenarios and whether certain taxes can be used as a redistributive mechanism.

"Capital gains tax, transfer tax and land taxes will be debated. Other issues like unemployment, job creation, poverty and crime will also be addressed.

"We hope that 'Blueprint for Prosperity', which is set against the present economic scenario of doom and gloom, will give hope for and insight into the future.

"The convention is an ideal opportunity for every business leader, politician, investment and tax expert to obtain first-hand the views and policies that are likely to shape our economic and financial destiny.

Speakers at the conference include: Dr Zach de Beer (leader of the Democratic Party), Cyril Ramaphosa (secretary general, African National Congress), Dr Stef Naudé (director general, Department of Trade and Industry), Khehla Mtembu (managing director, Afsure), Professor Katz (chairman, Tax Advisory Committee), Archie Nkonyene (president NAFCOC), Professor Sipho Shabalala (Department of Business Management, University of the Transkei), Professor Dennis Davis (Professor of Law, Centre for Applied Legal Studies, University of the Witwatersrand), Dr Frank Mdlalose (national chairman, Inkatha Freedom Party) and Yayandra naidoo (negotiations coordinator, Cosatu).

- **Booking for this convention can be made through Cordev Marketing, telephone (011)-483-3214/5. The fee — for "early-bird" reservations — is R250 per person.**

Fresh initiative from Nedcor, Old Mutual

CT 2/9/92 (49)

From DUMA GQUBULE

JOHANNESBURG. — Nedcor and Old Mutual have brought together a crack team of experts to make practical recommendations to pull the economy out of its worst recession in over eighty years and create an economic environment conducive for a successful political transition.

Colin Adcock, chairman of the Nedcor/Old Mutual Professional Economic Panel, yesterday said the high-profile group was hoping to put more "flesh and bones" to the Nedcor/Old Mutual scenarios which were last year presented to the cabinet, the ANC, Inkatha and a variety of organisations across the political spectrum.

The panel had 25 economists, businessmen, trade unionists and education experts including Institute for Democratic Alternatives for SA (Idasa) director Frederick van Zyl Slabbert, former South African Foreign Trade Organisation CE Wim Holtes, Kagiso Trust director Eric Molobi, economist and ANC tax advisor Lieb Loots, UCT economist Nicoli Nattrass and Free Market Foundation director Leon Louw.

Adcock said the panelists, who had been meeting since the end of June, were hoping to have a final report before the end of November.

The original scenarios, he said, had found that nowhere in the world had a transition to democracy succeeded without a vibrant economy. Fears were expressed that SA's transition would fail if something was not done to get the economy onto a higher growth path.

As a result, two kick-start proposals — to find 400 000 serviced sites a year and build on them 200 000 houses a year for four years (leaving the balance for informal settlements) and to electrify one million houses a year — were made.

Adcock said the new panel would be specific about costs and ways of financing its proposals and how they could be implemented.

Areas being covered include: macroeconomics, exports and investments, education and training, job creation, small business development and special employment programmes and ways of removing institutional and other impediments to democratisation.

Scant relief from bleak outlook

CT 2/9/92

By AUDREY D'ANGELO
Business Editor

AN economic recovery "of sorts" will take place in 1993/94, says Board of Executors economist and senior portfolio manager Rob Lee — who until now has given consistently cheerful forecasts.

But, he emphasises, it will only be "a subdued cyclical bounce in the economy" unless there are convincing signs of an international recovery, considerable progress in the political negotiation process and the adoption of a viable economic restructuring programme.

However, Lee still believes that the consumer price index (CPI) "will fall to close to 12% by year-end and, with a bit of luck, could reach 10% late in 1993.

"Bank rate will therefore be reduced by at least 2% and possibly by 3% within the next nine months."

Lee points out, in his Investment Outlook, that the timing of the international economic recovery "continues to be pushed out, and with it the prospects for rising commodity prices."

The fledgling US recovery might be stalling yet again. And German monetary policies aimed at keeping inflation down are forcing the UK and other countries in the European Exchange Rate Mechanism (ERM) to raise interest rates at a time when they should be cut.

"The vice of the Bundesbank is therefore quite inappropriately being allowed to strangle economic recovery in the UK. This applies to a greater or lesser degree to most other European countries as well.

"What has gone wrong is that the costs and implications of the reunification of Germany have thrown the German economic cycle significantly out of kilter with the rest of Europe — and have exposed the inherent weakness of a fixed exchange rate mechanism.

"It remains to be seen whether the ERM can survive this crisis in its current form."

Discussing the SA economy, Lee says a drastic reduction in the level of tariff protection, accompanied by a lower rand exchange rate, are among key elements of an economic reconstruction programme.

"To prevent such a depreciation of the currency from leading to the all too familiar spiral of rising inflation and falling currency it is essential that these measures be accompanied by drastic cuts in current government spending and by the maintenance of positive real interest rates."

A major depreciation of the currency in isolation, without the package of additional measures required to make it effective, would be disastrous and self-defeating.

Discussing the JSE, Lee says that the rating of De Beers shares might take years to recover. "De Beers results are of course reflecting the reality of the delayed international economic recovery."

"The stock market indices are now deeply oversold and the probability of an upward correction or at least a consolidation must be quite high.

"However, we are concerned that the current still low earnings and dividend yields do not yet fully reflect the worsened international and domestic outlook."

Some clues from Keys

FINANCE Minister Derek Keys is expected to give important clues on his thinking about the restructuring of the economy tomorrow.

But a spokesman who said he would talk about "various factors" made it clear he would not present a model on which a Reserve Bank team headed by deputy governor Japie Jacobs has been working.

The model is due to be discussed at the Economic Forum this month.

Board of Executors economist and senior portfolio manager Rob Lee emphasises, in his Investment Outlook, that "an agreed package of far reaching measures is urgently required if we are to pull out of the political and economic deterioration that is now occurring on an almost daily basis."

But Lee stresses that "the days of Government unilaterally imposing key decisions are over and it will be essential to obtain widespread backing before such a programme can be effectively implemented.

"In the nature of things the ANC and Cosatu and other significant bodies will want elements of their own agenda inserted into any 'deal' on a restructuring programme."

Political stability crucial, says Bank

Prospects dim for growth in coming year

49

B/DAY 2/9/92

GRETA STEYN

ECONOMIC policymakers are understood to be worried that SA could face a year of virtually zero economic growth next year after three years of falling GDP.

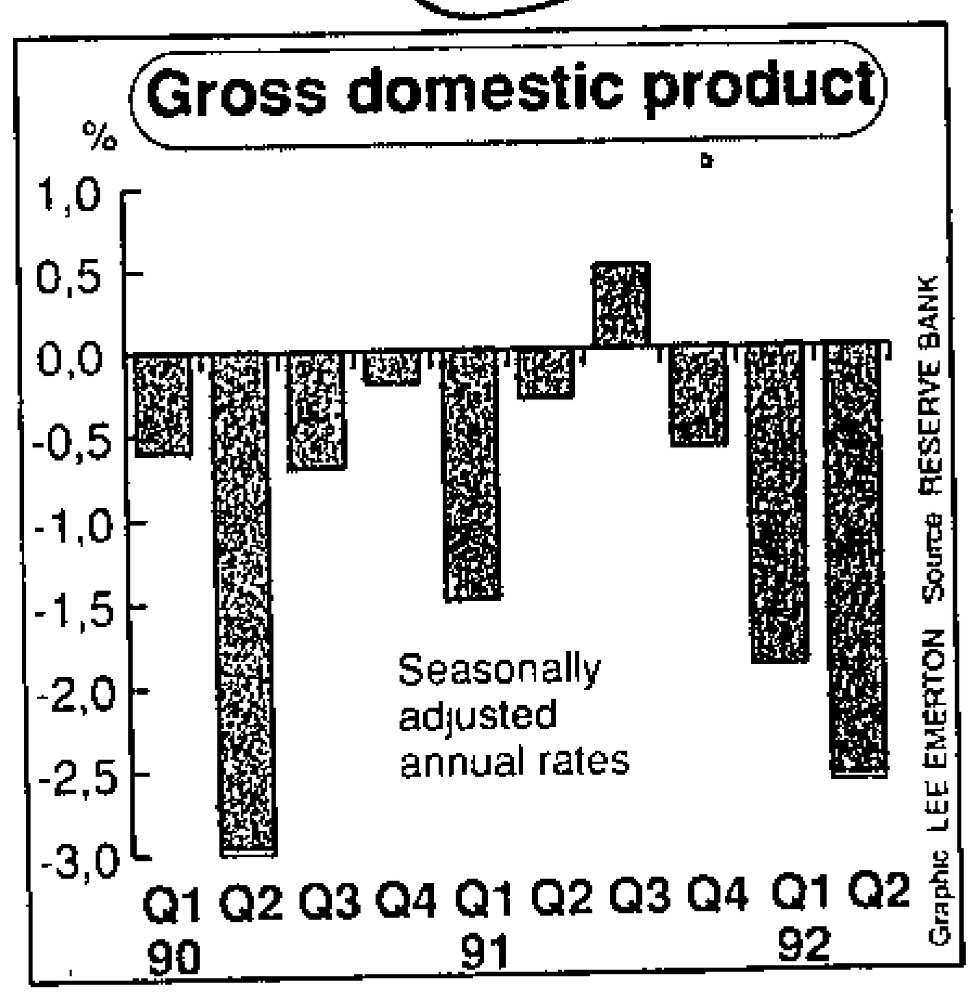
Hopes of significantly positive growth are fading as international economic activity remains sluggish, while demand on the home front is also still weak. With internal and external factors worse than expected, economists are revising growth projections downwards.

It is understood that some government projections show a zero real growth rate for next year. The calculations assume that fiscal policy will not be expansionary and agricultural production will return to normal.

Although the Reserve Bank does not want to disclose its growth projections, it is not optimistic that next year will see a decisive move out of the longest post-war downturn.

Deputy Reserve Bank Governor Jaap Meijer said yesterday: "A positive growth rate is not impossible if the political situation is stable and confidence improves. The Bank is frustrated with the effects of despondency on the economy."

Next year would be an improvement on 1992, which the Bank expected to yield a fall of 1% in GDP. The improvement would be the result of normal agricultural production, while further positive factors included the international environment and a slightly expansionary fiscal policy. The most important negative factor remained the private sector debt overhang.



Households' debt-to-income ratio was still higher than the historical trend. The extent of the move to trim debt had surprised the Bank, with private consumption falling much more sharply than expected.

□ To Page 2

Growth

B/DAY 2/9/92

49

□ From Page 1

The trend was expected to continue.

Economists said if policymakers decided to take action to alleviate the effects of the recession, it would be in the form of targeted aid packages rather than overall expansionary policy.

Among private sector economists, the Bureau for Economic Research (BER) was bullish on growth earlier this year, but is revising its estimates downwards from an initial 3,8% in 1993. The delay in the global recovery was the main factor behind the revision, although weaker than expected domestic demand also contributed.

Nedcor economist Edward Osborn has revised projections down from 3% to 2% as a result of sluggish international conditions. He emphasised, however, that next year's growth performance depended on the strength of the recovery in industrialised countries — a factor that was difficult to forecast. "The debt burden of government and the private sector is a constraint. The state of domestic finances means any stimulus will have to come from outside."

Santam investments GM Roy Justus this week predicted a zero growth rate for next year, reflecting the effect of uncertainty on consumer spending.

Bankers also report that credit demand remains flat as companies are reluctant to invest. The BER is now rethinking its projections of an increase in investment in the fourth quarter.

Private spending on fixed investment fell by an annualised 2% in the second quarter as a result of cutbacks in virtually all major sectors of the economy.

BoE calls for economic restructuring

81DA9 2/9/92 (49)

LINDA ENSOR

CAPE TOWN — An economic restructuring programme consisting of far-reaching measures was urgently required if SA was to pull itself out of the political and economic deterioration occurring on an almost daily basis, Board of Executors senior portfolio manager Rob Lee said in the latest Investment Outlook.

Finance Minister Derek Keys is expected to make an announcement shortly on government proposals for economic restructuring. Lee said it was vital that major political and trade union bodies such as the ANC and Cosatu back the programme, which was an essential prerequisite for a sustained, high-growth recovery of the economy.

An international economic upturn, the resumption of negotiations and the rapid installation of an interim government were also necessary.

Lee has recommended a lower exchange rate achieved by the abolition of the financial rand and the possible reduction or abolition of other exchange controls. This depreciation would require drastic cuts in current government spending and the maintenance of positive real interest rates to prevent a spiral of rising inflation and a falling currency.

He said a major depreciation of the currency without a package of additional measures would be disastrous and self-defeating. A firm monetary policy was also essential.

Lee said no respite from the recession could be expected for the rest of this year as the timing of the international economic recovery continued to be pushed out. However, an economic recovery "of sorts" would take place in SA in 1993/94.

The fledgling US economic recovery might be stalling yet again, an event which had led to a plunging dollar. A simultaneous drop in sterling might require an interest rate hike in the UK, thus further delaying the recovery there. The Japanese economy continued to slow sharply, although an aggressive fiscal stimulation package could help secure an eventual turnaround.

The US recovery was likely to be significantly less powerful and sustained than normal, Lee said.

Lee expected the "headline" annual CPI inflation rate to fall to close to 12% by year-end, possibly reaching 10% in late 1993. Bank rate would therefore be reduced by at least 2% and possibly 3% within the next 9 months.

He considered equity markets worldwide and in SA to be trading on historically low dividend and earnings yields.

Further downside in long-term rates seemed possible after the current correction phase was over, especially if Keys was able to produce a credible plan to cut government spending.

Big guns plan to rescue economy

B/DAY 2/9/92.

(49)

DUMA GQUBULE

NEDCOR and Old Mutual have brought together a crack team of experts who will make practical recommendations to pull the economy out of its worst recession in 80 years, and create an economic environment conducive to a successful political transition.

Nedcor/Old Mutual professional economic panel chairman Colin Adcock said yesterday the high-profile group was hoping to put more "flesh and bones" to the Nedcor/Old Mutual scenarios which were last year presented to the Cabinet, the ANC, Inkatha, and a variety of other political organisations.

The panel comprises 25 economists, businessmen, trade unionists and education experts, including Idasa director Van Zyl Slabbert, former Safto CE Wim Holtes, Kagiso Trust director Eric Molobi, economist and ANC tax adviser Lieb Loots, UCT economist Nicoli Nattrass, and Free Market Foundation director Leon Louw.

Adcock said the panelists, who had been meeting since the end of June, were hoping to have a final report before the end of November.

The original scenarios, he said, had found that nowhere in the world had a transition to democracy succeeded without a vibrant economy. Fears were expressed that the country's political transition would fail, if something was not done to get the economy on a higher growth path.

As a result, two kick-start proposals were made: to find 400 000 serviced sites a year and build on them 200 000 houses a year for four years (leaving the balance for informal settlements); and to electrify 1-million houses a year.

But Adcock said the shortcoming of the proposals was that because they were scenarios, they had not gone into great detail or suggested practical and sustainable ways of getting the economy on a higher growth path. The new panel would be specific about costs and ways of financing its proposals, and how they could be implemented.

Areas being covered included: macroeconomics, exports and investments, education and training, job creation, small business development and special employment programmes, and ways of removing institutional and other impediments to the process of democratisation.

Referring to the latter, he said the panel would try to pinpoint areas of bureaucracy where old policies were still being implemented because many people had not adapted to the new political situation.

Lord Mayor: ANC economy

DURBAN. — ANC representatives are increasingly understanding the importance and significance of a market-driven economy, according to the Lord Mayor of London, Sir Brian Jenkins. 49 CT 3/9/92

After a three-day visit to Natal and a two-week visit to South Africa, he said ANC economic statements he had seen averred that the country needed a market-driven economy to generate economic growth.

He said Natal businessmen had an aggressive desire to examine European business opportunities. — Sapa

Vision of economic consensus is a dangerous illusion

BDAY 3/9/92.

NICOLI NATTRASS

49

THERE seems to be a lot of consensus about the economy these days. The participants in the new economic forum have agreed that economic "restructuring" needs to be negotiated jointly. The ANC has openly accepted the need for "financial discipline" and its latest economic policy resolution stresses that policies must "be guided by the balance of evidence" rather than "any rigid ideological framework".

Even the business community's usually evangelistic free market rhetoric is being modified. The Nedcor/Old Mutual scenario plan, for example, sees selective government intervention (as occurred in South Korea), the creation of a job corps and the implementation of prescribed assets as "urgent and necessary".

If business accepts these arguments, then constructive co-operation between various groups is more likely. With socialists moving away from central planning towards more market-orientated mixed economies, and important business lobby groups talking enthusiastically about the South Korean state, then clearly some common ground is evident. Hardline Stalinists and Thatcherites have been relegated to the lunatic fringes. The ANC has agreed not to kill the golden egg-laying goose so long as the state and business agree to get the barren fowl laying, and laying fast.

On specific policy levels, too, it is possible to point to common ground. Housing provision is seen as a desirable and feasible "kick-start" to the economy. Both accept the need for fiscal and monetary discipline, and the promotion of exports.

However, it would be a mistake to believe that some form of social democratic consensus is on the cards. In crucial respects, agreement is superficial only.

Take, for example, the frequent favourable citing by both the ANC and Nedcor/Old Mutual of the South Korean success story.

South Korea provides the ANC with an example of successful state intervention. For business, South Korea offers an example of a supportive and facilitating state which helps the private sector succeed in rapidly shifting cut-throat international markets.

What the ANC fails to mention is that the short-term interests of the consumer and the labour movement had to be sacrificed in the interests of winning export markets. In this respect, the absence of democracy in South Korea was rather helpful. I once heard an influential ANC speaker proposing that the South Korean model should be followed in every way — except of course when it comes to repressing labour. That you could not have a South Korean model without repressing labour seemed to escape him.

What business fails to see about South Korea is that the state nationalised the financial sector and used its control over credit to force the industrial conglomerates into areas of production targeted by the state. Business should prick up its ears when the ANC talks admiringly about "disciplining capital" *à la* South Korea. Restructuring industry will inevitably result in some severe conflicts of interest between industrialists and gung-ho state-planners picking what they see as "industrial winners".

There is still an unbridgeable gap between those who ultimately have faith in the market to allocate resources efficiently, and those who believe the state is ultimately in a better position to do so.

Other problem areas include talk about "financial discipline" and "restructuring" ANC economic policy sees "fiscal and monetary discipline" and "macroeconomic balance" as vital to the health of the economy. These statements can be taken at their face value. No one wishes galloping inflation and balance of payments crises on SA.

However, the ANC also calls for a "massive injection of finance" in the interests of basic needs provision. There is little explicit appreciation of the fact that, in the interests of macroeconomic balance, the "massive" injection of finance must certainly not be as massive as popularly demanded. Thus when it comes to designing packages of policies, political interests will probably result in groupings like the ANC tolerating a much higher inflation rate than other constituencies with which they are seemingly in agreement at present.

The debate is at its most obtuse when it comes to the need for restructuring. Like motherhood and apple pie, everybody is in favour of it. Yet, listening to the debate, one gets the impression that very few individuals understand the disadvantages that such a process will entail for their own constituencies.

"Restructuring" means diverting resources from some (predominantly import-substituting) industries and sectors to other (predominantly export-orientated) industries and sectors. It means altering the production process, the labour process and the allocation of economic surpluses between wages, distributed profits and investment.

The upside is better growth and the reduction of unemployment in the longer term. The downside is the unemployment and disruption that would inevitably follow in the short term.

Take the motor vehicle industry It is conventional wisdom that, owing to the high level of protection, the industry has too many producers for the limited size of the market. Production runs are too short to allow for adequate advantages of scale. In the interests of economic efficiency, it would make sense to scrap protection and allow international competition to force the industry to consolidate around fewer producers.

Are the trade unions or industrialists in the industry going to take that lying down? Of course not. Specific interest groups — who seemingly support the general idea of restructuring now — will later become vocal and obstructive in their opposition to it This problem is going to make its presence felt in the economic forum

Interestingly, Bruce Scott (one of the Nedcor-Old Mutual scenario planners) observes in his contribution that restructuring is best done before the transition to democracy takes place He argues that, in democracies, those with vested interests are able to influence policy and hence would limit the inevitably painful process of restructuring

Given that no transition from inward-orientated to export-driven growth has taken place under democratic regimes, this analysis must be taken seriously. It is disturbing that both the ANC and the Nedcor-Old Mutual scenario planners seem to believe that radical economic restructuring in SA must and can be done through consensus.

This, unfortunately, is a sham. Given that those who will benefit from restructuring are currently in the minority, while those workers and capitalists who will lose are highly organised constituencies, it is safe to conclude that restructuring will be limited if democratic consensus is to be the guiding process One does not have to be a political economist to recognise that there is tension between the ideal of democracy and the interests of rapid restructuring. This is a nasty fact of life, and these days very few will admit it.

This is unfortunate as it leads to bad political strategy. The demand from the left that no economic restructuring must take place before the transition to an interim government is seriously misguided.

It is in the long-term political interests of the ANC to have President F W de Klerk start the painful restructuring now — and let the NP deal with the resulting flak! In a few years time, when the economy is on a better footing and a democratic government is installed, the ANC will be able to reap the rewards.

☐ **Nattrass teaches in UCT's economics department. This is an edited version of an article in the August edition of the journal Reality.**

Leaders are urged to talk (49) (3...)

AN urgent call on political leaders to negotiate a new dispensation before the South African economy is ruined by lack of progress has been made by Durban's newly-formed Regional Chamber of Business. Sowetan

In an address at the chamber's inaugural banquet, president Mr MC Pretorius said the new body would focus its efforts on ending violence, urging leaders to find political solutions and promoting tourism, exports and small business. 3/9/92

He said Natal had learnt from the "Indaba exercise" that negotiations could succeed.

The South African business community was waiting for an acceptable political dispensation before making investments, and this in turn was chasing away foreign investment, Pretorius said. - *Sapa*

Keys to address economic problems

SIMON WILLSON

(49)

FINANCE Minister Derek Keys will today make his first formal statement on the economy since taking over the portfolio.

He gave notice of the Pretoria news conference yesterday, amid growing anxiety in business and commerce about economic prospects. BDAY 3/9/92.

It is understood that Keys's statement will deal with the growing likelihood of a budget deficit overshoot for fiscal 1992/93, and how government intends to cover the widening revenue shortfall indicated by exchequer figures for the first four months of the current fiscal year.

The 1992/93 budget deficit was estimated at 4,5% of GDP in the Budget tabled in March, but sluggish tax receipts have prompted private sector forecasts that the deficit will approach 6% of GDP — twice that proposed as a prudential deficit limit by international financial organisations.

It is believed that Keys will also have something to say about the level of food inflation, although this is unlikely to include the issue of variable rate VAT and the zero rating of basic foodstuffs.

After meeting a Food Forum delegation last week, Keys said the zero rating of basic foods would be taken into account when taxation changes were next examined by his department.

Keys is thought to be ready to give government's view on the level of the commercial rand exchange rate, and whether

☐ To Page 2

Keys

BDAY 3/9/92.

(49)

☐ From Page 1

it should be devalued to stimulate the economy Reserve Bank Governor Chris Stals ruled out devaluation at the Bank's AGM last week

Progress on the assembly of an economic forum is also expected to be covered. The forum is known to have been one of Keys's particular preoccupations since taking over the Finance portfolio.

Keys is also expected to mention what economic models, used by government, are projecting for the economy. Former Finance Minister Barend du Plessis based the 1992/93 Budget on an assumption that the economy would grow by 1% this year Subsequent forecasts by the Bank and private sector institutions have predicted a fall in GDP of about 1% this year. Analysts are now wondering whether the economy will resume growth in 1993 or post a fourth successive year of contraction

● Drastic cuts in State spending ● VAT exemptions reconsidered

Govt may lay off 30 000

(49) STAR 4/9/92.

By Sven Lünsche and Helen Grange

The Government will introduce large spending cuts next year which could lead to 5 percent of public servants — about 30 000 — being retrenched, Finance Minister Derek Keys announced yesterday.

At a press conference, Mr Keys also hinted at the reintroduction of the VAT exemption for basic foodstuffs during the Budget in March next year

He warned that the economy would not show a substantial improvement "unless the violence is stopped and a representative government put in place" Only then could the Government realistically address the problems of pursuing economic growth and tackling underdevelopment

Budget over-run unlikely to push up interest rates — Page 14

Mr Keys said the deficit before borrowing (the amount by which Government spending exceeds tax income) was rising far in excess of budgeted levels and could prevent a sound economic recovery.

The Government would not raise additional revenue in the current fiscal year, but had already set spending guidelines for 1993/4 for all Government departments Government spending would be cut by 3 percent in real terms (after inflation) and all departments would be encouraged to raise productivity

Mr Keys said this could entail the retrenchment of up to 5 percent of public-sector workers.

Reacting to the announcement the Public Servants' Association (PSA) said such a cut would lower morale among public servants, who had been concerned for some time about their future under a new government

PSA chairman Hans Olivier said it would remain to be seen to what extent staff would actually be curtailed, since there were numerous posts unfilled at the moment

Mr Olivier said his organisation supported a small, well-paid public service, but to date, salaries were far below those in the private sector

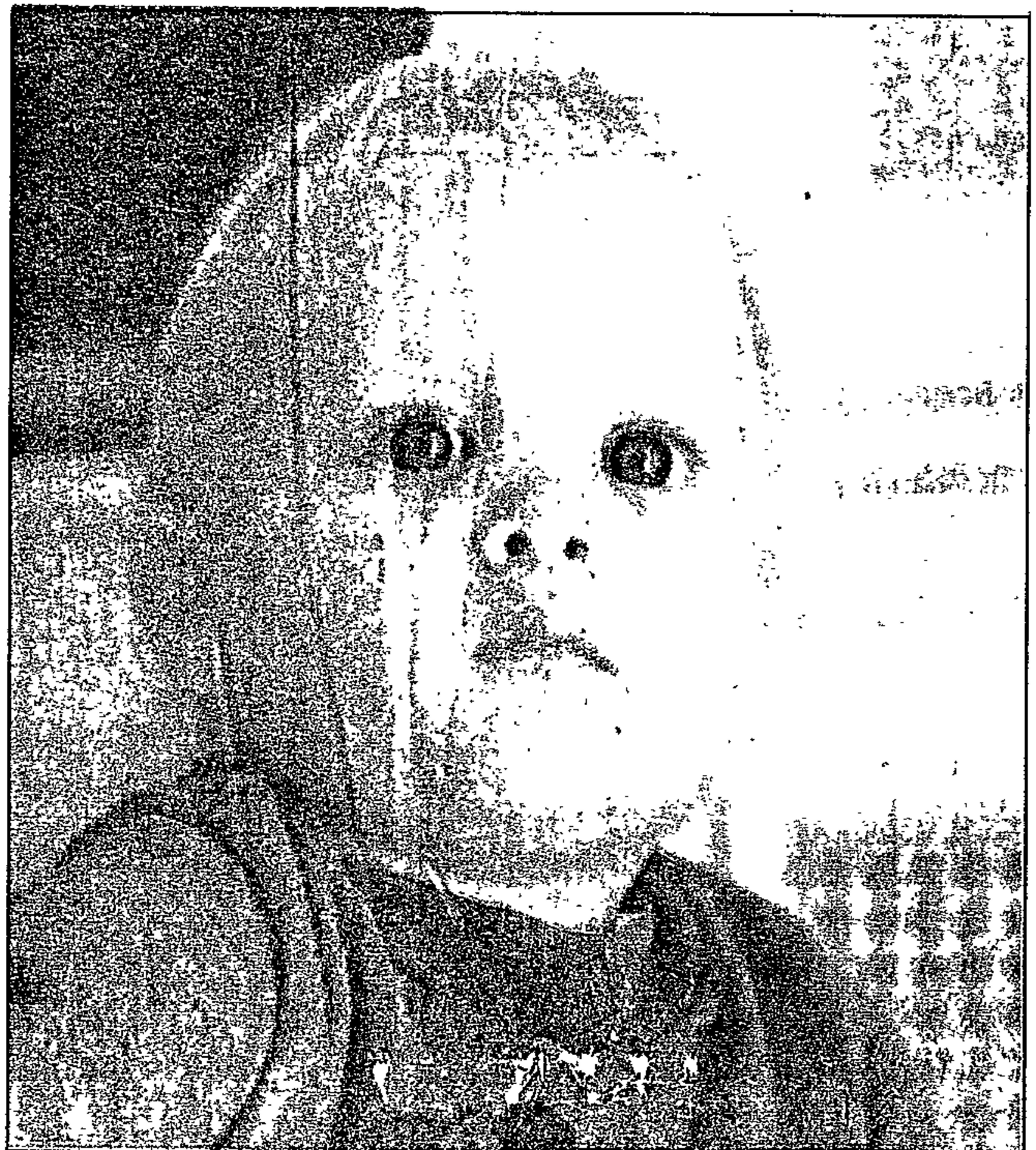
In reaction to recent calls for the exemption from VAT of basic foodstuffs, Mr Keys said it was not the Government's intention "to exempt large sections of the economy from the tax". But after discussions with the VAT Coordinating Committee and the Food Forum, "certain proposals have been made which are being studied with a view to finding common ground on the definition of basic foodstuffs

"If these efforts are successful, they will be implemented next year," he said

In a joint statement, the Afrikaanse Handelsinstituut and the SA Chamber of Business (Sacob) said Mr Keys's statement did little to build business confidence and failed to convey the urgency of the situation The country faced a critical economic situation and there was an urgent need for gaining agreement on, and implementing, an economic reconstruction programme

Sacob said it believed the National Economic Forum had an important role to play, and hoped the Government would take part

The two bodies said they shared Mr Keys's concern about the growing Budget deficit However, they saw "no specific measures proposed for reducing public-sector expenditure"



Toddler tragedy .. Derrick van Zyl, who was abducted in April and found wandering on the Soweto highway five hours later, was killed by a falling garage door on Wednesday. Picture: Ken Oosterbroek

Door kills toddler who made headlines

By Monica Oosterbroek

Derrick van Zyl, the toddler who made headlines when he was abducted from a shopping centre in April and dumped on a busy highway, died on Wednesday after a garage door crushed his skull.

The 18-month-old son of jockey Gavin van Zyl was playing in the garage when the electric mechanism failed and the door fell on his head

The gardener found the boy and alerted Mr van Zyl, who immediately started giving his son mouth-to-mouth resuscitation

He then phoned the Sandton Crisis Centre and stayed on the line while they advised him on procedures until paramedics arrived.

The boy did not have a heartbeat when the paramedics arrived, but they got his heart going again.

The child was airlifted to the Johannesburg Hospital but died soon after arrival.

Derrick survived an ordeal earlier this year when his mother, Shannon (32), was shot in the face in the Sandton City parking area and a hijacker drove off in the family minibus with Derrick in the back seat

He was found five hours later wandering along the Soweto highway

Derrick's funeral will be held at the Mormon Church, Bryanston, at 2 pm tomorrow

Keys speech 'failed to inspire'

(49) CT 4/9/92

JOHANNESBURG. — Finance and Trade Industry Minister Derek Keys' announcement yesterday had done little to rebuild investor confidence, according to the South African Chamber of Business and the Afrikaanse Handelsinstituut.

In a joint statement released yesterday afternoon, the two business bodies criticised Keys' address earlier in the day for failing to "convey a sufficient sense of urgency" about the poor state of the economy.

Keys' forecast that the budget deficit for the current financial year would grow to 6% from the Budget speech's expected 4,5% in March this year.

This amounts to an approximate R21,23bn shortfall and the deficit before borrowing and debt repayments in the first quarter of this financial year has already spiralled to R7,814bn.

Sacob and the AHI welcomed Keys' decision not to raise taxes to finance the deficit.

However, the two organisations were sceptical of Keys' plans to reduce public sector expenditure, saying no specific measure had been identified.

The country's businesses were committed to the fledgling National Economic Forum and expressed the hope that "difficulties that seem to be in the way of full government participation" would be resolved.

The Forum could become an important body for seeking consensus on economic policy. — Sapa

Keys: 'Positive rates to stay'

(49) CT 4/9/92

Own Correspondent

JOHANNESBURG. — Finance Minister Derek Keys yesterday aligned government squarely behind the Reserve Bank's management of interest rates and the rand's exchange rate.

At his news conference in Pretoria, Keys said the government was aware of the malignant effects of pitching interest rates lower than the inflation rate. He said the government fully endorsed Bank policy to maintain positive real interest rates.

"This policy has already permitted two reductions of the Bank rate this year, and the process will no doubt continue in an orderly manner as inflation drops further."

He said there was a considerable gap, not fixed by any regulation, between the 15% Bank rate and lending rates charged by banks. This gap ought to be narrowing through competition, although banks' bad debts and their desire to raise capital resources to meet new regulations would be a restraint.

"I trust that, as these restraints become less important, we can look forward to greater lending rate competition in the banking industry to the benefit of the economy in general and small and medium-size businesses in particular," Keys said.

Welcoming debate on an appropriate exchange rate for the commercial rand, Keys said there had been a continuing depreciation of the rand which took considerable account of SA's higher rate of internal cost increases. The current rapid depreciation of the dollar was setting up stresses and strains in the rand's exchange rate.

"If one were going to pay particular attention to the rand/dollar exchange rate, it would seem to be wiser to do so some time after the underlying causes for the present instability have passed."

On privatisation, Keys said the government faced no political obstruction to selling off state assets. There was a medium-term programme which required organisational changes to the different activities which were potential subjects for privatisation, and this process was continuing.

He said privatisation proceeds did not offer a way of boosting underperforming state revenues in the 1992/93 fiscal year. "There is nothing at the moment that I could hock to solve a short-term problem."

Keys appeared to rule out extending VAT exemption to food, saying the government wanted to adhere to its line that an indirect tax such as VAT should not be allowed to distort the relative prices between the products of different economic sectors. "We would regard it as fiscally unsound to exempt an entire section of the economy from the effects of a tax like VAT," he said.

A plenary session of the proposed economic forum was not government's objective, Keys said. "Our objective is that labour and business should be talking and that they should have free access to government with a view to enlisting us if that is required."

FM BOARD OF ECONOMISTS

Where do we go from here?

The annual address of the governor of the Reserve Bank is always a key guide to official policy and the immediate economic outlook. Regulars Louis Geldenhuys (of stockbroker Senekal, Mouton & Kitshoff), Ronnie Bethlehem (JCI) and Aubrey Dickman are joined by Tito Mboweni in an assessment of Dr Stals's 1992 speech; the chairman, as always, is Sacob's Rayond Parsons.

***Parsons:* What was the main message of the governor's address?**

Bethlehem: That the value of the rand won't be compromised to ease the position of exporters and the economy in general.

Mboweni: The big thing for me was his attempt to begin to outline some of the key components of a possible restructuring programme. He also focused on what is beginning to emerge as an obvious clash between fiscal and monetary policy. He's worried about the Budget deficit.

Dickman: Another important message is that we are no different from any other country when it comes to the fight against inflation and the use of money to stimulate the economy. Internationally, the preoccupation with short-term stimulation is out; medium-term objectives are in. When George Bush talks about tax cuts, he talks about spending cuts at the same time. Crude Keynesianism is out. The fight against inflation is the most important thing.

Geldenhuys: He strongly confirmed his stance that his job is to curtail inflation.

How bad is the recession? Is the economy in a downward spiral or has it simply gone into hibernation?

Dickman: Clearly the recession is bad, but I think there are elements which will prevent a downward spiral, though exports have levelled off because of the world situation.

Geldenhuys: I'm worried that we seem to see the solution in reducing the size of the economy, disciplining it further and further.

Bethlehem: The seriousness of this recession and what may unfold can't be separated from the global economy and its prospects.

Mboweni: One reason the recession is so bad, is structural problems. We have not worked out a strategy to bring on board the black entrepreneurial class or deal with some questions of urban planning. If we want manufacturing production to improve and be competitive, what must we do to some of its critical components? There is a danger that a downward spiral could develop.

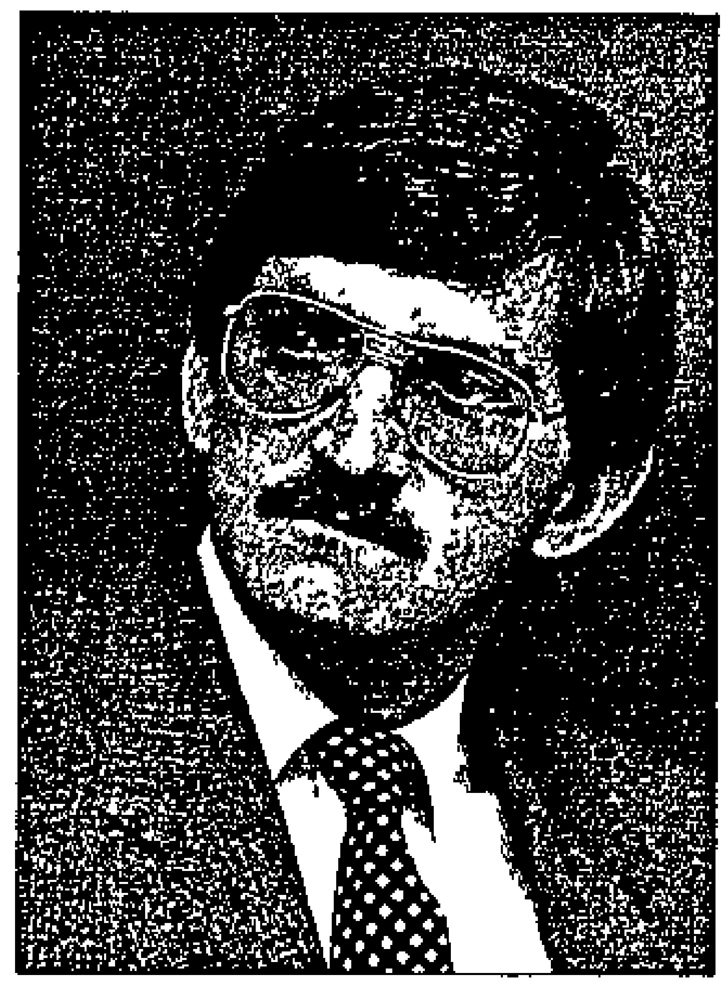
How does the world picture affect us?

Mboweni: The global economy has been sluggish for a couple of years, but is beginning to pick up. But even if the world economy booms it won't greatly benefit SA in the short run unless, by that time, we have sorted out our structural questions to be able to take advantage. At the moment available international capital flows are not going in the direction of Africa or SA or any developing countries. They are concentrated in the Triad. We need to strengthen our manufactured exports. That will only be possible if we sort out the structural questions.

Bethlehem: It was always the case that protracted global recession in the Nineties would threaten SA more than sanctions or anything else. We have a small open economy. We need a bit of help from the global economy to do the things we want to do here. When I look at the global economy I am worried. Germany is the central problem.

Dickman: I share those concerns. And weak global growth won't help because of the nature of our exports. We need to pass a certain threshold of growth before we see higher demand for many of our exports. We are way below that. Also, we peaked before the global economy, so we were sustained for a while by good exports.

To survive we have to increase our market share. That means being more efficient and working harder It's not going to be easy to replace our traditional exports and it has all sorts of implications for the flexibility and productivity of our labour force, our wage setting process and foreign capital. Foreign capital is not staying away just because it is going somewhere else; it's not coming in because of the tremendous political and economic uncertainty So we are really cutting ourselves out of the chance to survive in a very difficult environment which may become even more difficult in the short term.



'Given our circumstances, I think interest rates are too high' GELDENHUYS

Geldenhuys: I'm not that negative about the world economy. The West is on the way up and we're over-emphasising the impact of asset deflation. This is not an income deflation. Adjustment, in fact, is taking place pretty smoothly. Reports six months ago said that the Japanese banking system would go bang if the Nikkei index fell below 25 000 Well, it hit 14 000 and the world is still going on. But it'll be a slow world economic recovery. It'll be hard to gain market share; in the short term we'll need lower labour costs — from either lower real wages or improved productivity — to compete effectively.

Are interest rates at the "right" level?

Dickman: One could argue that there's room for a small fall in short-term rates — maybe 1%. But this is marginal. Generally, when you look at world yield curves, our real long-term rates are pretty low.

Geldenhuys: Given our circumstances, I think interest rates are too high. What are the aims of monetary policy? To ensure that the economy lives within its means and that money supply is curtailed. On both criteria, we could have somewhat lower rates without creating the risk that inflation would start exploding again in the near future.

Bethlehem: What *is* the right level of interest rates? We have a policy commitment to positive real interest rates. Medium-term rates are lower than short-term rates and this suggests that the monetary authorities are trying to prevent short-term rates from falling to the extent the market wants. But if the recession deepens, we may find ourselves willy-nilly into negative real interest rates.

Dickman: Remember, the governor also said that some of his monetary policy was not quite what he would have wanted, but was needed by exchange rate considerations.

Has the governor got exchange rate policy right? Is he aiming at stable real rates, stable nominal rates or something in between? What are the implications for business?

***FM* deputy editor Michael Coulson and editor Nigel Bruce flank the panel** ... *(left to right) Dickman, Geldenhuys, Parsons, Mboweni, Bethlehem*

Geldenhuys: He's creating an environment of relative financial stability, and that's a credible goal. In an environment where exchange rates move significantly, it's difficult to go for stable nominal rates. In the end he's going for something like weighted real stability. This means exporters can forget about bonanzas from the exchange rate in the short term and domestic producers will face increased competition from abroad.

I don't think our present exchange rate is consistent with a growing economy. The big surplus on the current account of the balance of payments is not because we're exporting, but because the economy is subdued and import demand is falling The rand is probably overvalued, on a longer-term view. But from a policy point of view, I can't criticise the governor for not going for some depreciation, because that policy never works.

Dickman: The real effective rate has come up from its 1985 low. Are people who call for devaluation taking into account what it would mean to push the rand down against a weak dollar and the implications for cross-rates and inflation? We are in a bind with a very weak dollar. So I was intrigued by the governor's remarks on the need for further liberalisation of the foreign exchange markets and the need for realistic interest and exchange rates. I think policy is relatively correct, given the need to fight inflation.

Bethlehem: The exchange rate has risen in real effective terms and still appears to be marginally undervalued — but not against the dollar. In fact, until the recent adjustment downward, it looked slightly overvalued against the dollar The dollar is the problem. The dollar is grossly undervalued.

Do you agree with the Reserve Bank that reducing inflation must remain a policy priority even in the present recession?

Bethlehem: We have a window of opportunity to get inflation down before we have an interim government Inevitably an interim government will be a power-sharing government and will be under great pressure to deliver benefits to the most hard-pressed of our society quickly — or at least to be seen to be doing that. That will put enormous strain on monetary and fiscal policy.

Mboweni: There is no doubt that the rate of inflation is bad. I was interested that the governor said monetary policy cannot operate in isolation. We must fight inflation, but the structural factors which continue to input into inflation must be dealt with. There are serious questions pertaining particularly to the productive side of the economy.

Geldenhuys: It must remain *a* policy priority, but must it be *the* priority? I'm not so sure. Everybody's talking about structural adjustments, but if we are to wait for structural adjustments to get this economy off the ground, it'll take a very long time. Even in these tough circumstances, we must try to get the economy off the ground again.

Bethlehem: The Bank is more concerned with financial stability than abolishing inflation. In a sense, in the very short run, inflation is *the*, not *a*, policy priority, because soon the priority will be unemployment. Once the mass unemployed are enfranchised, no government will be able to avoid the fact that unemployment will be *the* policy priority.

Dickman: When we look at structural impediments, let's not forget the control boards and distortions caused by intervention.

What would you like to see done to soak up some of the mass unemployment?

Mboweni: A declining economy's labour absorptive capacity continues to weaken as well. There just won't be enough investment to have much short-term impact. Socio-economic development programmes, housing, infrastructure development — things like that could absorb quite a significant proportion of the growing unemployment. But at the end of the day, all these depend on whether at the base of the economy investment is going into labour-absorbing capacity.

The informal sector has been important in supporting a huge chunk of the unemployed. Impediments to its development must be removed Informal saving schemes like stokvels are increasing in their capacity to attract new members to invest money and to grow We should look at what possibilities this offers banking institutions — not as a solution but as a clue to some of the ways in which we can absorb unemployment.

Now, fiscal policy. What are the "ominous signals" the governor referred to?

Geldenhuys: The Budget aimed for a deficit of about R16bn or roughly 4% of GDP It now appears that we'll end up at best with maybe R20,5bn or 6% of GDP. Expenditure is still rising rapidly; against a budgeted increase of 16,5% in the first four months of this fiscal year, actual expenditure was up by 24,1%. There are some special reasons for that, but at best we may end with government spending up 17,5%.

The other problem is that revenue is falling short: the budgeted increase was 15,7% but, in the first four months, revenue is up by only 5%. Part of that reflects the sluggish economy but we may have a fundamental problem too It seems that the VAT base is significantly smaller than we thought.

'If the recession deepens, we may find ourselves willy-nilly into negative real interest rates'
BETHLEHEM

Bethlehem: For me the ominous signal must be the impact of a growing deficit before borrowing on debt servicing costs These are becoming horrendous; they're now second to education and larger than defence and will soon overtake education. If we go on like this, where will we end up?

Mboweni: We must distinguish between investment and current expenditure. It's important what the deficit is used for If, say, 50% or more is used for investment, then we are talking a different kettle of fish Capital expenditure programmes may help to boost the economy. But the problem is that the expenditure is not investment. We must then analyse the components of current spending Where is money going? You mustn't just decide to cut overall by a certain percentage.

What are the implications of all this for the 1993 Budget? How practical will it be to get the deficit before borrowing down and what does this mean for tax policy?

Dickman: If the deficit is R20bn-R21bn, it will be financed to a much larger extent by borrowing, which will then inflate service costs even more. If there ever was a time to use privatisation proceeds it would be now, but we've ruled that out The influence of the world economy doesn't look favourable, bearing in mind the long lags before export revenues pick up I would lean towards tax reform to get incentives going and to attract foreign investment. On current versus capital spending, we're back to the same old thing. Money has to be spent on internal security instead of productive things Capital expenditure has dropped even further

Geldenhuys: Next year's Budget will be tough I'm worried about the numbers. But for me, the big problem, this year, is that we have a lame duck policy situation in that nobody can do things that should be done This is a political problem

Bethlehem: We've had an unrelenting extended period in which government current expenditure has risen relative to capital expenditure Security spending has contributed, but a lot of the increase is coming through the homeland governments. This emphasises the need to sort ourselves out and address these issues properly. Lots of spending is tidying up loose ends before the interim government takes office

Dickman: We also need to know exactly where we stand with all the off-Budget spending, which has all sorts of implications.

What are the essential components of the economic restructuring it's widely accepted we need?

Bethlehem: Before you start talking about what to spend money on in restructuring, you must analyse what restructuring needs to be done We need two kinds of restructuring and we often confuse them. One is social imbalance restructuring; the other efficiency restructuring. When the governor talks about structural adjustment, he means efficiency restructuring. The problem is that in

DEPARTEMENT VAN STAATSBESTEDING

No. 2492 **4 September 1992**

Staat van Inkomste ingevorder gedurende die tydperk 1 April 1992 tot 31 Julie 1992.

Tesourie, Pretoria.

DEPARTMENT OF STATE EXPENDITURE

49

No. 2492 **4 September 1992**

Statement of Revenue collected during the period 1 April 1992 to 31 July 1992.

Treasury, Pretoria.

Inkomstehoof	Head of Revenue	Maand Julie / Month of July 1992	Maand Julie / Month of July 1991	Totaal 1 April tot 31 Julie / Total 1 April to 31 July 1992	Totaal 1 April tot 31 Julie / Total 1 April to 31 July 1991
		R	R	R	R
Staatsinkomsterekening	***State Revenue Account***				
Binnelandse inkomste:	Inland revenue:				
Belasting op inkomste	Tax on income	4 276 774 140	5 047 112 228	13 268 544 430	12 586 872 576
Leningsheffing 1989–94	Loan levy 1989–94	143 700	1 754 663	143 700	1 754 663
Verkoopbelasting	Sales tax	7 261 703	1 426 266 265	42 015 253	5 983 183 498
Belasting op toegevoegde waarde	Value added tax	1 328 461 066	—	4 873 165 915	—
Ander belastings.	Other taxes				
Belasting op Buitelandse Aandeelhouers	Non-resident Shareholders' Tax	26 578 983	34 116 890	104 873 095	123 065 107
Rentebelasting op buitelanders	Non-residents' tax on interest	77 552	2 858	46 390	(9 551)
Onuitgekeerde winste	Undistributed profits	1 207	129 950	51 569	176 628
Geskenkbelasting	Donations tax	956 917	379 555	3 822 032	1 489 368
Boedelbelasting	Estate duty	5 515 268	12 997 820	31 796 013	29 430 597
Handelseffekte	Trade securities	14 582 004	17 514 342	56 018 051	74 548 799
Seëlregte en gelde	Stamp duties and fees	73 843 604	68 793 084	266 069 408	238 801 607
Hereregte	Transfer duties	167 006 042	76 188 898	445 043 095	292 710 073
Diverse	Miscellaneous	—	—	—	—
Mynverhurings- en eiendomsregte	Mining leases and ownership	19 299 936	24 346 979	80 453 929	24 216 441
Rente en dividende	Interest and dividends	4 395 437	10 139 132	7 690 394	19 379 153
Heffings	Levies	190 534	154 712	4 697 679	579 477
Terugvorderings van lenings en voorskotte	Recoveries of loans and advances	3 099 331	2 270 020	8 369 193	6 558 756
Departementele bedrywighede	Departmental activities	119 863 832	63 807 095	436 002 871	124 312 466
	R	6 048 051 256	6 785 974 491	19 628 803 017	19 507 069 658
Min Betalings aan selfregerende nasionale state	*Less* Payments to self-governing national states	113 215 000	90 285 000	454 518 000	361 067 000
Betalings aan TBVC-state	Payments to TBVC countries	58 915 272	—	238 694 830	—
Totaal. Binnelandse inkomste	Total: Inland revenue R	5 875 920 984	6 695 689 491	18 935 590 187	19 146 002 658
Doeane- en aksynsregte:	Customs and excise duties				
Doeanereg	Customs duty	256 749 976	243 206 021	958 995 881	913 028 055
Aksynsreg	Excise duty	385 810 972	316 356 577	1 383 560 171	1 056 358 402
Bobelasting	Surcharge	125 794 876	127 096 866	487 350 322	485 851 037
Diverse	Miscellaneous	(8 453 494)	3 947 063	25 823 027	58 060 500
Brandstofheffing	Fuel levy	581 119 101	398 548 897	2 196 738 251	1 467 272 855
Gewone heffing	Ordinary levy	3 306 995	5 692 767	17 414 706	21 829 738
	R	1 344 328 426	1 094 848 191	5 069 882 358	4 002 400 587
Min Betalings ingevolge Doeane-unie-ooreenkomste	*Less.* Payments in terms of Customs Union Agreements	1 202 237 500	928 922 250	2 404 484 000	2 236 646 250
Totaal Doeane- en aksynsregte	Total: Customs and excise duties R	142 090 926	165 925 941	2 665 398 358	1 765 754 337
	R	6 018 011 910	6 861 615 432	21 600 988 545	20 911 756 995
Suid-Afrikaanse Ontwikkelingstrustfonds	South African Development Trust Fund	—	250 101	—	933 124
	R	—	250 101	—	933 124
	R	6 018 011 910	6 861 865 533	21 600 988 545	20 912 690 119
Inkomsterekening: Volksraad	***Revenue Account: House of Assembly***				
Binnelandse inkomste	Inland revenue	5 090 663	67 154 999	52 117 803	72 242 851
Inkomsterekening: Raad van Verteenwoordigers	***Revenue Account: House of Representatives***				
Binnelandse inkomste	Inland revenue	4 351 396	3 426 465	29 890 146	13 614 441
Inkomsterekening: Raad van Afgevaardigdes	***Revenue Account: House of Delegates***				
Binnelandse inkomste	Inland revenue	718 820	1 945 027	3 372 029	2 566 143
	R	10 160 879	72 526 491	85 379 978	88 423 435
Groottotaal	Grand total R	6 028 172 789	6 934 392 024	21 686 368 523	21 001 113 554
Rekonsiliasie met opgaaf gepubliseer by Goewermentskennisgewing 2309 in *Staatskoerant* van 14 Augustus 1992	Reconciliation with statement published by Government Notice 2309 in *Government Gazette* of 14 August 1992				
In Transito, 31 Maart 1992	In Transit, 31 March 1992	—	—	480 288 319	—
In Transito/Te veel oorgedra, 30 Junie 1992	In Transit/Overremitted, 30 June 1992	203 893 560	—	—	—
Invorderings soos hierbo	Collections as above	6 028 172 789	—	21 686 368 523	—
	R	6 232 066 349	—	22 166 656 842	—
In Transito/Te veel oorgedra, 31 Julie 1992	In Transit/Overremitted, 31 July 1992	233 132 683	—	233 132 684	—
In Transito Inkomsterekening. Administrasies	In Transit Revenue Account Administrations	(5 182 269)	—	(75 219 099)	—
In Skatkisrekening ontvang	Received into Exchequer Account R	6 460 016 763	—	22 324 570 427	—

Budget over-run unlikely to push up interest rates

STAR 4/9/92

By Sven Lünsche (49)

The deficit before borrowing for the current fiscal year could well exceed six percent of Gross Domestic Product (GDP), Finance Minister Derek Keys warned yesterday.

While this means the Government will have to raise R5,3 billion more than the R15,93 billion provided for in the March Budget, economists said it should not put upward pressure on interest rates.

Mr Keys said the bond market was capable of financing the over-run from non-bank sources without materially slowing the downward movement in interest rates.

Economists added that excess liquidity in the money markets could facilitate some of the additional borrowing requirements.

Furthermore, the Reserve Bank has agreed that issues of government stock and exchequer bills would not necessarily be limited to the budgeted amount of R18 billion.

Derek Keys . . . Government spending to be cut 3%.

The six percent level of the deficit before borrowing is twice the level recommended by the International Monetary Fund and well above the 4,5 percent mark set by the Government in the Budget.

The deficit before borrowing and debt repayments in the first quarter of this financial year have already spiralled to R7,81 billion, which accounts for almost half of the budgeted deficit.

Mr Keys warned that the deficit could climb further if the Government increased expenditure on its drought relief programme.

The Government has budgeted R4 billion over three years to deal with the crippling drought.

Mr Keys said it was not his intention "to propose to Cabinet the raising of additional revenue in order to reduce this growth in the deficit during the current fiscal year".

Mr Keys said, however, that reining in government spending could not be deferred indefinitely and that the Cabinet had already set the spending guidelines for the 1993/94 fiscal year for all government departments.

"Since the central government accounts for less than 60 percent of such spending, discussions are also under way with the TBVC states, the self-governing territories and the provinces," Mr Keys said.

In terms of policy for 1993/4, government spending would be cut by three percent in real terms (after inflation), while all departments would be encouraged to raise productivity.

Mr Keys said that this could entail the retrenchment of up to five percent of public sector workers in various government departments.

He said the Government was in the process of compiling an "Integrated Normative Economic Model".

It would outline the possibilities for restructuring against the background of an economic model "which provides a realistic indication of what those possibilities could be".

Over the next two months the various parts of this model would be assembled and then shared with other interested parties in November.

"This means that inputs received later this year will be in sufficient time to help shape next year's Budget," Mr Keys said.

He thought the proposed Economic Forum would be a natural arena for such discussions to take shape.

Keys's iron-fisted tactics may be right — but is the timing?

BDAY 4/9/92

GRETA STEYN

(49)

THE British television satire Spitting Image portrays Margaret Thatcher as a hard-drinking has-been who tells her social worker: "I used to be prime minister, you know." But Thatcherism seems alive and well in SA even as growing dole queues in Britain suggest the Thatcher revolution failed to create a sound basis for long-term growth.

Finance Minister Derek Keys yesterday announced measures that would impress anyone with an Iron Lady approach to economics. He wants to slash government consumption spending by 3% in real terms in the next fiscal year. This is to be achieved by a cut of 5% in staff and a 2% increase in productivity.

As hopes fade of a decisive upswing next year, it is clear he will need an iron will to achieve that. What is Keys hoping to achieve, and should he be taking this action at this point in the business cycle?

Keys's worry over government consumption spending hinges on the use of long-term debt to finance current spending. As government borrows to pay public servants' salaries, the debt mountain grows while the economy's productive capacity stays unchanged. Keys himself says his main concern is with increasing SA's productive capacity. He does not want government consumption to absorb finance that could be used for fixed investment.

Quoting IMF calculations, he said earlier this year that SA needed to invest 26% of GDP, instead of the present 19%, if it wanted to grow at 3,5% a year. By reducing government consumption, finance would be released to raise SA's investment rate and put it on a long-term growth track. Government would have to start saving.

Slashing staff numbers will presumably be done with care. Teachers and nurses are not in the same category as TBVC bureaucrats. Some current spending is an investment in human capital and does add to the country's productive resources.

The reasoning behind slashing government consumption echoes the argument for replacing GST with VAT: by doing away with sales tax on capital goods, billions of rands would be freed to be spent on fixed investment.

But fixed investment continued to fall in real terms after the implementation of VAT. Private sector investment fell by an annualised 2% in the second quarter of this year after shrinking by 5,5% in 1991.

With VAT, South Africans were asked to accept an unpopular tax with benefits for long-term growth. The tax is still unpopular and there is little sign yet of benefits.

Keys is now asking South Africans again to accept more unemployment in the short term for a plan that will yield benefits for long-term growth. He should not be surprised if the plan is not greeted with too much enthusiasm. Three years of falling GDP and the prospect of another year of no growth clouds the judgment.

One cannot help but wonder at Keys's timing. While his thinking cannot be faulted from a longer-term perspective, he has chosen the wrong time to announce and implement a plan that entails more unemployment in the short term. Even if the savings next year were spent immediately on capital projects, there is usually a lag in getting these projects on stream and creating new jobs. Keys did not mention any new capital projects yesterday.

Conservative economists steeped in Thatcherism and Reaganism say government and the central bank have no role in smoothing the economic cycle. But the widening deficit in the UK and the sharp falls in US interest rates illustrate that policymakers all over the world have abandoned this approach.

☐ KEYS Picture ROBERT BOTHA

Fiscal policy has cushioned the recession here as well. South Africans would have become even poorer these past few years if government consumption spending had been less — GDP fell in 1991 in spite of the stimulating effects of a 5,5% real rise in government consumption.

Keys's statement yesterday acknowledges that government has a role in cushioning the effects of recession, but says the pain cannot be "deferred indefinitely". But should the pain not be deferred until the political situation looks better? He notes violence and the achievement of a representative government are the first of four critical issues facing the economy. Can he realistically take measures that yield only long-term benefits before those issues have been resolved?

It is, however, possible that Keys has reasons for his actions other than the longer-run economic gains. Government faces a revenue crisis and cutting back current spending is one way of dealing with the problem.

Revenue from VAT is running way below budget and could end the year billions of rands below expectations. That is the main reason why the deficit before borrowing will be at least 6% of GDP in the present fiscal year, compared with a budgeted 4,5%. If government wants to reduce the deficit next year it will require some creative thinking.

It cannot increase the VAT rate because of political problems, it cannot raise company taxes as it has made a commitment to reduce them, and individuals are already taxed to the hilt because of bracket creep. So any action on the deficit will have to be on the spending side.

If the short-term revenue problem is the reason for the timing, one must question the wisdom of chasing a deficit target at this point in the economic cycle. The deficit is not much worse than the UK's, where the chancellor has all but given up on the target of balancing the budget over the business cycle.

Whether Keys will be judged a Thatcherite will depend on what next year's savings are used to finance. If used to reduce the deficit, the Iron Lady would be proud. If used to finance new capital projects, he is taking the right action at the wrong time. If used for social spending, however, he would be spot on. More's the pity, then, that he did not give a clear indication of what the savings would finance.

To argue that the timing is wrong for slashing government consumption is not the same as arguing for big increases in government spending. The general principle cannot be faulted. Government's debt burden could crush future economic growth. But taking action now is rather like kicking a dog when it is down, — unless the money is used in a way that will soon offset the hardships created by the policies.

While Keys must be applauded for his focus on the need for investment, it seems the present government will not be able to use economic policy to any great extent to achieve this longer-run aim. Perhaps government should put policies with long-run objectives on hold if they cause hardship in the short run.

The VAT debacle has illustrated the consequences of perceived unilateral restructuring. Fiscal policymakers, unlike their monetary counterparts in the Reserve Bank, cannot act purely as economists. Policies aimed at the long run might have a chance of success only if reached by agreement through a body such as the national economic forum: If there was any good news in yesterday's announcement, it was that the forum was still on track. Now that is a body Thatcher would not like.

Savings to finance fixed investment

Keys unveils plan to slash govt spending

BDAY 4/9/92 (49)

GRETA STEYN

FINANCE Minister Derek Keys said yesterday government would slash spending by 3% in real terms through cutting the number of public servants — a move that would entail thousands of job losses.

He told a news conference in Pretoria talk of a 5% cutback in staff numbers was "about right". "The President has challenged the heads of departments to see if they can come up with productivity improvements which would help them to achieve that real cut (3%) in expenditure."

As the central government accounted for less than 60% of government consumption spending, discussions were also under way with the TBVC states, the self-governing territories and the provinces.

Public Servants' Association GM Hans Olivier said public servants had no need at this stage to fear large-scale sacking.

Keys said the move was aimed at freeing up savings to finance fixed investment. "If we wish to have an economy capable of growing fast enough to improve the position of each member of our growing population, we shall have to restrain the growth in consumption spending of government in favour of a much higher rate of fixed investment in new productive capacity."

He acknowledged that this adjustment could be achieved only over a period of several years, but emphasised government was not "planning the unilateral restructuring of the economy".

He invited suggestions for the next Budget. By November, the Finance Department would be able to share its economic model with interested parties. "We want to discuss the possibilities for restructuring against the background of an economic model which provides a realistic indication of what those possibilities could be."

He said the proposed economic forum could be used to discuss the model, and he hoped the body would provide a "critical audience for government proposals, and a meeting place of ideas from which policy can be developed. As confidence is gained on all sides, government's involvement could become more direct."

However, he saw Cosatu's campaign against income tax payments as a stumbling block in setting up the forum.

Asked whether government should not take measures to stimulate the economy, he said it was enough to "grin and bear" a deficit of 6% of GDP in the present fiscal year. "That is as adventurous as I would like us to be." He said the deficit could be even higher than 6% (against a budgeted 4,5%) if government decided to speed up drought relief.

But it would be counter-productive to raise taxes to finance the shortfall. "The bond market seems to be capable of financing the overrun from non-bank sources without materially slowing the downward movement in interest rates."

From an economic perspective, the four critical issues facing SA were stopping the violence, getting a representative government in place, pursuing economic growth and tackling underdevelopment.

● See Page 8

Reserve Bank policy given seal of approval

SIMON WILLSON (49)

FINANCE Minister Derek Keys yesterday aligned government squarely behind the Reserve Bank's management of interest rates and the rand's exchange rate.

At his news conference in Pretoria, Keys said government was aware of the malignant effects of pitching interest rates lower than the inflation rate. He said government fully endorsed Bank policy to maintain positive real interest rates.

"This policy has already permitted two reductions of the Bank rate this year, and the process will no doubt continue in an orderly manner as inflation drops further."

He said there was a considerable gap, not fixed by any regulation, between the 15% Bank rate and lending rates charged by banks. This gap ought to be narrowing through competition, although banks' bad debts and their desire to raise capital resources to meet new regulations would be a restraint. BDAY 4/9/92

"I trust that, as these restraints become less important, we can look forward to greater lending rate competition in the banking industry to the benefit of the economy in general and small and medium-size businesses in particular," Keys said.

Welcoming debate on an appropriate exchange rate for the commercial rand, Keys said there had been a continuing depreciation of the rand which took considerable account of SA's higher rate of internal cost increases. The current rapid depreciation of the dollar was setting up stresses and strains in the rand's exchange rate.

"If one were going to pay particular attention to the rand/dollar exchange rate, it would seem to be wiser to do so some time after the underlying causes for the present instability have passed."

On privatisation, Keys said government faced no political obstruction to selling off state assets. There was a medium-term programme which required organisational changes to the different activities which were potential subjects for privatisation, and this process was continuing.

He said privatisation proceeds did not offer a way of boosting underperforming

☐ To Page 2

Reserve Bank

(49)

☐ From Page 1

state revenues in the 1992/93 fiscal year. "There is nothing at the moment that I could hock to solve a short-term problem."

Keys appeared to rule out extending VAT exemption to food, saying government wanted to adhere to its line that an indirect tax such as VAT should not be allowed to distort the relative prices between the products of different economic sectors. "We would regard it as fiscally unsound to exempt an entire section of the economy from the effects of a tax like VAT," he said.

A plenary session of the proposed economic forum was not government's objective, Keys said. "Our objective is that labour and business should be talking and that they should have free access to government with a view to enlisting us if that is required." BDAY 4/9/92

More discussions on the establishment of an economic forum had been scheduled for September 14.

South Africa faces identity crisis in new global order

STAR 5/9/92. (49)

ARE we a Western state or as African as any other country on the continent? This was discussed at a conference of the SA Institute for International Affairs and the Centre for SA Studies. BEN TUROK reports.

THE question about where South Africa belongs in the West or in Africa, is not an idle one. It is a matter of finding a new identity for a new South Africa in line with its democratic aspirations.

There are important choices to be made. Should South Africa try to link up with the new structures in Europe? Should we join the Commonwealth? Or should we seek full participation across the African continent?

The world is now a unipolar one because of the demise of the Soviet bloc and the United States is

We are sandwiched between the hi-tech and cheap labour exporters.

exercising a hegemonic role. It is constructing the North Atlantic Free Trade Association (Nafta) which is competing with the European Community and the Asian bloc centred on Japan.

In the consolidation of these structures which are mainly inward-looking, the Third World is being marginalised. Africa, in particular, faces the prospect of further steady deterioration.

On the other hand the United States, despite its global domination is, itself, facing one of its most severe crises. The recession is biting deep, unemployment is unacceptably high, the black ghettoes are exploding, crime is rampant and drugs are destroying the moral fabric of rich and poor alike.

Europe too is going through difficult times, with rising joblessness and social tensions due to immigration from Eastern Europe and the Maghreb. Even Japan is facing economically tough times.

This is the global system that faces a new South Africa. It is marked less by the geo-politics of the Cold War era than by the geo-economics of the new era. The International Monetary Fund and the World Bank are the principal agencies of control and the world is full of supplicants for their favours.

Since economics rules, and since it is still the case that "the flag follows trade", South Africa must identify where its economic interests lie. At this conference some economists pointed out that our economic legacy is not as rich as many believe.

The import substitution strategy of the past never got beyond semi-processed goods, and this is what we have to sell abroad. Our exports consist of minerals and highly resource-based manufactured goods which often use imported technology. World prices for these commodities are falling and markets are closing up.

On the other hand, there are countries like China which have cheaper labour and are more competitive in exporting labour-intensive goods. So we are sandwiched between the hi-tech and the cheap labour exporters. The best we can do, therefore, is either to seek niche markets in Europe and the East, or expand into Africa. In the former case we can try to join the Lome Convention, sign up with the EC as a whole, or seek special bilateral arrangements. Each choice has problems attached.

The international environment is harsh for newcomers like South Africa, especially as we do not really belong to Europe or any other northern bloc,

despite the grand delusions of some of our people.

Some argued that a new government could well benefit from an external anti-apartheid dividend arising from the enormous goodwill that will be extended to this country if we make a peaceful and successful democratic transition.

The ANC argued that while the apartheid State was

We will not gain entry if the new government lacks legitimacy.

scorned throughout the world, a vast flood of goodwill was generated by the anti-apartheid movement overseas which became the largest solidarity movement in history. This point was accepted by officials of the Department of Foreign Affairs and the conference accepted that this fountain of goodwill constituted a platform for a positive foreign policy.

But this moral legacy cannot be taken for granted. The world has seen so many transitions going wrong, promises unfulfilled by virtue of poor governance, and failure to deliver the goods.

The prospect of full integration into the major international institutions such as the UN, and into the OAU and other African bodies would seem to depend on their judgment of the genuineness of our transition. Africa may need South African finance and expertise, but we will not gain entry if the new government lacks legitimacy.

The struggle for legitimacy worldwide was seen as crucial by many participants. Democratic South Africa will have to be seen to be pursuing polices which bring direct and immediate relief to the disadvantaged while at the same time, its policies will have to be seen to be realistic and responsible. This is a difficult task.

South Africa can no longer rely on the image of a "lifestyle country" as one participant put it. It has to be committed to internal development and has to be concerned about the region. Many external donors and investors are particularly interested in seeing the southern African region making advances as an entity, since this means a larger market for their goods and in the case of Japan at least, better access to the region's extensive mineral resources.

But care must be taken that regionalism does not lead to further South African dominance. The temptation will be for Johannesburg to become the financial services centre as well as the administrative base for the region. This could be counter-productive since it will lead to resentment by our neighbours.

Given the sensitivity about South Africa, our image in the post-apartheid period is of crucial importance. If we are seen as a cosmetically reformed society merely seeking business openings wherever they occur we will not get far. However if it is perceived that we are a society undergoing social and economic transformation the world may well open its arms to the new government.

The challenge therefore is to build an international foundation around a development programme which goes beyond adjustment here and there, and which is seen to deliver basic goods and services and new pro-

South Africa has to be committed to internal development.

ductive capacities among the disadvantaged.

But such an approach needs vision (even if we are rather sceptical of visionaries), and that was sorely lacking at the conference. It seems that the stop-go chess game between Government and opposition is creating much scope for the technocrats, who can deal only with immediate problems.

There can be no objection to a step-by-step approach to solving our problems, provided it is advancing towards a vision. What is disastrous is muddling through a minefield of obstacles without a plan or clear objectives.

● *The author is director of the Institute for African Alternatives*

A Budget dilemma for Keys

(49) ARG 5/9/92

Weekend Argus Correspondent

■ New Finance Minister Derek Keys faces an unenviable task when he puts together next year's Budget.

DURBAN. — Preliminary discussions on the 1993/4 Budget are taking place against the background of an economy which is "flat on its back" and a government propensity for spending which, in many respects, has squeezed out private enterprise.

The new Minister of Finance, Derek Keys, faces the unenviable dilemma of trying to achieve tax reform while revenues are down and demands for increased social spending on "backlog areas" are at unprecedented heights.

Economists say preliminary discussions already taking place on the Budget — the SA Chamber of Business (Sacob) sent a high-ranking delegation to see the Minister on August 20 — are occurring against the background of the longest recession in 50 years and disappointing recovery prospects.

About 250 000 people have lost their jobs since the recession began and unemployment has become a critical problem. On the scale of a national disaster, more than 25 percent of the "economically active" population are out of work.

Business believes the government has control of only two of the four main causes for the prolonged recession — the others being the failure of the world economy to regain momentum and the effects of the drought, which is costing billions of rands.

The areas which the government can influence are the uncertainties in the socio-economic environment and the prolonged inflation rate. Economists say the government needs to give urgent attention to its unacceptably high fiscal deficit.

The business movement's own vision for the 1993/4 Budget — not unexpectedly — highlights a need for lower taxation rates.

Among the major business proposals are:

- A reduction in the corporate tax rate. SA's 48 percent compares with 35 percent in France, 34 percent in Germany, 38 percent in Britain and 35 percent in Canada and Italy.
- Compensation on the side of personal income for bracket creep.
- Elimination of the import surcharge.
- Reduction in marketable securities tax.

It is felt the practice of government financing expenditure though loans should end.

The need for tax neutrality is strong. However if the present pressures make reforms impossible, it would like increased incentives or subsidies.

In general terms, business believes the Budget will need to address high levels of crime.

Some of the strong feelings of businessmen are that:

- Vacillation in tax policy should be removed.
- Retrospective legislation should be eliminated as this removes certainty and confidence in the system.
- Differences in rulings between tax departments should be eliminated.
- A "bill of rights" needs to be drafted for taxpayers.

No future without economic growth

South 5/9-9/9/92 (49)

NO COUNTRY has ever experienced a successful transition to a stable democracy in the absence of a sound economic performance before, during and after the transition.

Old Mutual chairman Mr Mike Levett said this was the main finding of the 1991 Old Mutual/Nedcor scenario study — and remains a key issues in South Africa.

"In the light of this finding, the poor performance of the South African economy is cause for grave concern," Levett said recently when he announced Old Mutual's year-end results.

In the sixties South Africa's economy grew about 5,5 percent yearly. During the seventies, growth fell to 3,3 percent a year and, during the past decade, it averaged just over two percent a year, more or less the same as the population growth rate.

"Since 1990, the picture looks even bleaker. Our estimates show that by the end of this year the economy will have experienced three consecutive years of decline. On a per capita basis, real GDP is expected to have shrunk by nine percent between 1990 and 1992," said Levett.

"In the private sector, close on 200 000 jobs were lost in 1990 and 1991 and the trend appears to be continuing in 1992. In addition to existing jobs lost, an estimated 300 000 people join the labour force every year. It therefore is not surprising that unemployment estimates currently range up to 40 percent of the labour force.

"Against this background, it is obvious that a successful transition to a more democratic dispensation cannot be tackled on the political playing fields alone. The task of economic reform cannot wait for the political reform process to first run its course. The economic issues need to be addressed urgently."

At the initiative of Nedcor chairman Mr John Mare and Levett, the Nedcor/Old Mutual scenario team was put together in 1990 and led by local businessman Mr Bob Tucker.

Although much has changed since then, the scenario still holds several valuable pointers to what could happen — and, indeed, shows why some things happened in South Africa since 1990.

The scenario has been presented to the cabinet, opposition leaders, members of the liberation movements and leading local and international business executives.

Early on the team recognised the contradiction between the steady fall in economic growth in South Africa since 1982 and the fact that international experience with transitions had shown that poor economic performance was a threat to the transition process.

Mr Bruce Scott, one of the international team members and a leading US economist, looked at 40 examples of European and Latin American transition, and the African decolonisation experience.

The transitions examined were all those that had been decided by a government, not by military action.

Transition from authoritarian rule happens when a government is under pressure. In deciding to move away from authoritarian rule, governments find themselves in the curious position of being both player and referee.

Almost all the successful transitions examined took place when the countries involved were already enjoying rising incomes.

The preliminary conclusions reached were that economic decline has been a fundamental cause of transition, and this creates a dilemma because there have been almost no successful transitions without strong economic growth before, during and after the transition.

Economic decline frequently sparks violence and widespread violence inhibits successful transition. New democracies have great difficulty in dealing with economic decline, just as they have difficulty in dealing with violence.

The implications for South Africa are stark. No country in modern times has made a successful transition starting from a position like the one South Africa finds itself in — there have been almost 10 years of economic decline, and in addition to the political transition, we have to deal with a social transition others have not had to deal with.

So success should not be taken for granted and the scenario team believe the time for the economic and social transformation was before the transition to democracy, not after.

Economic Forum faces formidable problems

PWG 5/9/92 (49)

Business staff

THE National Economic Forum is to start work soon and should provide a new arena for business, the trade unions and the government to thrash out ways to solve South Africa's economic crisis. But the list of problems on the agenda looks formidable.

The first and biggest issue the Forum will have to tackle is the unemployment crisis.

Dr Edwin Basson, of the Small Business Development Corporation, studied the issue and found that a strict economic definition put the unemployment total at an astronomical 6,3 million — no less than 44 percent of the worker population.

However, what was missing in all the calculations, he found, was the role of the informal sector, which now has a total labour force of 3,5 million.

Started in 1980, the SBDC today operates a nationwide network of no fewer than 40 workshop complexes known as industrial hives.

More than 2 700 individual small businesses have been created with the SBDC's help, and Joe Schenke, head of the SBDC central region, who masterminds operations, estimates combined annual turnover at R600 million or more.

Big business has learned to build more and bigger bridges to the small business sector and how to cut down overall production costs by handing the mini-companies more sub-contract work.

The value of sub-contracts awarded so far has already topped R50 million.

So far the SBDC has created no fewer than 312 000 new jobs under its loan programmes. It believes this could easily be accelerated by new initiatives from the financial sector.

A think tank has worked out that an avalanche of more than 50 000 new small and medium-size enterprises — with as many as 2,5 million new job opportunities — could be provided over the next five years.

The scheme revolves around agreement between the State and big financial institutions — insurance companies and pension funds — to invest in the masterplan.

Tuned in closely to these discussions are school-leavers, now spilling out into the labour market at the rate of 400 000 a year, most without any hope of finding work.

But the agenda confronting the National Economic Forum does not end with the unemployment issue. Apart from questions of privatisation or nationalisation — still one of the hottest potatoes of all — issues such as the future of exchange controls, interest rates and how best to attack the inflation syndrome, the missing link between productivity and wage increases all have to be tackled.

On the agenda, too, come questions about economic power concentrations in the hands of so few corporate giants.

Stals says SA 'urgently needs recovery'

South 5/9-9/9/92 (49)

CHRIS STALS, governor of the Reserve Bank

THERE have been renewed calls for economic and political action to pull South Africa out of the recession that has dogged it for the last three years.

Reserve Bank governor Dr Chris Stals said that last year had been one of "frustration and disappointment" and said the country was "now faced with an urgent need for a cyclical recovery, but also with some painful structural adjustments to bring the economy back onto a path of sustainable higher growth".

But, as Sanlam deputy chairman Mr Pierre Steyn told the Strand Afrikaanse Sakekamer recently, "political leaders have a grave responsibility to create stability and calm so that everybody in our country can feel more confident about our future".

"People must be inspired at grassroots to behave with tolerance and responsibility. If the unrest situation does not stabilise, there will be little fixed investment and little economic growth," Steyn said.

He said about 160 000 jobs had been lost in the formal sector over the last three years, while job-seekers had grown by about 300 000 a year.

"As a result, more than a million people have been unable to find work in the formal sector outside agriculture during the past three years. It is estimated that nearly 69 000 work opportunities have been lost because of the drought."

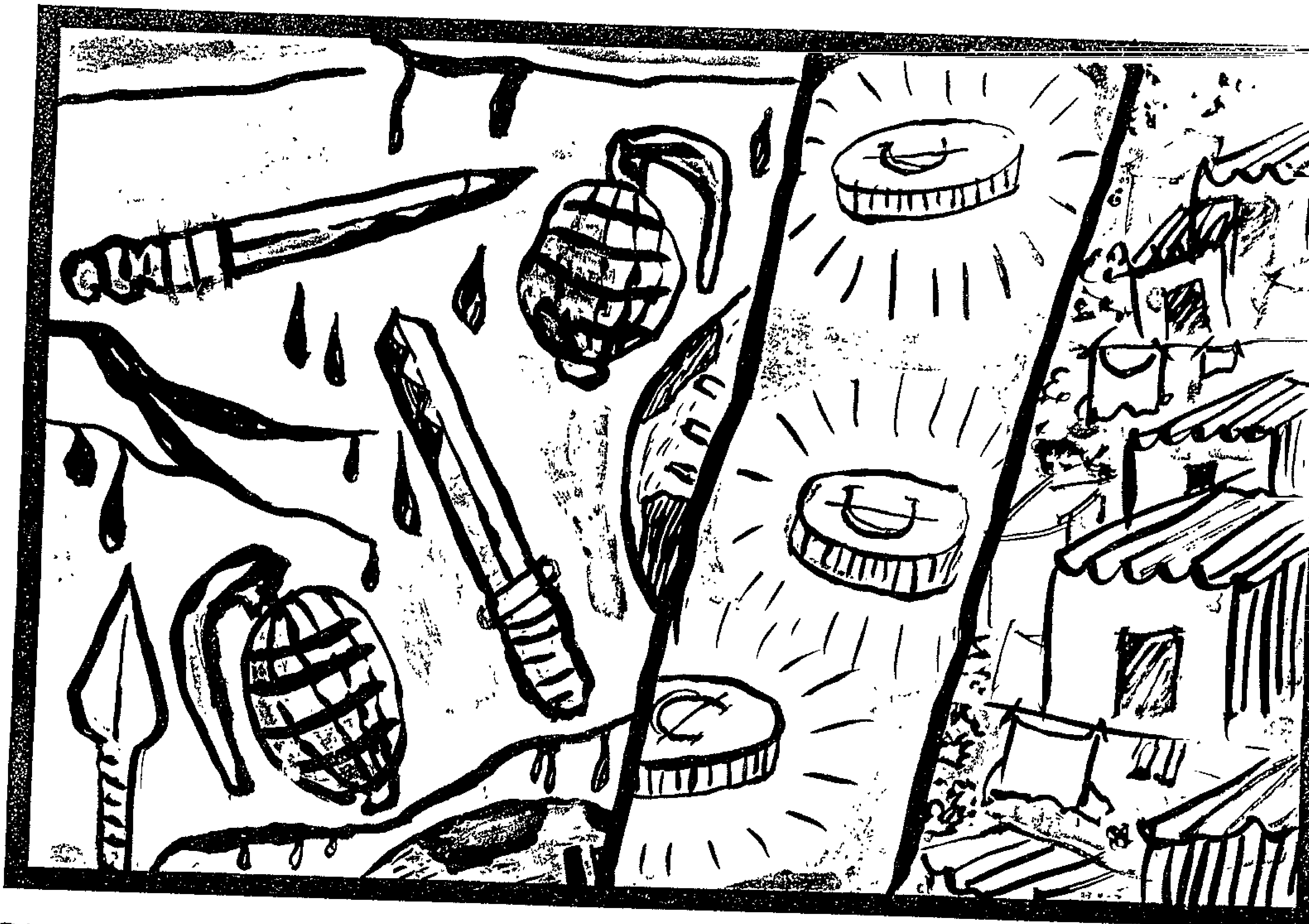
It is agreed that economic growth to deal with this problem should be based on reducing inflation and increasing manufactured exports, Steyn said.

Dr Stals said there was a need to manage interest and exchange rates carefully, control government spending, spread education and develop the informal and small business sectors so they could create jobs and generate savings.

He has been under pressure to lower interest rates and depreciate the rand to help stimulate the economy, but remains adamant he will resist such pressure to ensure inflation continues to be brought down.

Inflation had "adverse effects on saving, on allocation of resources, on competitiveness of local producers in world markets and on distribution of wealth and income".

— **Lynda Loxton**



SA economy not ready for change

South 5/9 - 9/9/92. (49)

SOUTH Africa's economy is uncompetitive, inward-looking and unable to meet the eeds and aspirations of a democracy, reported the Nedcor/Old Mutual scenario team.

Unless the economy is radically restructured to become more outward looking, competitive and technologically up-to-date, that democracy will be fragile.

Although some of the government's recent unilateral attempts to restructure the economy indicate it has taken some of this advice, it has not gone far or fast enough and there have been several warnings by top businessmen that overhauling the economy cannot wait.

Inward-looking policies adopted include import substitution and slow export growth because of reliance on commodity exports rather than manufactured exports.

Among other things, this has meant South Africa has missed out on the upsurge of new technological developments in the rest of the world since the mid-eighties.

A scenario team member, US economist Bruce Scott, said South Africa had ignored the fact that high economic growth no longer depended on a country's natural advantages, but on economic strategies adopted by government.

These strategies worked to make the most of advantages created by skills, technologies, savings and investment, and the use of those skills and resources through effective institutions.

This approach has developed out of the fact that commodities are accounting for less and less of world trade. Since World War II, manufactured goods have grown in importance and now make up half of world trade. They have become major engines of growth in developing countries.

South Africa has lost out on that growth and now needs to switch to a more diversified manufacturing export base — but there are catches to the approach.

The team looked at countries which have successfully moved from an inward- to an outward-looking economy, from Taiwan to Mexico. All made the change when their economies were weak — but none were democracies.

If they had been democracies, it would have been difficult to change economic policies because of the initial belt-tightening and sacrifices called for. Such a transition usually implies currency devaluation, removal of subsidies, less government spending, privatisation of state enterprises, export promotion and stable labour costs.

The team therefore concluded that any change in economic strategy should take place before the transition to democracy. But it takes four to five years to change an economy — and the kind of change proposed is not necessarily what a new government would like to see.

Scenario Plans

Mamphele warns of growing 'underclass'

(49)

South 5/9-9/9/92

SOUTH Africans cannot ignore the reality that decades of apartheid have brutalised and traumatised millions who will have to be reintegrated into society.

The Nedcor/Old Mutual scenario team estimates that it will cost R70 billion just to ensure equality of access to social services for all South Africans. This is something the economy cannot afford now.

Team member Dr Mamphela Ramphele, who is deputy vice-chancellor of the University of Cape Town, vividly describes South Africa's social disintegration about the emergence of an African underclass. There is:

- the breakdown of families because of the migrant labour system;
- conflict between hostel dwellers and township residents;
- high divorce rates in African urban areas;
- high teenage pregnancy rates;
- growing promiscuity despite the threat of Aids.

There is also a breakdown in education in African communities.

The team concludes that action has to be taken now, before the transition to democracy, to stabilise this underclass and provide the housing, education and work it needs to make a meaningful contribution to society.

But it warns against developing a culture of victimisation and entitlement in the process.

The American experience in black inner-city ghettoes has shown that treating disadvantaged people as victims who are entitled to free housing and social welfare payments does not uplift or empower them to take charge of their lives.

What is needed is an approach that empowers the underclass by giving them access to resources to involve them in improving their lives.

Keys to make the rich pay

S Times [Buss] 6/9/92

~~320~~ 49

By KEVIN DAVIE

WEALTH, capital gains and land taxes feature in Finance Minister Derek Keys' economic restructuring plan.

The plan is still under wraps as finishing touches are completed, but sources say these taxes — some were first suggested by the ANC — are prominent.

The new taxes will raise new revenue for the cash-strapped Government. They will allow also tax reform by making room for lower individual and company taxes.

These so-called fat-cat taxes could help the Government to sell the more unpopular parts of the plan. Wages, for instance, could fall as the economy is opened to foreign competition through the lowering of import duties.

The wealth tax is likely to take the form of higher death duties. Additional taxes on individuals of high net worth are also believed to be under consideration.

Land taxes are designed to encourage owners of vacant property to sell. This would alleviate the land and housing shortage.

Estimates show that these taxes could increase revenue by 10%, sufficient to enable the Government to cut the top individual rate of tax from 44% to 40% and company tax from 48% to 42%, says one source.

Variable

Changes to VAT are also likely. A variable VAT rate is a strong possibility, some basic foods remaining zero-rated. Luxury goods may have a much higher VAT at, say, 15% to 20%.

The Development Bank (DBSA) recommends the new taxes in its report on economic restructuring, saying: "Serious consideration must be given to making company and personal taxes more efficient by broadening their bases and lowering the marginal rate and extending wealth taxes (national property tax, capital transfer taxes) and capital gains taxes."

The International Monetary Fund report, Economic policies for a new SA, which is believed to have been influential in the design of Mr Keys' plan, pointedly noted that SA had no wealth or capital gains taxes.

Mr Keys and plan architect Japie Jacobs are likely to have discussed it this week when they met an IMF mission which visited SA for its annual update.

Mr Keys was expected to make some details of his plan public this week, but says that the full report should be completed by November.

It is believed that drafts of the report are complete and some have been circulated for comment. The final report is being synthesised by a task force.

Mr Keys says the parts of the "integrated normative economic model" will be assembled and tested for credibility, compatibility and reliability in the next two months.

"Inputs received during December and January would be in sufficient time to help shape next year's Budget."

Contributors include Reserve Bank Governor Chris Stals, Competition Board chairman Pierre Brooks, Trade and Industry Director-General Stef Naude and tax expert Michael Katz. Mr Katz declines to comment.

Dr Naude's report is believed to deal with trade and industrial policy, and calls for phased tariff reductions in line with SA's commitment to the General Agreement on Tariffs and Trade (Gatt), the introduction of export processing zones to stimulate investment, and the replacement of the general export incentive scheme (GEIS).

Dr Brooks says he made recommendations for a more effective competition policy, promotion of deregulation and safeguards against unfair competition by the State.

In his annual address last week Dr Stals drew attention to the Reserve Bank's annual economic report which identifies several problem areas which need to be dealt with.

They include the continuing rise in real wages a worker, militancy of trade unions, and strategic industries developed to make SA self-sufficient in certain areas.

Dr Jacobs says the restructuring plan is being completed. Some figures are still being quantified. He says levels of dissaving in the economy are so great that only about

● To Page 3

DEREK KEYS: Master plan to bring in extra revenue as the new South Africa takes shape

New taxes

~~320~~ 49

● From Page 1

R5-billion is available annually for new investment.

"We can't export capital; we need foreign capital to augment our resources."

A structural adjustment is inevitable because without it "we'll end up in hospital in any case". S Times

Dr Jacobs says a successful adjustment may take longer than 10 years and will need the support of key groups such as the trade unions. [Buss]

A solution is to empower people: "Training and education hold the key."

Expectations will have to be toned down and productivity improved. 6/9/92

DIAGONAL STREET

by JULIE WALKER

Birds of a feather . . .

S/Times (BUSS) (49)

6/9/92

THE Mont Fleur scenarios roadshow was presented to members of the investment community in Johannesburg this week on its tour of all those who will lend it an ear.

Named after the venue at which the scenarios were conceived, Mont Fleur was initiated by Pieter le Roux, professor at the Institute for Social Development of the University of the Western Cape, in conjunction with largely left-of-centre thinkers.

Team members — from political parties, unions, academia, business and industry — were chosen in their individual capacities although their contact with their groupings was considered. Shell SA manager Koosum Kalyan co-presented.

Initially, 30 scenarios were put forward, narrowed to nine, culminating in four on which, importantly, the participants reached consensus.

The four, depicted by winged creatures, give a glimpse of the potential outcomes.

If negotiations fail, we have an ostrich government, non-representative but possibly without the reimposition of full-scale sanctions — perhaps some international sympathy lingers for the current Government in the face of too-great demands. Eventually, the ostrich must resume negotiations.

Next is the lame duck, resulting from a settlement but a government incapacitated by too many veto rights and protection clauses. The lame duck is a possible format of a transitional government, the danger being too long a takeover period in which uncertainty about the next stage damages investor confidence.

Icarus, that wax-winged fool who flew too high and crashed even harder, comes from a new popular yet free-spending government which tries to satisfy every aspiration. It spends more than it receives, only to collapse after a short flight.

Finally, there is the flight of the flamingoes, inclusive of democracy and growth. Flamingoes are a bit slow to get off the ground, but once up, fly long and together. And, says Professor Le Roux, they are slightly pink. This government delivers sustained economic growth.

"Even the communists and Marxists among the team agreed that this was the way to go, at least for a few years," he says.

The investment audience comprised flamingo-followers in the main. One fund manager said all knew the best answer — it's the how to get there that counts.

Professor Le Roux countered that Mont Fleur was not a blueprint but a starting point for discussion.

It was a bit lowbrow for the investment audience, but is aimed to appeal to all sectors of the community.

JSE outlines protection for investors

S/Times (BUSS)

6/9/92

IN the wake of three stockbrokers defaulting in the past few months, the JSE has published a booklet summarising the protection it provides for investors and broking firms.

Cover for investors is furnished by the R80-million guarantee fund and for brokers through the fidelity insurance policy.

The summary explains that it does not override the wording of the rules of either the fund or the policy.

The guarantee fund incorporates two bands of protection. General protection covers total loss, whereas restricted protection is applied in certain instances.

General cover applies where an investor has acted in terms of the obligations of the Stock Exchanges Control Act. An ordinary cash purchase of securities, where the investor pays after the order has been filled but before he receives the scrip, is reimbursed in full.

In the event of a client's making a voluntary payment in advance for securities to be bought, the claim falls within the R1-million aggregate a broking firm.

A general claim is made in a switch where an investor sells one lot of securities and the broker holds the proceeds until new ones are bought. If a customer sells shares and delivers them to a broker, he will also be reimbursed in full.

But where securities are lodged with a broker for sale and remain unsold, the restricted claim applies.

Any cash balance held as a result of a switch or for a managed account not paid to the JSE trustees is paid in full. But any other cash balance after the purchase of securities is subject to restrictions.

If a block certificate of more shares than the amount sold is presented by a client to a broker, the customer receives full cover for the portion of the block representing shares sold. But the unsold portion is subject to the same R1-million-a-firm restriction.

Losses not covered by the guarantee fund include dealing in Krugerrands, the range of money-market instruments, money-market deposits not lodged with the JSE trustees, consequential losses arising from or subsequent to a default, liabilities to other broking members or foreign dealers and dealing in unlisted securities.

Futures trading is covered by the rules of Safex.

General claims are payable after a final sequestration or liquidation order has been granted against the defaulting broker or corporate member.

Payment of restricted claims must wait until confirmation of the final liquidation order by the Master of the Supreme Court because a claim against the guarantee fund cannot be quantified until the final dividend is established.

The JSE's summary recommends safeguards for investors Share certificates should be kept in a safe place; receipts or cheques should be insisted on when delivering scrip to brokers; investors should ensure they receive and check monthly statements from brokers and that portfolios on such statements reflect accurately the investor's own records.

The summary admits there is a limit to which a technical subject such as protection can be simplified. I think it's a bit wordy, but it's a welcome publication

Northam rights

I HAVE it on good authority that Northam's rights issue will be one for one at R5, raising about R280-million. Northam, Gold Fields of SA's developing platinum mine, last traded at R20. At its 1986 listing peak, the share hit R59

S Times 6/9/92.

New twist in our isolation

49

The country's top foreign policy experts met this week to chart South Africa's future path. BRIAN POTTINGER reports

THE new world order has become a new world disorder. In that chaos, both promising and frightening, South African foreign policy experts met this week to plot a new policy for the country.

Hosted by the SA Institute of International Relations and the Centre for Southern African Studies at the University of Western Cape the seminar was a domestic affair which brought together Department of Foreign Affairs officials, members of the resistance groups and academics.

"There were no ideological differences to be seen," marvelled Professor Mervyn Frost of Natal University during the report-back session.

Perhaps not, but it soon became clear why the country's foreign policy community was so united: there is a real fear that South Africa — indeed, the region — might slip unnoticed off the edge of the world as the industrial nations battle with their own problems.

The profound changes abroad have had a salutary effect on South Africans. It has knocked sobriety into our view of where we stand in the global pecking order.

"South Africa will be," said Frost with no hint of irony, "the strongest weak state in the region." It is a wise modesty.

Professor Jack Spence, a former South African now at Chatham House in Britain, observed an old truism. That South Africa's foreign policy is determined most immediately by its domestic policies.

There is, however, a new twist. Whereas before it was the racist policies of the white regime that kept us at arms length, it is now the inability of the internal parties to impose domestic tranquillity that encourages international isolation and, equally painfully, indifference.

In many ways it is a clash of triumphalisms. The National Party government believes it has won the war against "communism" in the region, and the ANC that it has forced a peace upon apartheid.

Either way, it does not matter much. Unless South Africans got their act together, warned Spence, the world would increasingly adopt a "band aid" attitude to the country — just like the rest of the continent.

It is with that background that a great deal of common grounds between the Department of Foreign Affairs and representatives of the ANC's Department of International Affairs emerged.

There appeared, for example, common agreement that with the demise of the old power blocs it was pointless for either side to engage in the old manipulative games of playing one power group off against another.

Again, there was consensus that foreign aid is a double-edged sword: it could assist with economic recovery, but the country should not become so indebted that its internal policies could be dictated from outside.

How, then, should South Africa respond to the challenges?

The one option canvassed was that South Africa lapse into victim-mode — rely on largesse from the developed world. This, thankfully, was universally rejected. The alternative was that South Africa embark on an aggressive and coherent foreign policy tying together diplomatic and economic initiatives.

To do so, however, South Africa will have to remain non-aligned, in its purest and best form. It called, said Frost, for South Africa to enter the era of "chameleon politics", by which he meant the country matched its policies to its own best interests.

A more problematic issue was that of the so-called "ANC dividend".

The ANC were optimistic that a sort of moral contract with Western supporters would ensure continuing "special status" for South Africa that might even survive a North American free trade agreement. Others were more cynical. Zimbabwe, for example, was also born out of a certain "virtue", but the indulgence of Western countries hardly lasted the first year.

There were also differences, polite yet real, about where the new government should direct its foreign policy emphasis.

The Department of Foreign Affairs believes links, particularly economic, with the Triad of North America, Europe and Pacific Rim were more important, the ANC spoke in romantic terms of a moral obligation to invest heavily in African diplomacy. Yet few people believe that South Africa's road back to the world lies through Africa.

Bismarck once observed that great powers are caught by streams of time which they neither create not direct. It is the same, clearly, for strong weak states.

Top US policymaker for SA?

(49) CT 7/9/92

From GRETA STEYN

JOHANNESBURG. — The IMF, Reserve Bank economists and finance officials have discussed the feasibility of appointing a top US economist to facilitate economic policymaking in SA.

Sources close to the IMF mission, which left SA at the weekend, said the IMF would be willing to approach an expert from possibly Harvard or MIT to co-ordinate policymaking. But the IMF did not see a role for itself as facilitator because of its unpopularity with the ANC and PAC.

Finding an outside expert could be taken up at this month's IMF/World Bank AGMs.

Government economists and monetary officials see political neutrality as the key to involving opposition groups. They want to find "technical common ground" before next year's Budget and are being hampered in their efforts by the political stalemate. Public sector economists are worried that the government's long-term economic strategy will be doomed to failure if it is seen as unilateral restructuring.

A sense of urgency about the economy has prompted them to look at ways in which opposition groups could be convinced to become involved in policymaking — in spite of the political impasse. They do not see the economic forum as a solution as it will represent the interests of labour and business.

The idea of an outside facilitator was taken from the eastern European and Russian experience. Harvard professor Jeffrey Sachs played a major role in the Polish and Russian programmes.

The absence of political neutrality in economic policymaking has tied government's hands on VAT. It will be unable to raise the rate in spite of an expected shortfall of billions of rands unless some way is found to depoliticise the issue.

If the stalemate is resolved and an interim government in place before the Budget, policies are expected to be formulated by transitional executive committees.

ANC gets some new deadlines

PATRICK BULGER

THE ANC has launched ~~its own~~ newspaper in the eastern Transvaal. BIDAY 7/9/92

The Congress is edited in Nelspruit by ANC official Jackson Mthembu, who said it was not only a mouthpiece for the ANC, Cosatu and the SACP alliance, "but for those communities who are without water, those communities who have no vote, those communities who are under a constant threat from gangsters, the SAP and the SADF".

However, the newspaper also contains a mock voting form, featuring the ANC, AWB, Azapo and other parties as contenders.

It notes: "As we are continuously breaking and rolling the skull of apartheid, let us build our branches into strong electoral constituencies. Our recruitment drive is not only aimed at increasing membership but canvassing more votes for victory.".

HRC's Coleman says business must act 'to save its economy'

(49) BIDAY 7/9/92

RAY HARTLEY

UNCONTROLLABLE violence and economic decline were pushing the government extremely close to conceding to majority rule, newly elected Human Rights Commission national chairman Max Coleman said last week.

"They will only take the decision to agree to elections when the pain of holding on exceeds the pain of letting go," he said.

Coleman said in an interview he believed business could play a vital role in ending the violence by putting pressure on government to accept majority rule.

"The business community probably hold the key to the whole thing. It's their economy that is going down the drain."

He said government's planned conference of parties favouring federalism was a strategy designed to retain regional powers because they would not win a democratic election.

A behind-the-scenes battle between the political and security arms of government was inhibiting the state's ability to end violence, he said

He accused the security establishment and Inkatha of a campaign to destabilise the ANC and its allies to weaken their bargaining power at the negotiating table.

Meanwhile, in a statement yesterday, the HRC defended itself against recent attacks on its impartiality by the SA Institute of Race Relations.

As a human rights body, its brief had always been to disseminate information about the observance or violation of human rights by the "apartheid state".

"We agree then ... that our perspective is one of bias against apartheid," it said.

"But it would be ludicrous to suggest the HRC has a need to invent or distort the human rights record of the aparheid state when the record is already so prolific in its detail."

Policy-makers may bring in outside help

BIDAY 7/9/92

GRETA STEYN

THE IMF, Reserve Bank economists and Finance officials have discussed the feasibility of appointing a top US economist to facilitate economic policymaking in SA.

Sources close to the IMF mission, which left SA at the weekend, said the IMF would be willing to approach an expert from possibly Harvard or MIT to co-ordinate policymaking. But the IMF did not see a role for itself as facilitator because of its unpopularity with the ANC and PAC.

Finding an outside expert could be taken up at this month's IMF/World Bank AGMs.

Government economists and monetary officials see political neutrality as the key to involving opposition groups. They want to find "technical common ground" before next year's Budget and are being hampered in their efforts by the political stalemate. Public sector economists are worried that government's long-term economic strategy will be doomed to failure if it is seen as unilateral restructuring.

A sense of urgency about the economy has prompted them to look at ways in which opposition groups could be convinced to become involved in policymaking — in spite of the political impasse. They do not see the economic forum as a solution as it will represent the interests of labour and business.

(49) ~~(158)~~

The idea of an outside facilitator was taken from the eastern European and Russian experience. Harvard professor Jeffrey Sachs played a major role in the Polish and Russian programmes.

The absence of political neutrality in economic policymaking has tied government's hands on VAT. It will be unable to raise the rate in spite of an expected shortfall of billions of rands unless some way is found to depoliticise the issue.

If the stalemate is resolved and an interim government in place before the Budget, policies are expected to be formulated by transitional executive committees.

'No accord, no growth'

(49) CT 8/9/?

JOHANNESBURG. — Even if economic fundamentals turn in SA's favour, the country will not achieve the growth needed to improve the lot over the growing population if there is no broadly acceptable political agreement says Finance and Trade and Industry Minister Derek Keys.

In a speech prepared for delivery at a business awards function last night Keys said the converse would also be true.

Without a level of economic growth that would impact on the lives of the disadvantaged "even the most successful of agreements will be thwarted by a deepening spiral of violence and instability".

The present situation in SA, he said, was unfortunate being a combination of a prolonged economic recession and a turbulent political climate — "at the very time that we need a strong economy to underpin political reform".

"It is a mood of negative momentum and it happens when all the people involved in a business believe that the business is going nowhere."

Keys said feelings of pessimism and despondency abound and all decisions and forecast emphasised the negative factors.

A political settlement and the economy are heavily interdependent.

The minister, charged with three portfolios, however was confident — assuming a broadly acceptable political agreement was reached — that eventually political motivations for actions such as bond boycotts and stayaways which damaged the economy would no longer have any basis. — Sapa

‘Populist policies SA’s ruin’

By AUDREY D'ANGELO
Business Editor

THE ANC leadership now understands economic realities, economist Jos Gerson — consultant to stockbrokers Davis, Borkum, Hare — told the German-SA Chamber of Commerce and Industry at a city hotel yesterday.

But unless they can temper the expectations of their supporters irreversible damage may be done to the economy by following populist policies which proved disastrous in South America.

Learning

"Hopefully the changing economic environment will speed up the learning process.

"But if they get it wrong economically, or worse still ethnically, there is no bottom to the depths to which we can fall.

"Look at Yugoslavia. We have got to try very hard to get our act together."

Gerson was speaking at a luncheon at the Woodstock Holiday Inn.

He said there had been a shift away from "hare-brained economic fantasies" by the ANC, which was listening increasingly to World Bank and IMF experts.

"I don't know whether the ANC has a learning problem now — but it certainly has a teaching problem with its grassroots supporters."

The question now was whether SA could avoid repeating the mistakes that had been made in Latin America.

SA was in a similar position to that of Argentina when Peron came to power. It had a dualist situation of a sophisticated, state of the art infrastructure and a politicised, semi-educated population "who want the goodies now, now, now.

"If we have got to follow the South American example and bang our heads against the wall the question is how much irreversible damage we shall have to incur before the majority of the population realise what happens."

Discussing the corporate structure in SA, Gerson said the ANC had started the call for unbundling by criticising the concentration of power in SA, based on McGregor's pointing out that the top four groups controlled 80% of market capitalisation of the JSE.

The National Party had made similar criticisms in the '40s and had called for the nationalisation of the mines, mainly because the top companies were controlled at the time by English speakers and foreigners.

CT 8/9/92 (49)

Patience

Criticism from the ANC now was probably because there were no blacks at the top

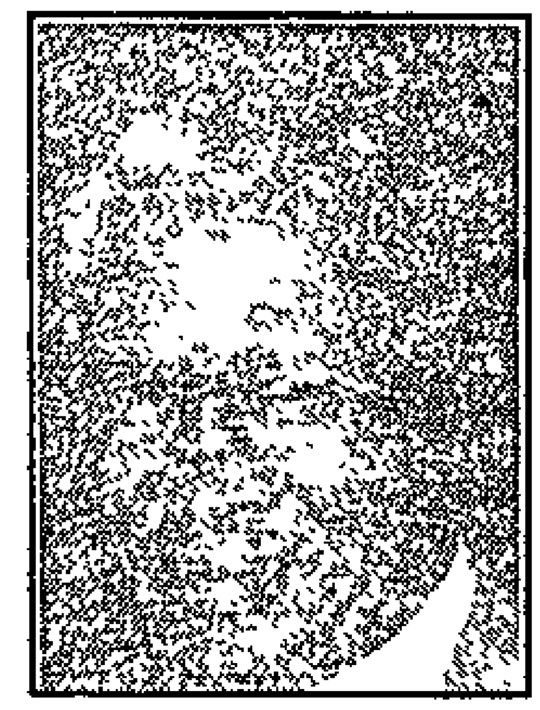
"It seems that with a degree of patience we may get black Ruperts and Wieses at the top and that grievance may fade away."

Meanwhile the confidence of foreign investors was being damaged "and the top 2 000 or 3 000 people who really run the country are mobile".

focus on economics

Sowetan 8/9/92

Pan Africanist Congress (PAC) president **Clarence Makwetu** addressing the Southern African Development Conference (SADC) in Namibia, called for unity among African nations. This is a shortened version of his speech: (49)



THE Pan Africanist Congres perspective, scope and orientation emphasise the organisation's commitment to unity among African nation states and the sharing of responsibility by the African people in developing their continent.

We consider it the duty of the Azanian proletariat, businesspeople, peasants, technical and professional personnel to struggle collaboratively with other compatriots in the region for control of the vast, economic resources of the region and continent; to end the technological dependence of our continent; to rid Africa of its embarrassing indebtedness to international capital; to eradicate hunger, disease and ignorance on the African continent.

The need for regional economic co-operation cannot be overemphasised The higher stage for regional economic co-operation is regional economic integration policy. The process to do so has started. It is important to enunciate precedent conditions to regional economic co-operation or regional economic integration. These are.

● A need for a relatively extensive consensus among member states on policy issues covering political and economic systems, the ownership and distribution of productive economic resources within individual would-be member states.

● Trust with respect to future intentions of each would-be member state should exist

● Readiness to deal in a corrective manner with initial resource, trade and development levels imbalances.

It is the PAC's view that the above precedent conditions will deserve the immediate attention of a liberated Azania with her regional partners. Due to the complexity represented by these conditions certain choices will need to be made. These include.

● A choice between an incremental programme or projects or sector approach or an "integrated" holistic approach to regional integration.

● Choice of trade as a critical instrument in the process of economic integration or to place emphasis, initially, on production and technology development.

Our current thinking, subject to improvement and refinement, is that:

● Initially, there will be a need to increase the infrastructural, technological, entrepreneurial and managerial capacity of the BLS states within the Southern African Customs Union (Sacu).

● An incremental approach to regional economic integration between SACU and SADCC as co-operation units might be recommendable at the initial phase.

● There will be a need for a simultaneous emphasis on trade and on production, infrastructural and technological development within the region.

PAC supporters at a meeting

● Ultimately, as a result of successful implementation of the lower stages of economic co-operation, a holistic approach to regional economic integration leading to a regional common market should be envisaged and worked for.

In concluding this section of our discussion, we would like to emphasise that we see the economic development thrust of the region to be dependent, among others, on the following efforts:

● The region should develop through the redistribution of means of economic production to the majority of its people; supportive incentives and institutional arrangements should be put in place to motivate economic activities; all these activities should aim at integrating our people into the economic mainstream as producers of wealth rather than mere employees, they should aim at increasing demand for products and services emanating from the region

● The region should aim at producing most of its capital and intermediate goods.

● Research and development investments must be increased.

● The region should aim at achieving relative self-sufficiency with respect to agricultural equipment and requisites, including veterinary requirements.

● Massive physical and human infrastructural investment is a must

● The harnessing and development of water resources for energy production, agricultural production and human consumption should be given the highest priority

● The regional transport and telecommunication facilities need serious and extra efforts.

Posturing aside, we are all talking a similar language

BDay 8/9/92 **DEREK KEYS** (49)

THE unfortunate combination of a prolonged economic recession and a turbulent political climate — at the very time that we need a strong economy to underpin political reform — has resulted in a mood of negative momentum.

Feelings of pessimism and despondency abound, and all decisions and forecasts emphasise the negative factors This mood will not change until the people involved are able to believe that the future will be better They will then start working together on long-term decisions necessary to create a new future for business The next step is to re-examine basic assumptions, identify long-term opportunities and then to go steadfastly and methodically after those opportunities.

Could things get better?

We all know that a political settlement and the economy are heavily interdependent. Assuming that we do achieve a broadly acceptable political agreement — and I remain confident that we will even if it takes longer than originally envisaged — the political motivations for economy-damaging actions such as stayaways and bond boycotts will no longer have any basis and South Africans will be in a position to start laying the foundations for a national ethic guided, hopefully, by an economic consensus.

In the meantime, it is encouraging that the embryonic economic forum has survived the pressures to dismantle the structures geared to facilitate the political negotiations.

In other countries where social compacts have contributed to economic success stories, they have done so because they have created an environment in which the participants could take the tough responsible decisions — decisions involving compromises to their own interests for the sake of a unified national interest. Typical compromises in these types of forums are for governments to agree to reduce the public sector's claim on national resources, for businesses to accept higher levels of competition and for trade unions to agree to wage awards below the inflation rate.

If one looks beyond the negotiation tactics and posturing, one finds that there is an encouraging convergence in economic thinking With each new economic policy statement released in SA over the past two years, there has been new movement towards the centre. The newly released Mont Fleur scenarios, drawn up by a broadly representative group of economists, provide ample proof that at least we are all close to talking the same language

Based on the assumptions of an acceptable political settlement and improvements in social stability, the Mont Fleur researchers' best-case scenario sketches an economic policy which favours a rapid and sustained increase in investment and constraints on public sector consumption expenditure, coupled with effective investment in socio-economic development with consequential growth averaging 5% between 1992 and 2002

The assumptions upon which we have based the integrated normative economic model we are busy devising as a framework for economic policy are not dissimilar.

As regards economic growth, attention has recently been focused on government consumption spending. This emphasis results from the timing constraints of next year's Budget construction, and does not mean that anyone thinks that this is all that's needed to get the job done If this was all we were going to do it would actually have a negative effect, but it is an important part of a wider integrated plan and has to have attention now.

Apart from implementing plans to reduce the public sector's claim on national resources, government will continue reallocating those resources.

In the past, efforts to contain the rise in government spending have resulted in a cut in fixed investment in infrastructural services. Our aim is gradually to reduce government's consumption spending in favour of a much higher level of fixed investment in productive new capacity

My policy technicians tell me they would like to see an about-turn in the existing levels, with public sector consumption expenditure declining from 21% of GDP to about 16% over the next four to five years, and fixed investment rising from 16% to 26% — the level at which the IMF calculates we could achieve growth of about 3% to 4% a year.

Cabinet has set the process in motion by setting strict spending guidelines for all government departments for the 1993/94 financial year. The TBVC states, self-governing territories, the provinces and local authorities, which account for more than 40% of total general government spending, also have to be drawn into the process.

There is a pessimistic view within the private sector that a future public service will grow beyond control as a future government tries to satisfy expectations and stay in power. Rather than dwell on these nagative assumptions, we should think about the unique opportunity we have now to create an efficient structure of government which could see the redirection of resources that we need for future growth.

One of government's points of departure in negotiations is the devolution of power to strong regional government. A decentralised system which devolved government functions, other than foreign affairs, defence and economic policy, to regional and local authorities and the private sector could produce more effective and efficient provision of services without an increase in taxation. This could have positive effects in the political, economic and social spheres — all of which would be good for business.

As long as the temptation to create a host of new small bureaucracies is resisted, this could introduce more stability to society and the workplace, with obvious benefits for productivity and investor confidence. It could also give regions more flexibility than they have under a unitary system to stimulate specific growth areas.

Central to our economic policy model is the view that long-term economic growth can be achieved only by expanding the supply side of the economy — by productive investment and by the more productive use of available capital and labour resources Factors such as greater price stability, increased domestic saving and investment, deregulation and international competitiveness are all key elements of the policy Efforts to create a secure investment environment are high government priorities

But even in a more conducive economic climate, investors will remain shy until the fundamental question of uncertainty is addressed.

Consistency and transparency in policy and an investment code which protects private property and provides reasonable guarantees against arbitrary government action are obviously crucial to long-term investment decisions as is a stable social and political environment.

I committed myself to transparency when I became Trade and Industry Minister. Now that our policy model is nearing completion and once my technicians have assembled and tested it, I intend to fulfil that commitment by reporting on the model's progress and inviting interested parties to comment on it and even to contribute to the preparation of next year's Budget.

We have no intention of restructuring the economy unilaterally We needed to produce a model which could give us a realistic indication of what the possibilities of restructuring were, and we intend to share it with other interested parties.

☐ **This is an edited extract from Minister Keys's address last night to Business Day's Business Achievement Award presentation.**

Public sector has role to play in development, argues **Mike Mohohlo**

Paving the way to an El Dorado

STAR 8/9/92.

(49)

THE South African economy has developed in such an unbalanced manner that there is a dire need for intensive public sector intervention today and for some years into the future. The South African factor has also been responsible for large scale distortions in the economic infrastructure and development of all the countries neighbouring her.

It seems that a wide range of socio-political and economic policies, with clearly defined strategies, need to be formulated to engender a Southern African political economy that will open up the vast potential for our sub-continent.

I would like to propose a few principles that should be the hallmark of any policies and strategies that purport to lead us to a healthy sustainable economy.

- The organisation of a public sector institutional capacity to intervene in the current economic morass. Here I refer to development corporations and development banks. Of course the corporations should be underpinned by a phasing out philosophy to make way for rational private sector responses.
- The pursuit of a market oriented development approach with minimum concessionary funding and public sector support.
- A free flow of production factors.

The priorities and needs of the public and communities involved must serve as a departure point in the formulation of these policies and strategies. We should strive for principles that clearly emphasise the importance of attaining the objective of self-sustaining economic development in locations with comparative cost advantages in an integrated multi-sectoral approach.

The role of the public sector and the development corporations should therefore be to create conditions conducive to active private sector involvement, the alleviation of development constraints, the provision of infrastructure based on market signals and appropriate support programmes for all economic sectors.

Public sector intervention is thus required to alleviate the constraints inhibiting the growth of entrepreneurship. The effective functioning of all intervention strategies depends on an interdependent relationship between the Government, the development corporations and the private sector.

Development corporations must be able to operate in a professional manner with maximum independence from Government, within an agreed framework and with an organisation structure based on business units that allow for proper budgeting, cost control and accountable management. □

- *Mike Mohohlo is group manager, Business and Entrepreneurial Development, of the Development Bank of SA. This is an edited version of his talk at an SADCC workshop.*

Confidence dips again in August

BDAY • 8/9/92. (49)

HILARY GUSH

POLITICAL uncertainty and the prolonged world recession continued to erode business confidence in August, the SA Chamber of Business said yesterday.

Sacob's business confidence index (BCI) — a short-term barometer of business mood — dropped slightly in August, by 0,1 of a percentage point, to 90 on the back of a deterioration in nine of its 13 sub-indices.

Sacob chief economist Ben van Rensburg said business mood was becoming progressively more brittle and there was a "growing danger that the economy's long downward spiral could accelerate".

The ANC's decision not to resume talks with government and the prospects of further mass action were likely to depress the business mood even further. A significant lull in the level of foreign business interest in SA in the last two months was likely to persist as long as there was political deadlock.

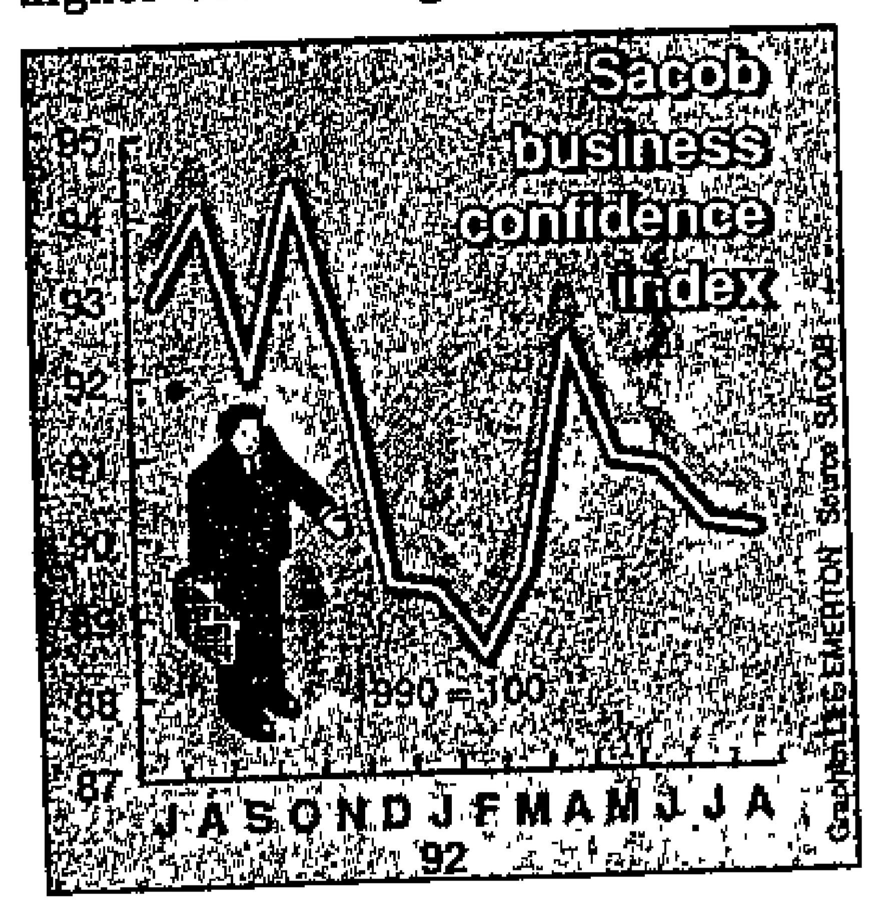
"The longer the political impasse continues, the greater the likelihood that foreign traders and investors will shift their attention to other economies, and the lower the prospects for increased foreign investment in SA."

There was, however, room for hope. "From the monetary point of view, the economy is well placed for a sustained upturn, and the recent decline in the official inflation rate should enable some reduction in interest rates within the next month."

Van Rensburg said real GDP could be expected to contract by between 1,5% and 2% this year.

While many economists looked to export-led economic growth in 1993, the fact that SA's major trading partners could only be expected to enjoy a moderate revival would make it difficult to raise exports sufficiently in the short term.

Sacob thus remained cautiously optimistic about the prospects for higher economic growth in 1993.



Unbundling 'may not be best solution'

8/DAY 8/9/93 (49)

LINDA ENSOR

CAPE TOWN — Great care would have to be taken not to destroy the structures of concentration in the SA economy; these could be the very driving force of its development, Davis Borkum Hare economic consultant Jos Gerson said at an SA-German Chamber of Commerce and Industry function yesterday.

"If it is true that countries undergoing development created these concentrated structures for a purpose, then we must be very careful of turning the structures upside down for some spurious political reason," Gerson said. The introduction of a tax on inter-company dividends would be an easy way of destroying pyramids.

Gerson expressed concern that forces in favour of unbundling the SA economy had been strengthened by Finance Minister Derek Keys's support and had apparently persuaded his Cabinet colleagues of the need for such a step.

He argued that there was very little evidence that big companies were detrimental to economic growth and that they priced uncompetitively. SA's lack of international competitiveness was due rather to its protectionist policies.

He said it was absolutely critical for continuity and stability to be maintained, as without growth poverty would be exacerbated.

The pyramid structure of control which ensured powerful families controlled the underlying subsidiaries in large groups meant they could control more assets than their personal wealth allowed. It was not necessary for these groups to resort to debt to expand as they could issue shares.

A company was vulnerable to hostile takeovers if shares were distributed among many shareholders.

Gerson's research showed that the shares of pyramid-controlled companies on the JSE sold at massive premiums to the shares of ordinary, independent companies and their earnings growth was much better.

In the US, managerial abuse, an overemphasis on stock market performance and "short-termism" were the result of the breakup of the power of large groups and the inheritance of that power by senior managers.

Exclusion of blacks from the top echelons on the corporate ladder could be behind the ANC's argueing for a breakup of monopoly control of the economy. In the same way the National Party had called for nationalisation of the English-controlled economy in the first half of the century. "The real grievance is ethnic imbalance and the legacy of apartheid," Gerson said, suggesting that calls for unbundling could disappear once black people became leading entrepreneurs.

SA debt talks at risk

(49) BT 9/9/92

LONDON. — The Bisho massacre may have ruined South Africa's chances of negotiating a final foreign debt repayment arrangement to succeed the current interim arrangement, creditor bank sources indicated here yesterday.

The existing foreign debt repayment structure, the Third Interim Arrangement, expires at the end of next year.

Successive interim arrangements have only amortised chunks of the $13,6 billion (about R38bn) in foreign debt originally caught in the net when the standstill was imposed in August 1985. At the end of last year only around $5,5 billion (about R15bn) remained in the standstill net.

The Department of Finance's economic review published this year with the 1992-93 budget said that "before the present debt arrangements lapse, an attempt will be made to secure final and more permanent arrangements" with South Africa's creditors.

But opinion among some of the creditor banks in London was that, after the events at Bisho a final arrangement to succeed the Third Interim Arrangement at the end of next year was now a tall order.

Reports indicated the Bisho incident had significantly set back the constitutional negotiations process. The feeling was that a fourth interim arrangement was now more likely, delaying restoration of links with the International Monetary Fund (IMF) and World Bank and access to the international capital markets.

Foreign debt negotiations 'in jeopardy'

(49) SIMON WILLSON (BDA)

LONDON — The Bisho massacre may have helped spoil SA's chances of negotiating a final foreign debt repayment arrangement to succeed the interim arrangement, creditor bank sources in London indicated yesterday.

The existing foreign debt repayment structure, the third interim arrangement, expires at the end of next year. The SA authorities had hoped it could be followed by a final arrangement which would amortise all the remaining foreign debt still caught up in the 1985 standstill.

Successive interim arrangements have amortised only chunks of the $13,6bn in foreign debt originally caught in the net. At the end of last year about $5,5bn remained in the standstill net. BDAY 9/9/92

Since scheduled repayments this year are expected to reduce total standstill debt to less than $5bn, the chances were at one time thought quite good that the whole of the remaining debt in the net could have been honoured within the next repayment arrangement, thus making the successor to the current third interim arrangement the fourth and last in the series. Such an arrangement would also effectively have ended SA's foreign debt problem.

The Finance Department's economic review published with the 1992/93 Budget said, "before the present debt arrangements lapse, an attempt will be made to secure final and more permanent arrangements" with SA's creditors.

But opinion among some of the creditor banks in London was that, after the events at Bisho, a final arrangement to succeed the third interim arrangement at the end of next year was now a tall order. As initial reports indicated the Bisho incident had significantly set back constitutional negotiations, the feeling was that a fourth interim arrangement was now more likely.

Implementation of a final arrangement, with its accelerated repayment schedule, presupposed the restoration of links with the IMF and World Bank, and normalised access to international capital markets. These contacts largely depended on the installation of an interim government.

☐ To Page 2

Foreign debt

BDAY 9/9/92 (BDA) (49) ☐ From Page 1

The bank sources said the Bisho violence had almost certainly ruled out a "dream scenario" on SA debt, which envisaged the establishment of an interim government ahead of negotiations on a successor to the third interim arrangement, and restored links with the IMF and World Bank.

Under the scenario, the SA authorities would then announce that there would be no fourth or final debt repayment arrangement, and that creditors were free to call in matured loans from end-December 1993. But, because of SA's improved status and the creditors' own needs for diversified portfolios, the facilities would be rolled over and not called in. With barely a year of the third interim arrangement to run, and formal talks on a successor structure likely to begin early next year, creditors now accept the dream scenario as likely fantasy.

The Bisho incident is seen as making a final debt arrangement almost as unlikely, leaving SA unfavourably compared to some of the most indebted South American nations.

In the wake of Bisho a fourth interim arrangement, effective from January 1994, is now odds-on favourite to succeed the present debt arrangement. But, as one analyst remarked, after four successive instalments an arrangement ceases to be interim and becomes almost fixed.

Two economic models on the cards

GRETA STEYN (49)

5/10/92

THE ANC will, by the end of the year, have two economic models as a measure against Finance Minister Derek Keys's model for testing economic policies.

Well-known development economist Lance Taylor from the Massachusetts Institute of Technology is involved in the model being built by the ANC's macro-economic research group. The other is being constructed by the University of the Western Cape's Economic Policy Research Project. As they are different in style, they will complement each other.

Keys said his department's model would be made public before the year-end. Talks on restructuring would take place "against the background of an economic model which provides a realistic indication of what those possibilities could be". He invited all interested parties to provide policy suggestions that could be tested on the

☐ To Page 2

Models

Bloom 9/9/92 (49)

☐ From Page 1

model in time for next year's Budget.

The ANC has not yet indicated whether or not it will accept the invitation.

The UWC model will be directly comparable to Keys's version — both are econometric models consisting of simultaneous equations based on statistical time series. But they are likely to have important differences in assumptions and policy implications. Keys's model is widely believed to be based on the IMF's work on SA.

The UWC's Lieb Loots explained it was not possible to establish the "truth" in terms of statistical criteria. Two opposing models could each have a good correlation with the data. People might have different conceptions of how the economy behaved and it could be a matter of choice.

Loots acknowledged that the UWC model could be regarded as "in competition" with Keys's model. He said the ANC would be free to use the model, although it was not being developed specifically.

The model developed by the ANC's macro-economic research group is different in style. A "computable general equilibrium model", it provides an image of the economy and focuses on the structure of the economy rather than on forecasting. The exercise is headed by University of Durban-Westville's Stephen Gelb. Other participants include the Development Bank's Dirk-Ernst van Seventer and Jerry Eckert, MIT's Lance Taylor and Vermont University's Bill Gibson. Taylor is a development economist and an opponent of IMF-style neoclassical economics.

● Comment: Page 8

Recovery in sight, say economists

(49) MG 9/9/92

DEREK TOMMEY

JOHANNESBURG. — Several economists believe the recession has bottomed and that the business cycle might be showing faint signs of moving up.

One economist who thinks this is Dr Jos Gerson of brokers Davis Borkum and Hare.

He says in the company's monthly economic review that the year-on year increase in notes in circulation rose in July for the fourth consecutive month. (Figures issued by the Reserve Bank show the note issue rose again in August by 9.3 percent over August last year).

"Given the good correlation that exists between notes, M3 and the business cycle, the latest figures reinforce our view that the recession has probably bottomed," he says.

The importance of the note issue appears to lie in its being an indicator of black incomes and purchasing power.

Relatively few blacks have cheque accounts or credit cards and pay with cash. An increase in the note issue could reflect an increase in the personal finances of those at the bottom of the employment pile.

The view that the recession has probably bottomed out is reinforced by retail sales figures.

Central Statistical Services said they totalled R21,6 billion in the three months to June — an increase of 2,1 percent on sales in the three months to March.

This is the first time for months that retail sales have been higher than in a preceding period.

However, sales for the six months to June were down 5,4 percent in real terms.

But even so, after stripping out food sales, which were down sharply, the figures show that retail sales in many instances have been no worse than last year's.

Nobody should be surprised that the recession is showing signs of bottoming out

Just as booms do not last for ever, neither do recessions. And there have been several factors working to turn the economy around.

One hs been the rise in gold production. Several mines may have difficulty in breaking even, but the gold mining industry is still pumping R1,6 billion a month into the economy.

Added to this has been the Government's deficit spending, which, in the four months to July, stimulated the economy by R10 billion

Export earnings have not increased in real terms this year, but have been maintained.

While earnings from the export of metals and minerals have fallen, the loss has been made good by higher export earnings from goods requiring a larger input of capital and labour.

So, while unskilled jobs have been lost in the mining sector, skilled jobs have been created elsewhere — and many more will be created in the coming months.

The recession, the end of sanctions and the apparent weakness of the rand have made businessmen take a hard look at export prospects.

The result is that those already exporting plan to increase their exports, with more entering the export market and others planning to do so

Existing medium and small exporters and potential exporters are making new investments.

Some idea of what it is happening comes from a retailer in the booming apple-growing district in the Western Cape. Increased expenditure by apple farmers this year on extending their orchards has helped boost his turnover 40 percent

This improving trend is not going unnoticed on the JSE.

The financial and industrial share index showed a modest 1,2 percent rise last week. But this was not the whole story.

Altogether, 114 financial and industrial shares showed gains last week, against 72 showing loses.

This strongly suggests that but for political developments, the bear market would have ended

ETC: Gold production up 8%

Eastern Transvaal Consolidated Mines (ETC) chairman R A D Wilson says that the expected combined mill throughput of the company's three mines and the overall recovery grade will remain relatively constant in the current year. CT 10/9/92

The current year's estimated capex will be about R11,7m.

During the year under review, gold production from the company's three mines rose by 8%, mainly because of the higher throughput, but there was only a marginal increase in the average rand gold price. This was more than offset by higher working costs, with the result that the pre-tax profit was slightly down at R26,95m.

Higher capex and the new tax formula reduced the tax charge and, after appropriating R6,7m (R4,8m) for capex, earnings totalled R12,34m (R13,76m) — equivalent to 14,3c per share (15,9c). Dividend payments totalled an unchanged 14c per share.

Special rates under threat on SA flights

CT 10/9/92

JOHANNESBURG. — Seats on the many airlines now operating out of SA could shortly begin diminishing, and with them the special fares already being offered.

"The number of airlines presently operating from Johannesburg to all parts of the world is beginning to take its toll," according to one travel bureau MD.

"Passenger volumes have remained stagnant. This is mainly due to political uncertainty which has kept the expected influx of overseas tourists from materialising."

Eric Thorne said economics would force airlines to cut the number of South African-bound flights.

Earlier it had made sense to establish an infrastructure to be competitive when SA became a popular destination. To keep their routes to the country viable until the expected rush, airlines began discounting to encourage outgoing South African travellers, he said.

But there were still too many empty seats, and airlines would probably be forced to cut the number of flights.

"This does not mean the airlines will abandon SA as a destination. Uneconomical flights will have to go for the moment, and with them some of the discounted fares," Thorne said.

● Meanwhile reports from London say SA's civil aviation industry's first display at Farnborough, the world's major airshow, is proving a big attraction — with high hopes that business will follow.

Because of the continuing UN embargo, military hardware and software is not on show, but the display co-ordinator Elaine Klingman said serious business had been impressed by the sophistication of the civil aviation products.

SA debts 'no effect on reserves'

(49) CT 10/9/92

Own Correspondent

JOHANNESBURG. — Foreign debt repayments of between \$200m and \$250m had been paid in August, Reserve Bank gold and foreign exchange GM James Cross said yesterday.

However, this had not had a marked effect on the reserves which rose by R591m to R5,3bn.

Although it was difficult to establish the precise reason for the unexpected rise in reserves in August, the increase could be a result of a weaker dollar which led to forex inflows as forward cover on long-term positions was rolled over, said Cross.

SABC-TV beams to rest of Africa

CT 10/9/92 **Business Editor**

A NEW TV station broadcasting to 50 countries in Africa will give local advertisers the chance to reach millions of prospective customers, says Lionel Williams, executive editor of SABC External Services.

The station — Channel Africa — will be launched on October 1, initially broadcasting for an hour a day, half in English and half in French.

Williams says the programmes will be available, free, through a multiple access satellite, to any African broadcasting company or organisation. "Initially we expect at least a dozen broadcasters to pick up the service and within the next six months this is expected to at least double."

The programmes will be aimed at an African audience and will contain news and items of interest about Africa which will not necessarily include anything about SA.

Williams says response from broadcasters belonging to the Union of National Radio and Television Organisations of Africa has been favourable. "We met most of the broadcasters at a conference in Dakar in May and they were very enthusiastic. They were particularly keen to explore avenues for co-operation."

The broadcasts will cover an area from Morocco and Egypt in the north to Lesotho and Swaziland in the south, with an estimated population of 600m.

According to the World Radio and TV Handbook there are more than 20m TV sets in Africa but the real figure could be double or even more.

For the first six months Channel Africa will build up an audience profile, before seeking advertisers. But Williams said some major SA companies doing business with Africa were already showing interest.

Sacob fears for economy

(49)

Star 10/9/92

The Bisho tragedy on Monday has dealt a further blow to economic prospects and business confidence in the country, South African Chamber of Business (Sacob) president Hennie Viljoen said yesterday.

"Sacob believes that South Africa is now at the crossroads. Either the country demonstrates its real commitment to peace and stability, or it continues down the path of conflict and violence," Mr Viljoen said.

The organisation suggested that either the National Peace Committee or the Goldstone Commission should review the ground rules for mass action in order to avert tragedies of the kind that occurred at Bisho.

"In view of the increasing polarisation and hardening of attitudes which have now taken place, Sacob believes it may have become necessary to accept international facilitation to assist in resolving the political logjam." — Sapa.

Sacob calls for 'facilitation'

49

RAY HARTLEY

B/DAY 10/9/92

INTERNATIONAL facilitation could be the only way to get negotiations on track again following the massacre of 28 people at Bisho on Monday, Sacob president Hennie Viljoen said yesterday.

"Without some form of independent facilitation it may prove impossible to recreate an environment for reconciliation.

"Apart from the human costs, the Bisho tragedy has dealt a further damaging blow to economic prospects and business confidence. We are facing a confrontational decline in the economy and are forfeiting the confidence of the international business community."

He said there was "an urgent need for adherence to the law and negotiated agreements regarding the rules by which mass actions are to be governed in future".

The national peace committee or the Goldstone commission needed to review the ground rules surrounding mass action to avert similiar tragedies, he said.

"In the meantime Sacob sees forums — such as the national economic forum and the National Manpower Commission — as vital mechanisms for seeking consensus," Viljoen added.

A business source said it was significant Sacob had referred to international facilitation and not mediation because this meant it still believed SA parties bore primary responsibility.

ANC to form coalition for Mmbatho action

B/DAY 10/9/92

RAY HARTLEY

A BROAD coalition of political and community groups would be convened by the ANC before the end of the month to spearhead action against Bophuthatswana's independent status, ANC PWV spokesman Ronnie Mamoepa said yesterday.

Mamoepa said the PWV action council — a forum of ANC-aligned community, union and student groups — decided at the weekend to convene an alliance with the ANC's western Transvaal and northern Cape regions.

In a separate development, the SA National Civic Organisation vowed to intensify action this month to "topple the homeland dictators in the Ciskei, Bophuthatswana, KwaZulu and QwaQwa".

Meanwhile, protests against the Bisho killing of 28 people on Monday continued around the country yesterday.

Mamoepa said ANC protesters picketed the Ciskei consulate in Johannesburg and that they planned to picket the homeland's Pretoria embassy today.

In Durban, the SA Students' Congress began a sit-in at the Ciskei consulate to protest against the massacre and to call for the dismantling of the homeland system.

The 10 students said they would remain at the consulate, which was locked and deserted, until a Ciskei government representative heard their grievances.

The sit-in followed an ANC march in the city.

Southern Natal ANC organiser Bheki Cele told the crowd the ANC's Natal regions would meet soon to discuss a march on Ulundi to demand the dismantling of the KwaZulu government.

Inkatha warned on Tuesday that any attempts to topple the KwaZulu government would be resisted until "the last drop of blood".

In Maritzburg 500 ANC supporters staged a placard demonstration calling for Ciskeian leader Brig Oupa Gqozo's removal.

In Cape Town, ANC supporters continued the Ciskei consulate sit-in they began on Tuesday.

"We will remain until Gqozo no longer has a presence in the western Cape," said one protester.

Meanwhile, eastern Cape DP MP Errol Moorcroft yesterday urged the ANC to sever links with the SACP, saying the actions of MK intelligence chief Ronnie Kasrils had caused Monday's shooting.

The SA Catholic Bishops' Conference said recriminations would fuel an already volatile situation. "Instead of slinging accusations at each other, our leaders should be concentrating their energies on finding ways to remove the obstacles impeding progress towards a just and peaceful future," it said.

☐ Sapa reports that right-wing parties yesterday warned the ANC/SACP alliance not to proceed with mass action.

The CP called on white local authorities not to grant permission for marches.

But, it said, if government neglected its duty to ensure people's safety, the CP would appeal to its people to do everything within their power to counter any ANC/SACP threat.

The CP also demanded that government ensure SA territory was not used as a springboard for attacks against independent neighbouring states.

The AWB warned the ANC that illegal marches in white areas would lead to greater bloodshed than in Bisho and Boipatong.

The HNP called on all whites to mobilise against a reported ANC plan to make right-wing controlled towns a target of mass action.

● Comment: Page 6

Economic forum delay

THE national economic forum, which was due to be launched next week, may be delayed. Cosatu representatives are meeting Finance Minister Derek Keys today to discuss their reservations, a source said. Government is concerned about Cosatu's anti-PAYE campaign and Cosatu believes government is unilaterally going ahead with privatisation. (49)

S/Star 10/9/92

ARG 10/9/92

Delay to recovery feared as state cuts spending

(49)

SVEN LUNSCHE

JOHANNESBURG. — Economists fear that a sharp cutback in government spending, while beneficial for the economy in the longer term, could delay the expected economic recovery until late 1993.

Finance Minister Derek Keys said last week government expenditure would be cut by 3 percent in real terms for the 1993/4 fiscal year, after disclosing that the deficit before borrowing looked set to surge to 6 percent of gross domestic product (GDP) in the current year.

Welcoming the planned cut as a "quantifiable objective to rein in one of the major long-term structural weaknesses of the economy", Econometrix director Dr Azar Jammine warned that Mr Keys could meet opposition from his Cabinet colleagues and from the "bureaucratic machinery of government".

"Moreover," Dr Jammine said, "while a reduction in real state spending might boost economic activity in the longer term by paving the way for tax cuts, or at least preventing further tax hikes, in the medium term the cutback might prevent the economy from recovering to the extent one might have hoped."

Econometrix suspected that a preview of the planned cutback was the reason for last week's sharp downward revision of the Reserve Bank's growth forecast for 1993 to a reported level of zero percent.

At the heart of this year's expected overrun in the deficit — from a budgeted R15,9 billion to R21,2 billion — is a massive shortfall in income from VAT as a result of the economic recession.

Figures released by the Central Statistical Service show that revenue from VAT in the April-to-July period this year at R4,92 billion was 18 percent down on the R5,98 billion netted by GST in the comparative period in 1991/2.

The poor economic conditions were also reflected in income tax, customs duty and import surcharge revenue for the first four months of the fiscal year.

Excluding gold mines, income tax returns rose by a mere 4 percent from R12,57 billion to R13,07 billion.

Customs duties netted R959 million (R913 million), while the slowdown in imports left import surcharges virtually unchanged at R487 million.

Excise duty taxes, which rose by 31 percent from R1,06 billion to R1,38 billion, and fuel levies — up by 50 percent to R2,2 billion (R1,47 billion) — allowed revenue income to show an overall modest 3,5 percent rise to R24,26 billion (R23,34 billion) during the four months.

The Government budgeted for an overall increase of 13,5 percent in revenue for 1993/4.

However, with a third of the current fiscal year past, revenue collections amount to only 26,6 percent of the budgeted R84,5 billion and indicate at the least a slight shortfall on targeted levels.

In spite of collecting far less than expected, government spending continues to run ahead of targets — so far this fiscal year expenditure has amounted to R32,34 billion, a 24,15 percent rise on the R26,05 billion in 1991/2.

The amount spent so far amounts to exactly a third of budgeted spending of R96,5 billion. But over recent years government spending has picked up sharply in the last quarter.

Govt's local borrowing a hot potato for ANC

BDAY 10/9/92

49

TIM MARSLAND

THE ANC has caused periodic storms through its pronouncements on foreign loans raised by the SA government and parastatal institutions. But it has maintained a discreet silence on what attitude it would take, as a future government, towards loans raised locally which have also arguably served to buttress the "undemocratic regime".

This discretion has extended to declining to comment at all on the matter when approached recently by Business Day.

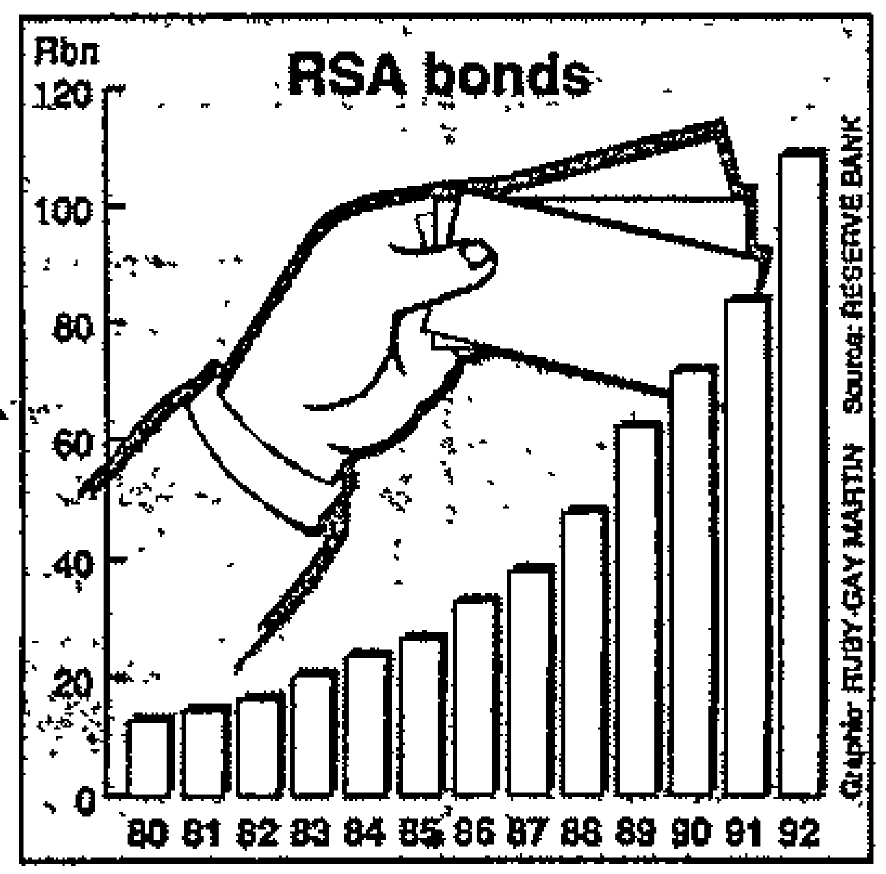
The ANC obviously sees the issue as a political hot potato. Senior government officials, too, have been at pains to ignore the matter in the hope that it will go away.

Government currently owes R108,6bn raised on the capital market through RSA loan stocks with maturity dates up until 2015. A payment of R18bn — the R144 stock — falls due in 1996. Reserve Bank figures for the first quarter of the 1992/93 financial year show government raised R12bn in RSA stock. Government budgeted R16,3bn for interest payments on the loans.

The ANC has been outspoken on foreign loans. It has written to foreign bankers asking them not to grant new loans to SA.

Initial statements that an ANC government would not repay foreign loans granted before an interim government was in place have been watered down somewhat to a suggestion that the organisation would seek to renegotiate the terms of such loans. Either way, the ANC's stance is seen more as a political gesture than as one based on economic considerations.

The organisation's policy on the local RSA loan stocks is less clear.



Either it has no policy or it fears the political and/or economic consequences of stating it.

The number two man in the ANC's economic planning department, Tito Mboweni, twice refused to comment.

However, an ANC source says there is debate as to whether a future government should be honour-bound to repay apartheid's debts. "It is a moral dilemma for the ANC."

That dilemma explains the department's silence. Publicly to commit the ANC to repaying debts arguably used to implement apartheid could raise an uproar among supporters. But taking the opposite stand would cause serious dislocations in the capital market and also harm the organisation's efforts to develop a more moderate and widely accepted economic policy.

Like Mboweni, Finance director-general Gerhard Croeser also refused to comment on the loans. However, government apparently has faith the loans will be repaid.

A well-placed source says government has no plans to repay the loans early. "It will repay them on maturity date, probably by re-issuing stock." He points out that it is getting harder for government to borrow money, even on the local capital market.

The State Pension Fund is the largest holder of government bonds. A senior government source says the Public Investment Commissioner, which manages the government service pension fund, has 75% of its funds invested in government bonds, which amounts to about 50% of the total RSA stock debt.

Should the ANC renege on the loans, state pensions would have to be paid directly by government through the exchequer. State pensioners have a legal right to the money as they in effect funded government borrowing through monthly pension payments, he says.

The ANC regards pensions as untouchable. "You cannot tamper with peoples' pensions," the ANC source says.

No government has reneged on the debt of its predecessor, says a government banking expert. Besides, a future government will need money as soon as it comes to power, particularly if it wants to spend more to correct historical imbalances. "Who would lend to a government that revokes on debt?" he asks.

Analysts warn that should the ANC say it plans to refuse to repay the loans, it would be catastrophic for government.

A senior parastatal source says any government that refuses to honour a previous government's debt would run into serious difficulties. The cost of raising funds would increase dramatically because of the heightened risk factor, affecting the current government.

He does not believe an ANC government would be able to survive if the loans were not repaid, saying the ANC realises that the country did not develop as far as it has without state assistance. Also, it is very difficult to determine which part of which rand was spent on which project.

A senior capital market dealer says nobody believes the loans will not be repaid.

Such an announcement could knock 20%-25% of their market value. "Who would want them? Investors will want to get rid of them."

LETTERS

It's all sytems go for business indaba

Sowetan 11/9/92 (49)

By Joshua Raboroko

■ VIGOROUS SPIRIT Business will only flourish if SA solves its problems:

A MORE VIGOROUS SPIRIT of entrepreneurship was one of the gateways to the creation of jobs and wealth in Africa.

This was said by the general manager of the World Bank's Africa Project Development Facility, Mr Alexander Keyserlink, on his in South Africa from the United States on Wednesday.

He is the key speaker at the *Sowetan* Business and Entrepreneurial Development Conference which starts at Eskom's Training College in Midrand on Sunday at 6 pm.

Keyserlink, whose subject is Entrepreneurial Development - Lessons from Africa, said the continent had great potential to create wealth and jobs.

"Africa has a challenge to compete against the world because it has many resources which many countries do not have," he added.

He was optimistic that as a new government was created, South Africa would become one of the main contributors to the eradication of poverty and inequality of wealth.

Solved its problems

He stressed that it was important that South Africa solved its problems soon so that it could join the rest of African traders in creating its own version of the European Economy Community.

This, he said, could only be achieved if we cultivated the spirit of entrepreneurship in the continent.

However, he remarked that the immense challenge of the mobilisation of resources and the delicate matching of priorities and available inputs could only be successfully achieved in a predictable political framework.

Keyserlink's career in international finance has taken him to many developing countries in the world and he has worked through transition periods in the Middle East, Asia, Colombia, Venezuela, Guyana and Mexico.

The Africa Project Development Facility, which he is heading, is a project of the Internal Finance Corporation, an arm of the World Bank and the African Development Bank.

Keyserlink is accompanied by AFDF's independent consultant, South African-born Mr Charles Mckudu, now based in Washington. They will be joined on Sunday by another executive, Mr Omarie Issa, based in Harare.

STATE EXPENDITURE (49) FM 11/9/92.

A test of reality

It has been a tradition, over the past decade, for growth in State spending to outstrip the inflation rate. Only in fiscal 1990-1991 was there a drop in real terms — of 1,3%. Substantial savings were made that year in the Defence budget, following the end to the war in Angola, and in an amount set aside to improve conditions of service. Though, nominally, expenditure rose 12,8%, it lagged the inflation rate which, in the 12 months to March 1991, was 14,1%.

Now Finance Minister Derek Keys has laid down guidelines for the 1993-1994 fiscal year which call for a 3% real cut in total expenditure. What this means is that he wants expenditure to rise three percentage points short of the inflation rate.

It is not known what figure will be used as a base. The current year's budgeted expenditure is R100,6bn but, according to the July Absa *Monitor*, actual expenditure is likely to be about R104bn. If the figure given in the March Budget is used for argument's sake, and if Keys were to assume an inflation rate of 12% next year, he would then budget for only a 9% rise in spending — which would put next year's budgeted expenditure at R109bn.

One cannot, of course, extrapolate from the announcement that a 3%-5% cut will be made in the ranks of the civil service. This interpretation was placed on the figures because Keys's announcement came in reply to a question, posed at a press conference last week, on rumoured job reductions.

Keys says expenditure includes transfers, amounting to nearly 40% of the Budget, to TBVC states, the self-governing territories and the provinces. The rest consists of the central government wage and salary bill, cost of purchases, and other transfers such as State pensions, export incentives and university and technikon subventions.

Where the economies are to be made will depend on the heads of department who, Keys explained, have been challenged by the State President to find ways to "come up with productivity improvements which would help them to achieve the real cut in expenditure (of 3% proposed in the Budget guidelines) and which might take us one or two percentage points over 3%."

But, says Finance deputy director-general Estian Calitz, "when calculating the effect on jobs, one must take into account several variables: numbers employed, wage rises and greater efficiencies to improve productivity."

The central government wage and salary bill for 1991, according to the Bulletin of Statistics published by the Central Statistical Service, was R15,3bn (including housing subsidies but excluding pension contributions). If the required cut is applied to all types of expenditure pro rata, and if civil servants who accepted an annual increase of only 9,3% this year would be prepared to settle for a similar arrangement next year, there would be no need for any job reductions. But one must assume the scope for economising in other areas is limited after two years of rationalisation. In that case, staff bill cuts would have to go deeper than 3% to achieve the overall real reduction of 3% — possibly much deeper.

Nedcor Bank chief economist Edward Osborn points out that interest costs on public debt, for which an amount of R16,3bn was budgeted in the current fiscal year, will increase by at least R4bn in 1993-1994. "This then calls for a 6,5% cutback in noninterest costs in real terms, which would be a draconian cut indeed." He doubts if it is possible to implement.

Standard Bank group economist Nico Czypionka is equally sceptical: "I find it difficult to believe that a cut of this magnitude could be achieved out of current expenditure, particularly as interest on government debt is a fixed obligation. I believe government will once again choose softer options by draining fixed investment further." This is despite Keys's statement last week that "we shall have to restrain growth in consumption spending of general government in favour of a much higher rate of fixed investment in new productive capacity."

Staff cuts that do come will not all be involuntary, of course. A spokesman for Keys points out that some will be the result of natural attrition and that there are likely to be many people happy to accept retrenchment packages: anxiety about their fate under a future ANC government may well induce civil servants to take their money and run. (Of course this too will have its costs. If these are incurred in the current year, they will be reflected in even higher interest costs next year.)

Osborn believes the cut will have a negative effect on economic growth. He argues: "Unless there is a really major recovery in international trade, the cutbacks would negate export earnings and any expansion in production because of an improved agricultural season. This would lead to zero growth in GDP in 1993."

"That would impact again on the Budget with revenues rising by 12% at best on this year's level of about R80bn, which will give you R90bn. And with expenditure at best confined to R109,6bn, we will be back with a minimum deficit next year of the order of R20bn. This will provide a huge financing problem and points to a sharp increase in VAT, no fall in company or individual tax and perhaps tax surcharges."

Czypionka, on the other hand, believes spending cuts would have a positive effect on the economy. "It is more beneficial to refrain from putting up taxes than it is to increase public sector spending. The expenditure multiplier that results from tax relief is much greater than the expenditure multiplier that comes from greater government spending."

The argument may be academic. Considering the interest costs, it is difficult to see how the proposed cuts can be implemented.■

NON-RESIDENT TAX FM 11/9/92

Unplanned effects

Some companies with overseas control may find themselves obliged to pay nonresident shareholders' tax (NRST) twice over or even, in extreme situations, more than twice. This could follow from a recent amendment to section 42 of the Income Tax Act. NRST is payable (currently at 15%) by nonresidents — companies as well as individuals — entitled to dividends declared by SA companies.

Kessel Feinstein tax partner Ernest Mazansky says section 42 — as previously worded — based the obligation to pay NRST on the criterion of ordinary residence in the case of individuals and on the place of incorporation in the case of companies.

So any company not incorporated in SA fell into the category of "nonresident" and had to suffer NRST on dividends from SA sources. However, these criteria created problems with certain double tax treaties. To discriminate on the grounds of nationality is outlawed by certain important double tax treaties to which SA is a partner.

The issue was brought to a head by a case in the Income Tax Special Court. A Dutch holding company which had NRST deducted contended successfully that the requirement that it had to pay SA tax, where its SA-incorporated counterpart would have been exempt, was discriminatory and hence barred by the treaty. cont →

ECONOMIC CONCENTRATION

Unchain those hearts

49 FM 11/9/92

Company analyst Robin McGregor finds virtue in unbundling conglomerates

Unbundling means different things to different people. There are three specific areas where it can have different implications — depending on definition.

For the investor, unbundling results in the distribution of investments directly to a conglomerate's shareholders, thereby eliminating holding and pyramid companies. This adds value as it eliminates the cost of multi-tiered control and unlocks value by re-appraising undervalued assets. It focuses management attention on core business.

For management itself, unbundling is the process by which an organisation divides its operations into autonomous units which have maximum independence and are run as separate profit centres. It can be applied equally to a company with 100 employees or to a conglomerate with 40 000 people running 500 different companies. In other words, the "top-down" system of management is replaced by a small "head office" function with many independent units operating either as companies or divisions.

As for the State, the government of the day may decide it is in the interests of the economy and consumers to increase competition. To achieve this, conglomerates could be compelled to divest themselves of operations in industries deemed to be non-competitive. This can be done by using either coercive or incentive measures.

Andersen

The management of the SA economy for the past 40 years has been of secondary importance to both the Verwoerdian ideology of apartheid and the expansion of Afrikaner socialism. Apartheid not only attracted international condemnation and sanctions, but spawned an ever-expanding public sector. This led to such steep increases in private-sector taxation that the all-important profit incentive was seriously eroded.

As a result, the economy sped downhill — rescued spasmodically by rises in the waning gold price.

In the Seventies and early Eighties — unable to invest abroad — cash-flush mining houses had little alternative but to invest in greenfields projects or to expand existing investments; more frequently, they bought existing businesses. Most of these were initially their suppliers, but when this option was exhausted, companies with no relevance to their core businesses became targets as well. Where subsidiary suppliers had excess production to the group's requirements, a captive market was created by buying outlets down the distribution line to the end-consumer.

Thus, SA conglomerates were born.

South Africans are world leaders in mining techniques, mining management, oil from coal technology, etc; but they lag behind in the dynamics of corporate structure.

Godsell finds hope in streets of despair

LINDA ENSOR

CAPE TOWN — There were significant avenues of hope in the streets of despair, Anglo American executive director Bobby Godsell told the annual MBA dinner of Cape Town University's Graduate School of Business last night.

While crime was high, the recession deep and the political conflict ravaging, it was also true that racial desegregation had proceeded "at a bewildering pace and with stunning success".

BDAY 11/9/92.

"Of even greater significance all over SA, individual South Africans are sharing power and responsibility in highly constructive ways," he said.

The workplace was the crucible of the new SA and labour relations was proof that power-sharing could work.

49

Collective bargaining had resulted in agreement — recently in highly responsible agreements, for instance in the gold mining industry where basic increases were under inflation.

Government had abandoned its mismanagement of the economy and Finance Minister Derek Keys had acted "courageously", he said.

focus on **development**

Internationally acclaimed economist Alexander Keyserlingk, who has established 11 000 businesses in Africa, will address *Sowetan*'s Entrepreneurial Development Conference. **Joshua Raboroko** reports: Sowetan 11/9/92

49

Alexander Keyserlingk

AFRICA's economic recovery will largely depend on the rapid and vigorous development of small and medium sized businesses.

These sectors of business are vital to the economic advancement of the continent and especially if it is to compete with the rest of the world.

This is the view of the visiting general manager of the Africa Project Development Facility (APDF), Mr Alexander Keyserlingk.

He is here as one of the speakers at the *Sowetan* Small Business and Entrepreneurial Development Conference to be held at the Eskom Training College in Midrand on Sunday.

The APDF helps entrepreneurs set up business, expand or diversify existing ones, find local or foreign investment partners and secure debt equity finance. But it does not finance projects.

It is a project of the International Finance Corporation, an arm of the World Bank, the United Nations Development Project and the African Development Bank.

Keyserlingk's career in International Finance has taken him to many of the world's developing countries He worked through transition periods in the Middle East, Asia, Columbia, Venezuela, Guyana and Mexico.

Since 1979, his activities have focused on Africa. His experience in managing IFC's Africa investment portfolios and in developing investment proposals prompted *Sowetan* to invite him to the conference.

Born in Oakton Village in the United States 40 years ago, he studied business and economics at various institutions. He has also worked for many companies as a chartered accountant and economic adviser.

He became the APDF general manager in 1986 and believes that Africa's economic recovery will depend on the cultivation of the spirit of entrepreneurship.

"Africa needs more entrepreneurs in order to be able to create job opportunities and wealth," said Keyserlingk.

"The continent will have to address the question of poverty in a more vigorous way."

The APDF has worked on 23 projects in African countries. The projects, which have totalled investment costs of about R144 million, are expected to result in the creation of 2 000 jobs.

In its five years of existence it has worked out 110 projects in various countries resulting in the creation of business opportunities for more than 11 000 people.

"We are on the great track to empower the people to become job creators rather than to depend on hand-outs from others," he said.

He was prepared to help people in the agriculture, manufacturing, hotels and service industries. For the first time, projects in the West and Central Africa outnumbered those in East and Southern Africa.

He noted that African entrepreneurs continued to show the ability to implement and successfully manage a large variety of enterprises despite difficult conditions, including a severe shortage of equity funding in several countries.

The APDF was also doing great work in Asiatic, South Pacific and European countries.

He was optimistic that it would help many disadvantaged people in South Africa as soon as the country resolved its problems.

He stressed that South Africa had great potential to become a world economic leader because it had resources and manpower.

It also stood to get foreign investment. But violence and political instability were stumblingblocks

"We are eager to enter South Africa to develop the spirit of entrepreneurship so that people can create jobs and wealth," he said.

It was essential that South Africa joined the rest of Africa in trade so that they form the United States of Africa.

But, he added, that depended largely on how they co-operated. Businesses were vital to economic development in Africa.

Africa should learn to create its own European Economic Community - a factor that would get the continent out of the dependency syndrome.

Many African countries received loans from overseas and the high interest rates they were expected to pay had resulted in their improverishment.

In order to solve this problem Africans must create businesses, he said, otherwise the continent would remain poor

Winnie Mandela resigns ANC posts

BDay 11/9/92

PATRICK BULGER

WINNIE Mandela — vowing to continue serving her people and country — yesterday resigned her positions in the ANC, saying she had enemies both inside and outside the organisation.

Her decision leaves her as an ordinary member of the ANC.

She announced her resignation from the ANC's national executive committee (NEC), the Women's League NEC and the league's PWV regional executive a week after the NEC had considered a report by two independent lawyers on a demonstration in her support at ANC headquarters earlier this year.

The inquiry, led by Wits University attorney Denis Davis and Durban attorney Linda Zama, re-opened to hear evidence from Mandela after it had been closed. A second report based on her testimony was handed to the NEC last week. Davis could not say what the report contained.

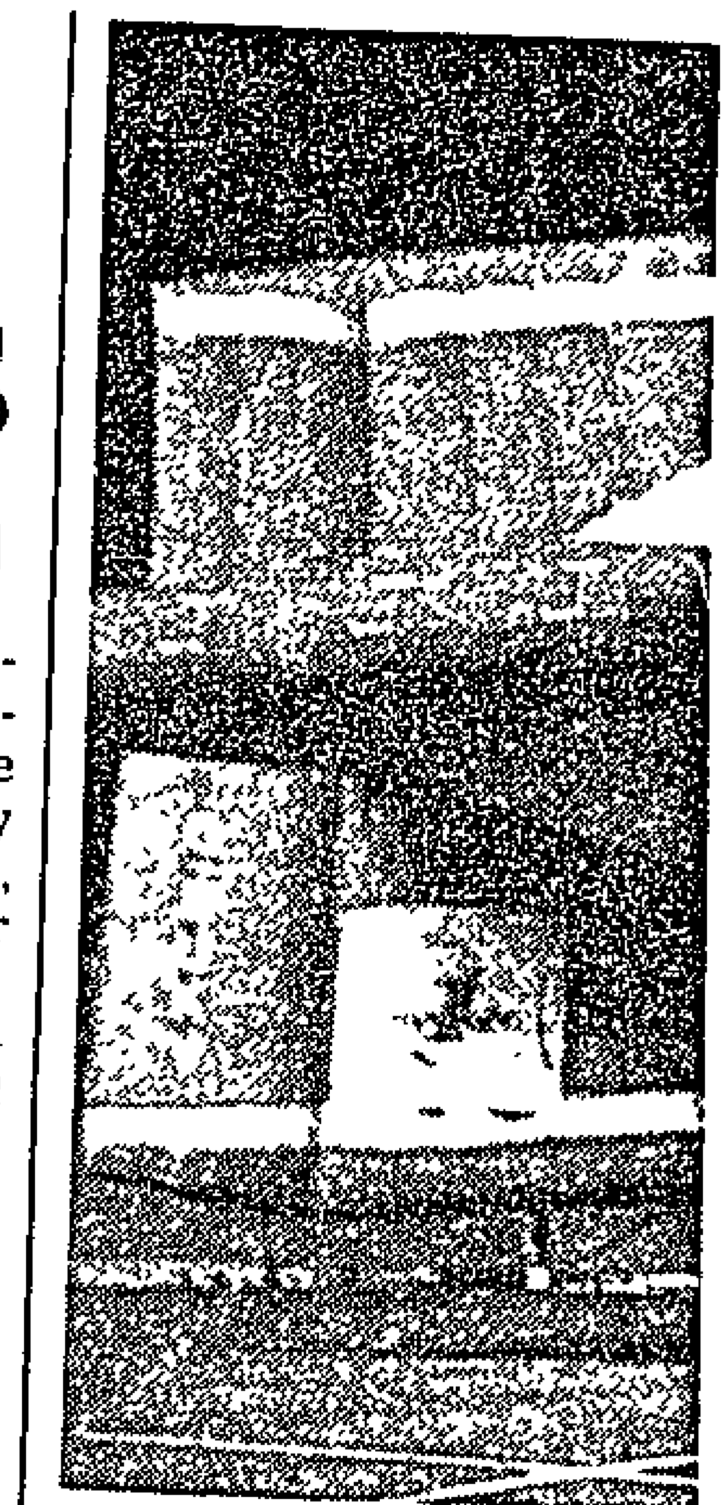
Mandela said yesterday: "The generalised attacks against my person and, through me, my organisation have once again resumed. To my enemies I now neither have a family nor privacy. The intensity and viciousness of these attacks have deeply hurt my daughters, those of my grandchildren old enough to understand, my husband, our relatives and many of our friends inside and outside our country."

She said she was tendering her resignation in the interests of her husband, ANC president Nelson Mandela, and her family.

She appealed for understanding from those who had elected her to her positions.

"This is no selfish move on my part nor lack of appreciation of the mandate you have given me. I have dedicated all my life to the only kind of existence I know: the struggle for my people. I will continue to serve my people and my country relentlessly," she said.

"My support of our liberation movement will never cease. I appeal to all to help us to lead a normal family life."



Sky Ship Marketing MD Jean vertising messages.

ANC disrupts QwaQwa show

BDay 11/9/92

BILLY PADDOCK

THE ANC should stop its disruptive mass action campaigns which were polarising SA society and return to the negotiating table, Deputy Defence Minister Wynand Breytenbach said yesterday.

Opening the QwaQwa National Show in Phuthaditjhaba at which the ANC alliance held its "people's assembly", Breytenbach reiterated government's position that negotiation was the only way to solve the country's problems.

"Mass action has to stop. Violence must come to an end, intimidation must come to an end and those actions which affect the dignity of others must be stopped," he said.

Government's door was open to players, he said. The will and attitude was all that was lacking in the ANC and its ally or boss, the SACP, in trying to get talks back on track. He called on the QwaQwa government to maintain present constitutional structures until new structures had been established and accepted.

"A person does not break down his old house before he has built a new one," he said. Nearly a million people were employed in the agricultural sector and in 1989 they were paid nearly R1,6bn in cash and a further R516m in kind.

He said farmers had to use resources better to prevent the country becoming poorer. QwaQwa owed this not only to its citizens but the whole of SA.

Sapa reports that Breytenbach dismissed the people's assembly protest as a circus. The protest was held alongside the show and noisily competed for the crowd's attention.

The tripartite alliance in QwaQwa protested on Wednesday and yesterday to highlight their call for Chief Minister Dr T K Mopeli to resign, and for the installation of a government of national unity

Early attempts by the SA security police to get the ANC supporters to voluntarily disperse failed. A large contingent of heavily armed SA and QwaQwa police were present. At 4.30pm the ANC supporters marched out of the stadium.

'Economic anarchy'

49

BDay 11/9/92

STEPHANE BOTHMA

GREED and an undermanned and underskilled police force had allowed SA society to slide into economic anarchy, Witwatersrand attorney-general Klaus von Lieres und Wilkau SC, said yesterday.

Addressing delegates at a Johannesburg conference on fraud, Von Lieres said reported economic crimes in SA had increased by 67% from 33 101 cases in 1986 to 55 281 in 1991.

A total of 19 982 fraud dockets with a potential loss of R347bn were currently under investigation. Corporate frauds under investigation involved a potential sum of R374bn.

Von Lieres said policing levels to combat fraud in its various guises on the Witwatersrand were quite inadequate — only 134 officers and men to deal with more than 6 000 cases.

joint venture and

Prof: nationalism different for USSR

By Michael Sparks (49) STAR 11/9/92

The role of ethnic nationalism has played an important, though different, role in South Africa and the Soviet Union, according to Professor Irina Filatova.

Professor Filatova, a historian from Moscow University, was speaking to the SA Institute of International Affairs as the ninth annual Bradlow Fellow at Wits University on Wednesday night.

She explained that in the old Soviet Union, nationalism grew "as a sign of opposition to the faceless oppression of the totalitarian regime". That had not been changed by perestroika, resulting in everyday problems being ignored. This could be seen in the outbreak of ethnic rivalries after the break-up of the Soviet Union into the independent republics.

However, in South Africa, opposition to nationalism grew because it was propagated as government policy. This meant that liberal scholars who opposed apartheid were trying to prove that ethnicity was invented by the National Party for political reasons, she said.

Answering questions about the feasibility of a Boerestaat, Professor Filatova said no nationalism was ever fulfilled without a territory of its own. But no nationalist group was ever satisfied with the territory given, she added.

FM 11/9/92 (49)

BUDGET DEFICIT FM 11/9/92 49

VAT puzzle

Finance Minister Derek Keys has acknowledged what has already become obvious from figures published on State revenue and expenditure flows in the first four months of the fiscal year. The 1992/1993 Budget deficit is likely to amount to 6% of GDP (or, depending on drought damage, more), instead of the budgeted 4,5%.

This shortfall means a deficit of at least R20bn.

Revenue growth has slowed down sharply in recent years, from 24% in 1989/1990 to 13% in 1990/1991 and 10,5% in 1991/1992. It dropped to 5% in the first four months of the present fiscal year, compared with the same period the previous year.

Keys says he has no plans to raise additional revenue. "In my assessment of the economy, any such move would be counterproductive." But, in these circumstances, it does not seem likely that he will be prepared to forgo any budgeted income by extending VAT exemptions in a meaningful way.

However, his comments at a press conference last week (see P33) were ambiguous enough to confuse people.

He said proposals were being studied "with a view to finding common ground on the definition of basic foodstuffs." That led some people to conclude he is considering broader exemptions. On the other hand, he said: "It is not my intention to depart materially from the current practice."

His answer to a direct question on the subject was equally equivocal: "We do not think that an indirect tax like VAT should be allowed to distort the relative prices between products of different sectors of the economy." This leaves room for further exemptions which will not affect an entire sector.

The Budget shortfall will be funded in the bond market which, Keys says, will be able to absorb the addition to the deficit without putting much upward pressure on interest rates because 80% of the original funding programme has been completed. ■

ECONOMIC POLICY FM 11/9/92

Planning push

(49)

Apart from the information on the spending guidelines (see page 33) which may not have been provided if the question had not been posed, last week's press conference with Finance Minister Derek Keys was something of an anti-climax. There had been expectations that the Minister would unveil a plan for the restructuring of the economy.

However, it seems planning is still in the early stages. An "integrated normative model will be assembled and tested for credibility, compatibility and reliability," he said. The model is to provide data on the outcome of various policy moves.

"If this goes well, we should be able to start sharing (the model) with other interested parties during November. This would mean that inputs received during December and January 1993 would be in sufficient time to help shape next year's Budget."

This approach is clearly part of a broader

cont

strategy designed to draw political opponents into decision-making. "I should like to emphasise," said Keys, "that we are in no way engaged in planning the unilateral restructuring of the economy. We want to discuss the possibilities for restructuring against the background of an economic model which provides a realistic indication of what those possibilities could be."

Keys defined government's present and future role in the Economic Forum which, he said, was one natural arena for the discussions. "We see the Forum as primarily concerned with finding areas of consensus between labour and business with the State doing its best to respond positively . . . As confidence is gained on all sides, government's participation could become more direct."

But he made an important proviso: "The Economic Forum occupies a space which exists only when all the participants are committed to the rule of law." He is investigating Cosatu's role in promoting non-compliance with taxation requirements, which could put the organisation's commitment in doubt.

At this stage political progress is pivotal to future prospects. Keys listed four critical issues:

- ☐ Stopping the violence;
- ☐ Getting a representative government in place;
- ☐ Pursuing economic growth; and
- ☐ Tackling underdevelopment.

He is looking at the right issues. Those who delay the negotiating process are serving their own political ends at the cost of future growth. With so many negatives at work in the economic environment, it is crucial that a political settlement be reached soon ■

Do whites have wealth to redistribute?

W|Mail 11/9-17/9/92 (49)

A tax on the assets of millionaires might not raise enough money to rebuild black communities and could merely add to emigration queues, *argues* **REG RUMNEY**

THE idea of a wealth tax won't die. Gordon Young, of the Cape-based Labour Research Services, has once again raised the idea.

In a paper titled *The Price for Apartheid — The Wealth Tax and How It Can Pay for the Re-construction of Black Communities,* Young suggests a five percent tax on all personal wealth over R1-million for a fixed period of 10 years.

At the same time, he dismisses the restoration of prescribed asset requirements to channel some of the billions life assurers control into uplifting the poor. He argues that, among other things, this is a tax on savers. Young also suggests scrapping the tax-free status of pension fund and retirement annuity contributions as a means of raising an extra R5-billion to R8-billion a year.

The starting point of Young's paper is that the mainstream of the business class and many middle-class whites declare they owe nothing to the black community. Blacks will have to pay for what they want, is this approach.

"This is unlikely to move a democratic government. Having used apartheid to protect them on their rapid climb to prosperity, comfortable middle class whites cannot now deny to a new government just those measures of state intervention which they themselves used so successfully until the present day."

South African Chamber of Business chief economist Ben van Rensburg is emphatic that this attitude does not reflect the feeling of business. However, he does say business would be implacably opposed to a punitive tax.

Young also quotes a 1990 statement by Democratic Party leader Zach de Beer, who has been closely associated with business interests, as arguing for a "reparations tax" on the wealthy to provide additional funds for essential services for the poor, such as housing, health and education.

De Beer, while not repudiating his words, says he was definitely not advocating a tax on assets.

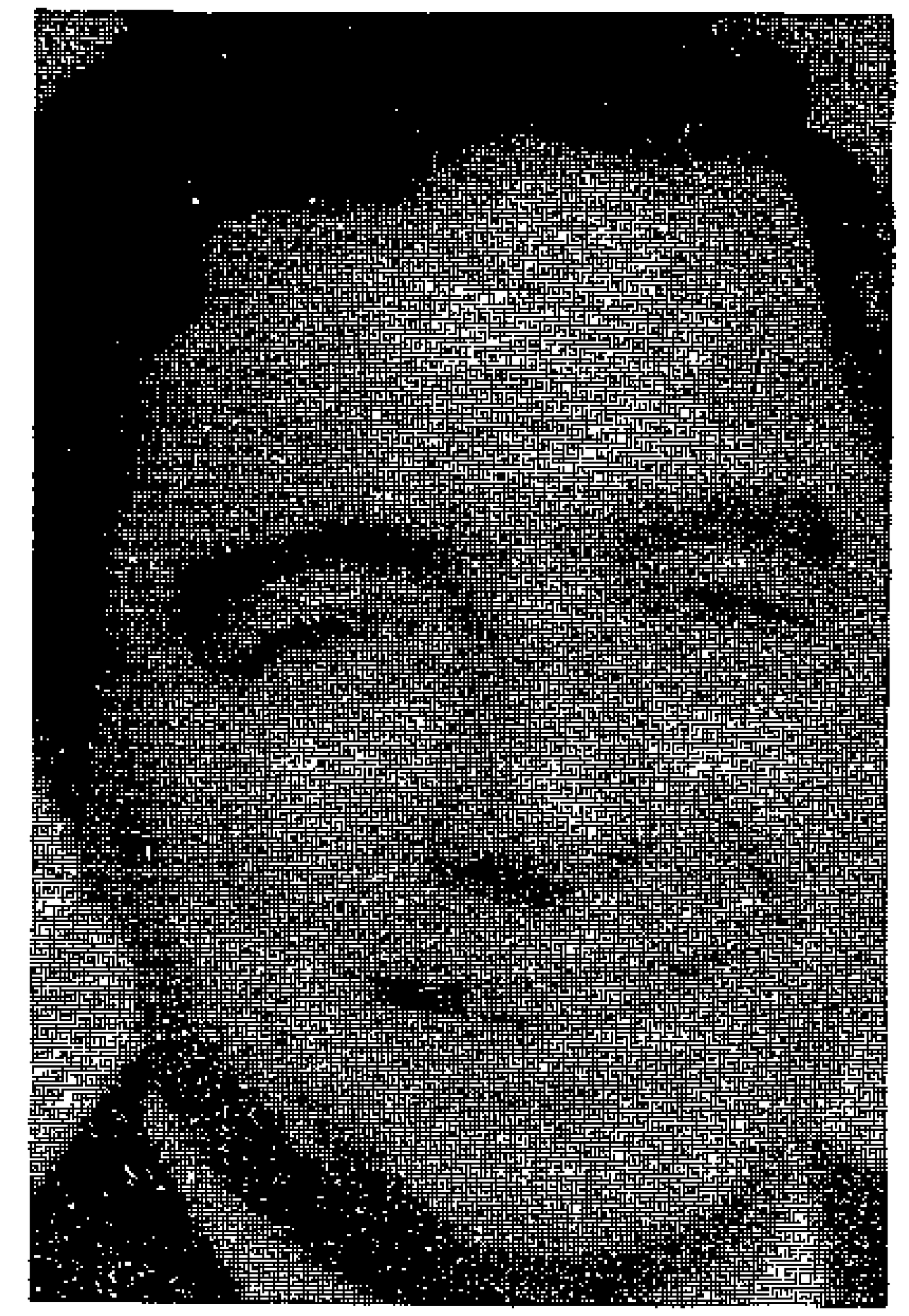
"The second strategy," Young writes, "calls for the restoration of prescribed assets. According to this school of thought there are vast unused billions standing idle in the coffers of the financial institutions. These must now be compulsorily be invested — at low or zero rates of return."

The good deal of Young's paper is devoted to showing why this route is wrong. Anyone with life assurance investments — a sizable part of the population — will probably agree with him.

The third strategy is to impose a tax of, say, five percent a year over a fixed period of, say, 10 years on all personal wealth over R1-million.

"This would raise enough to rebuild black communities. And it would constitute a cleaning of the slate for the economic crimes of apartheid."

University of the Western Cape



Zach de Beer ... Don't tax assets

(UWC) economist Lieb Loots points out, in relation to the scrapping of tax concessions on pension fund contributions, that the overall tax burden is important.

Loots believes South Africa is at the point where further tax will be counter-productive, leading to an erosion of tax morality and lower rather than higher tax revenue. He reminds us that only 11 percent of the economically active population pay tax.

Van Rensburg even contends that whites are overtaxed. "A wealth tax is not as straightforward as personal income tax, and personal income tax in itself is not straightforward."

Young's paper calls for a dispassionate examination of the wealth tax. But the language is emotive. "By means of apartheid, a large number of people were able to obtain vast wealth because of the pigmentation of their skin. With all the might of the state, the law, and institutions of every kind, not least the police and armed forces, they created an environment favourable to the acquisition of wealth by themselves. Blacks were, however, excluded from this system, except to serve it in a menial capacity."

There is more in the same vein, but take that paragraph as an instance. While it is true in broad respects, few whites will agree they have "vast wealth".

Wealthy they are, but only in relation to the dire poverty of most blacks. This makes a difference. Were whites vastly wealthy in world terms — and numerous — there would be a much greater surplus to redistribute and make a difference.

In July 1991 Market Research Africa found that one in every five urban white adults has a net worth of less than R10 000, and over half the white urban population has net assets under R100 000. Only 1,7 percent were rand millionaires.

Gradually impoverished by the declining economy most whites feel a lot poorer than they were. They are, for two reasons. Firstly, there has already been a shift in income away from whites towards blacks in formal employment. Charles Simkins, in his income distribution model, found that between 1985 and 1990 white real per capita incomes declined while black per capita income rose.

Finally, is the wealth tax redistributive justice, or retributive justice, a punishment for whites, or a means of redistributing wealth?

Young appears to think they are the same thing. "The wealth tax proposed here is not intended to raise revenue. It has the objective of re-distributing wealth, in particular the ill-gotten gains of apartheid."

If redistributing wealth doesn't improve the lot of the have-nots, it has little purpose other than to give pain to the haves. It seems a curiously puritan notion, and not one exactly designed to glue a fragile nation together.

Tough times ahead as we all get poorer

STAR 12/9/92. (49)

AS SOUTH Africans continue to feel the pinch of the recession, the bad news is that it's not going to get any better in the immediate future. In fact, 1992 is likely to end up as one of the worst years for economic growth. MAGNUS HEYSTEK analyses the predicament SA finds itself in.

No end in sight to doom and gloom

MOST South Africans got a little poorer this week. As they did the week before and the week before that as well. And chances are that they will get a little poorer next week as well.

The year 1992 is likely to end up as one of the worst years for most South Africans in terms of economic growth, declines in wealth and standard of living since World War 2.

And the outlook is not likely to change before several positive factors fall into place.

This week's wholesale sell-off of South African shares by foreign investors in the wake of the Bisho shootings further underlined the fragile investors' mood on the JSE.

Dramatic

Since peaking early in June this year the three main indices on the JSE have recorded dramatic falls The overall market has declined nearly 20 percent, the industrial index by more than 15 percent, and the gold market 26 percent to a seven-year low this week.

After initially being fairly guarded about the nature of the decline on the JSE, analysts are now openly describing the current bout of weakness on the JSE as a full-scale bear market

Unit trust investors have also borne the brunt of declining capital values, with most funds mirroring, to a lesser or larger extent, the downwards spiral in share values.

The other investment area that traditionally has served to protect one's capital against inflation, the property market, is also now feeling the cold winds of the international recession blowing throughout the Western world.

While property values have not started declining in both nominal and real terms as is happening in most other Western countries, notably the United Kingdom and United States, turnover levels in the industry have dropped by more than 30 percent.

While the lower and medium ends of the residential property market have kept up reasonably well, the top end of the market has been badly bruised by a combination of financial pressure on the owners as well as lack of political confidence in the country's future.

Events this week have done nothing to boost the flagging political morale of large sectors of South African society, mainly white.

While cash might create a feeling of flushness, it certainly offers no protection against inflation and taxation.

But for the time being, it is in many cases the only option.

With the latest decrease in interest rates, savers with less than R50 000 now get a paltry 9,5 percent on average.

Other types of instruments offer higher rates but in the retail market the highest rates generally on offer are not much higher than 13 percent.

Against an inflation rate of 15 percent it stands to reason that capital values are under pressure here too.

For most average working people, salary and wage increases this year are likely to be below the inflation rate — in some cases as much as 8 percent lower.

In addition, many thousands of people have either been retrenched or retired prematurely. This adds to the air of doom and gloom and also reduces the disposable income in the economy as a whole

Internationally, South Africans are steadily getting poorer in line with the decline of the rand against all major currencies, especially non-dollar currencies.

This has had a catastrophic effect on the purchasing power of the rand, particularly in European countries.

For both traveller and businessman this means that more and more rands are needed for the purchase of goods and services.

Last week the rand dropped to record lows against most European currencies, notably the pound, German mark and French franc.

At R5,50 to the British pound, the rand today is worth only 18p. Not many years ago the rand was worth the same as a pound.

Poverty

Against the US dollar the rand has been relatively steady, but only as a result of the sharp decline of the dollar against other major currencies.

The latest political developments have done nothing to offer hope for a turnaround in this precipitous slide into poverty.

In fact, it has added further momentum to it

Being in Germany and Austria at around the time of the Bisho massacre, I had first-hand experience of the reaction of top businessmen to the bad news. And, I'm afraid to say, the bad news was not conducive to further investments in South Africa.

At this stage, top companies like BMW have no intention of pulling out of South Africa, but before the political climate improves there is no chance of further investments here.

This makes us all poorer in the long run.

'Recovery next year' — Stals

(49) CT 12/9/92

PRETORIA. — SA's economy, mired in its longest recession in 80 years, should stage some recovery next year but such hopes depend on politics and rain, Reserve Bank Governor Chris Stals said yesterday.

He said that prospects for renewed growth depended on greater political and social stability and a break in the worst drought this century.

"We still believe 1993 will give us positive growth, but nothing to get excited about," he said.

The recession, lasting more than three years so far, ranks as the second longest this century and there was a risk it could drag on longer than that of 1904-8 if political turmoil and violence persisted.

"It can, certainly, if the political situation should continue to deteriorate," Stals said.

"If this should become the pattern...then it's going to be very difficult to get economic recovery."

He was speaking shortly before President FW De Klerk welcomed ANC leader Nelson Mandela's conditional acceptance of his proposal for a summit on political violence.

Stals made no detailed forecast for the year, but said: "It will be the biggest decline in the GDP that we've had so far in the recession. There's no doubt about that."

The bank blamed the deepening recession on a slower than expected recovery in major industrialised economies, the drought, disappointing progress in democracy talks, violence, and a decline in investor and consumer confidence.

Stals, who is due to attend the annual meeting of the IMF and World Bank in Washington this month, and is likely to meet with South African creditors there, said he hoped the political situation would have improved by the time talks are held next year on rescheduling national debt.

The bank hopes for a final rescheduling agreement on the affected debt, paving the way for a return to normal ties, but Stals said this was no major concern to him or creditors.

"If the political situation is still as bad as it is now, then it may not be possible to come to a final, conclusive arrangement. But that's not the end of the world," he said. — Reuter

Hopes for upswing are on hold

STAR 12/9/92

WITH commodity prices low, an export-led upturn in the economy is unlikely before 1994.

(49)

AN EXPORT-led upswing in the local economy seems highly unlikely in the next 12 to 18 months, Santam Limited investments general manager Roy Justus says in his quarterly economic review

The depressed world economy is likely to remain flat for the rest of this year and most of 1993, he says Any hopes of an upward movement in the world economy stimulating the South African economy are unlikely to be realised until 1994, making the current depression in South Africa the longest this century.

"Most people are waiting for the United States to lead the economic upturn but in spite of the coming presidential election -- ahead of which an upturn might be expected -- the American economic indicators remain fairly neutral The United States is paying for its 'sins' of the 1980s, and is going through a rebalancing of the situation in many ways not unlike South Africa

"The United Kingdom would like to move into an upturn but is held back to a large extent by the rest of Europe, especially Germany, which is afraid of inflation In a determined effort to contain inflation Germany recently pushed up interest rates, and that won't stimulate Europe's economy A further rise in interest rates in the United Kingdom cannot be ruled out Japan's economy is also flat, with low demand and the banks facing problems in the form of asset deflation.

"With a world situation like this, virtually all commodity prices will remain low. You cannot have an export-led upturn in South Africa if commodity prices remain at the bottom"

Justus points out that unemployment is an international problem, and says the world is suffering a mild crisis of confidence He does not see a change for the better until this attitude is neutralised and people get money into their pockets

Difficult to visualise

On the local scene not much change is forecast in the rate of inflation When the effect of the original imposition of VAT moves out of the calculations, the inflation rate might sag a little but will remain at an unacceptably high level, he says.

It is difficult to visualise an inflation rate of less than 12 percent, particularly because -- apart from other aspects -- the effects of the drought will be felt for some time to come.

"Rates of interest will remain under downward pressure and we might see a further reduction of 1 percent during the next 12 months."

Justus says that the lack of investor confidence means that there will be no significant investment expenditure and hence no new formal job creation Even with a substantial improvement in the political situation, some time will elapse before fixed capital investment becomes a reality

The South African economy cannot stimulate itself because people are not spending money. This is because they have no spare money, are worried about the uncertainties in the country, have no jobs or are afraid of losing their jobs. This attitude of uncertainty is likely to continue for at least the next 12 to 18 months The outlook for 1993 is rather gloomy, with a zero economic growth rate likely

"Against this background, share prices on the JSE still look high in relation to prospects for the short to medium term. We are faced with the situation where negative interest rates apply -- interest rates at about 13 to 14 percent are below the inflation rate of around 15 percent In spite of this it seems reasonable for investors to remain fairly liquid, with 35 to 40 percent of funds in cash."

Bleak time for Southern Africa

(49) NRG 12/9/92

Africa needs to pursue more vigorous adjustment policies, in particular those that lay the foundation for growth led by the private sector.

HUGH ROBERTON, Weekend Argus Foreign Service

WASHINGTON. — Economic prospects for sub-Saharan Africa will remain below those of other developing regions in the world for the rest of the 1990s, the International Finance Corporation — the private enterprise arm of the World Bank — predicted in its annual report.

The increase in total output would be only slightly higher than the population growth "and this would be insufficient to reverse the decade-long stagnation in per capita incomes," the report said.

"African countries need to pursue more vigorous adjustment policies, in particular those that lay the foundation for growth led by the private sector. Private investment still accounts for a very small share of gross domestic product in sub-Saharan Africa. For a sample of countries in the region, in 1990 private investment accounted for only 9 percent of GDP, well below the levels found in other developing regions."

There had been some modest improvement in private investment levels, however and it was now at its highest level since 1982. The report adds: "Private investment has increased more rapidly in countries that have implemented intensive adjustment programmes.

celerated pace."

The report noted that while most

"In view of the low levels of domestic private investment, greater efforts need to be made to attract foreign investment. Sub-Saharan Africa has traditionally benefited from substantial direct investment by European companies.

"To avoid the possible diversion of European investment flows to other regions, in particular Eastern Europe and the former Soviet republics, the investment climate in sub-Saharan Africa will need to improve at an ac-

countries in the region were liberalising their economies and providing incentives to attract greater private sector activity, and were also undertaking political reforms, this process paradoxically contributed in the short-term to a climate of uncertainty.

In addition to this, most countries still were struggling with problems that hampered economic development, such as unsustainable internal and external imbalances, heavy debt burdens and weak financial and physical infrastructures. In Southern Africa the drought had made conditions even more difficult.

"In light of these problems, the climate for private investment remains difficult. Moreover, increased private sector investment will come only after the economic adjustment process begins to bear fruit," the report said.

No roads lead to paradise

South 12/9 - 16/9/92.

Some economists urge South Africa to move towards an outward-looking economy, while others want it to redistribute wealth as a route to growth. A visiting Egyptian economist discussed the options with **LYNDA LOXTON:**

(49)

SOUTH Africa should not expect miracles from any new economic order. This is the warning from Egyptian economist Dr Samir Amin, who recently visited Cape Town as a guest of the Centre for Southern African Studies at the University of the Western Cape.

He said in an interview that for the 40 years under apartheid the economy had been dominated by the state's a failed strategy to build an export-orientated economy with some import substitution for the benefit of the white minority.

The state had visions of being a sub-imperial power, an industrial exporter in Africa competing on a global level. It hoped to achieve this through the super-exploitation of labour.

The approach, however, failed as the struggle against apartheid intensified and labour unions gained more power. As a result, the mainspring of the South African economy remained raw material exports, which have not been enough to ensure sustained growth.

South Africa is now at the crossroads and being urged by two sides to consider which way forward, argued Amin.

He touched on the widely-debated issue of whether there should be redistribution through growth, or growth through redistribution.

Progressives favoured growth through redistribution because the need for redistribution is so fundamental, any other approach is reactionary and superficial.

But such an option will require a strong majority on the left of the new government — and an immediate start to the restructuring of the productive system, said Amin.

Care would have to be taken, however, to ensure that what redistribution did take place did not benefit only organised labour in the formal sector, but also the rural areas, including the present "homelands".

This would require extensive land reform, wide support for small farmers and the decentralisation of small industries.

The result, however, would be only slow growth — "there will be no miracle". This is mainly because of social and economic difficulties involved in structural change. A strong popular alliance of the various parties in the country would be needed to reconcile conflicting interests.

Amin criticised an alternative strategy which stresses the need for South Africa to become a global competitor, and be more outward orientated. This pays lip-service to redistribution, makes concessions to organised labour but really aims at a gradual weakening of progressive forces on the principle of divide and rule, he said.

Not only would this approach weaken the position of the working class, but it was built on the illusion that the economy could quickly be shifted into the export mode and therefore fast growth. In fact, becoming competitive took a long time, and had not even been achieved in the era of apartheid's cheap labour.

Most importantly, export-orientated growth strategies needed to be backed up by international finance/investment — and there was no guarantee that this would be forthcoming.

Amin said South Africa's poor export record so far would not attract investors, while the end of the Cold War meant it was no longer a "strategic" market important to support.

In either strategy it was clear there is no easy road ahead for the South African economy or the working class. Achievements would be modest and no one should expect — or predict — "paradise" once apartheid ended.

Amin agreed that heightened expectations might tempt a new government to adopt populist economic policies to win votes or remain in power. But the experience of countries like Tanzania showed populist policies did not benefit the majority in the long run.

Of the two strategies, Amin believed the growth/redistribution path would be best suited to South Africa as long as it was implemented modestly, although decisively.

Nationalisation, if attempted, should not lead to merely a change from private to state ownership, but also to a real involvement of workers in running the enterprises involved.

Samir Amin

Banks, civics join forces

South 12/9 - 16/9/92

BANKERS are traditionally hard-headed and conservative but are learning to unbend in South Africa.

They are not necessarily undergoing a radical transformation, but realising they will be hit hard where it hurts most — their pockets — if there is not a lot more give-and-take in their relationship with, particularly, civic organisations.

Some banks have had small business units for some time to broaden their outreach and lessen criticism that they are for "big business only".

But this has not helped them reach grassroots communities. There, complaints are common that people have not been able to get loans because of a lack of collateral and general discrimination by banks against black people, especially women.

This has affected the ability of many township residents to buy or build houses or start businesses. The lack of banking facilities in townships has also been a bugbear, although violence has undoubtedly played a part in keeping banks away.

It is no wonder, then, that the South African National Civic Organisation (SANCO) this year started making noises about banks as legitimate targets of mass action, including a possible bond boycott.

This, and militant statements issued by SANCO president Moses Mayekiso, has resulted in a steady war of words between SANCO and the Mortgage Lender's Association (MLA).

But last week SANCO reached what it called an "historic and pioneering agreement" with the Perm which could pave the way for peace with MLA and avoid the bond boycott, which has in any case received only little support.

SANCO and the Perm have joined forces to initiate socio-economic development programmes, housing development programmes and home-loan schemes to make it easier for people to get loans.

The details are still being worked out, but SANCO hopes it will open the way for the development of a code of conduct to make banks more receptive to linking up to grassroots community needs.

Lynda Loxton

The future comes in small packages

(49)

South 12/9 - 16/9/92

IMAGINE a world where you can use a computer to design the car you want and have it delivered six days later. Or where a camera is so small it can pass through a blood vessel.

That world exists in Japan today, thanks to micro-electronics, and it is changing the way people think and work, and the way raw materials are being used.

Developing countries such as South Africa cannot afford to be left behind, says the Anglo American team.

Micro-electronics lead to the automation of production and the elimination of unskilled jobs — the top 500 companies in the United States have axed 3,5 million jobs over the last 10 years.

Where do these workers go? They go into the small business and informal sector. About 50 percent of Americans now work in businesses of less than 200 people. Six out of seven Japanese work in small businesses and 95 percent of the jobs being created in the world today are in small business and the informal sector.

With the help of big business, which can share its ideas and skills, small businesses can be a dynamic force in the economy.

So, instead of large groups of unskilled workers, these countries now have small clusters of highly-skilled people.

Technology is also making transport and communications cheaper, taking it to the masses. It is rejuvenating old and tired industries such as steel mills by making them smaller, more affordable and less polluting.

It is helping to conserve energy and protect the environment from dangerous emissions. In developing countries, it could help stop the felling of trees by people desperate for firewood by providing them with an alternative source of cheap energy.

The golden rules of winning

South 12/9 - 16/9/92

(49)

TO BECOME a winning nation, a country needs to pay attention to education, its work ethic, a high savings rate, a dual market economy, social harmony and being a global player.

Education

The most educated countries are the most successful — and the most successful country in the world today is Japan because its education system has been specifically designed for its social and economic needs.

Japanese schoolchildren win all major maths and science olympiads and are generally a year or two ahead of their American counterparts.

Work ethic

You have to work hard to win. To allow people to work hard and make the most of their potential, four things are needed:

- Small government — the less government interferes in the lives of citizens, the better.

Government does have a role to play in education, health, law and order, infrastructure and fiscal policy. But it should leave people to use their innovation and creativity.

- Low income tax — people work harder if they can keep most of their money.
- A sound family system — "Latch key" children with no guidance and support from a family are more likely to land in jail than make a useful contribution to society.
- Clean government — Government corruption demoralises and demotivates working people.

High savings

If people do not save, a country cannot invest in the future.

Dual market economy

A country needs big business with high technology and financial resources to undertake big projects and compete with other giants in the world.

It also needs a thriving small business and informal sector to create jobs. High technology might make life easier, but means less jobs as machines do more work.

Social harmony

A winning nation is not possible if half of the country is trying to kill the other half. A country needs a sense of social justice so people feel they are being treated fairly and can get along with each other.

Being a global player

A country needs to use natural assets to make things to sell in the world market, not things for the local market that someone else can make better and cheaper elsewhere.

"You must regard the world economy as your oyster. Outward looking economies grow three times faster than inward looking economies," according to a recent World Bank survey.

And the reason is simple, says Clem Sunter.

"When you are outward looking, you are taking advantage of your strengths to export to the rest of the world.

"When you are inward looking, you are producing some products that someone else can produce more effectively than you can."

SA: the world in miniature

South 12/9 - 16/9/92

(49)

A NEGOTIATED political settlement is vital to South Africa's future — but that future will depend on what happens both within and outside the country.

The High and Low Road scenarios mapped out in other articles in this week's focus on scenario planning, point to what could happen in the world as a whole and how we, as a developing country, could be affected.

But those scenarios apply equally well to South Africa and to every company and community here.

Scenario team leader Mr Clem Sunter said South Africa was a microcosm of the world.

"We have the rich old millions here and the poor young billions — the ratio is exactly the same, 15 percent to 85 percent," he said.

Sunter believes that the High Road scenario could be realised in South Africa because it has four great strengths:

1. Infrastructure

South Africa has the best infrastructure of any developing country. But this infrastructure — electricity, for example — must be extended to all areas of the country, particularly the disadvantaged communities.

2. Mineral resources

After 100 years of mining, South Africa is rich in minerals and metals. But what it has to do now is go downstream — add value, turn minerals and metals into semi-manufactured or manufactured goods.

3. Natural beauty

South Africa could become the number one tourist attraction in the southern hemisphere if it plays its cards right. But it must focus on ecologically sensitive tourists, not British yobbos.

4. Its people

South Africa is a nation of entrepreneurs and there are thousands of small businesses opening up now that the economy is being deregulated.

"With those strengths, we think it is entirely plausible that we can grow South Africa's economy at 10 percent a year. But there is one key that is needed to unlock the potential — and that is a negotiated political settlement followed by fast economic growth," said Sunter.

"There is no example of a country making a successful transition to a democratic society without high economic growth — and the current example of the Soviet Union bears that out."

The low road is where none of this happens. "The politicians don't agree. They don't negotiate or the negotiations break down because of disagreements.

"It is where the economy stumbles along at one to two percent growth a year, declining income per head, civil unrest, people scrabbling for the limited resources of the country — and finally we descend into a wasteland," said Sunter.

He added that he did not believe that the country would be saved by a "black or white messiah."

"It is going to be saved because we turn ordinary people into champions. Modern leadership is about supporting people, bringing out the best in them, liberating their spirit, making them leaders themselves."

There was a long tradition of entrepreneurship in this country that had to be fostered.

'Third World can increase income'

(49)

South 12/9/-16/9/92

THE High Road scenario is plausible for the world's overpopulated, badly-governed, developing countries.

According to Clem Sunter, this is because, with the help of new technologies, it is getting easier for economies to grow quickly in shorter periods of time.

"The doubling time for real income per head in the world is falling dramatically," said Sunter,

"It took Britain 60 years after 1760 to double its real income per head. It took America 40 years after 1840 to do the same. It took South Korea only 11 years to double its income after 1966 and, with modern technology, one could shorten the doubling time even more."

This is particularly so, he said, because most developing countries start from a low base "and you could easily grow your economy fast from a low base. Taiwan has done it for 40 years, South Korea for 30 years and the coastal regions of China for 10 years."

But developing countries should not be given free handouts to help them stimulate growth. They should be provided with access to technology instead.

"Where money is forthcoming, it should be from eager investors. Let developing countries compete for the capital of the world because in that way the poor young billions end up being better governed. The IMF and World Bank should only lend money to countries clearly dedicated to becoming winning nations.

"Pure aid should be restricted to real hardships like earthquakes, floods and famine, and for the provision of infrastructure such as hospitals, schools and housing."

The West and Japan should lift trade barriers to developing country exports, especially agricultural exports "because that is one thing that the Third World can provide competitively to the First World".

Scenario Plans

S.A.'s ? FUTURE

losers must learn to win

A question of global survival

Great and rapid change in the world during the last decade has led to the greatest divide ever between rich and poor nations with possible catastrophic consequences. In the third of a four-part series, financial journalist **Lynda Loxton** looks at the options predicted in a scenario plan by an Anglo American Corporation:

South. 12/9 - . 16/9/92 (49)

Keeping future shock down

(49) South 12/9 - 16/9/92.

HEADED by Mr Clem Sunter, Anglo American's scenario team acts as the company's "radar system", scanning the future business environment for surprises and pitfalls and sensitising management to change.

"Every company has a certain resistance to change," says Sunter. "It's a natural human condition. Scenario planning is there to lower that resistance by stretching the imagination. It is therefore a very useful process since change in any form — economic, political or technological — can make or break a company."

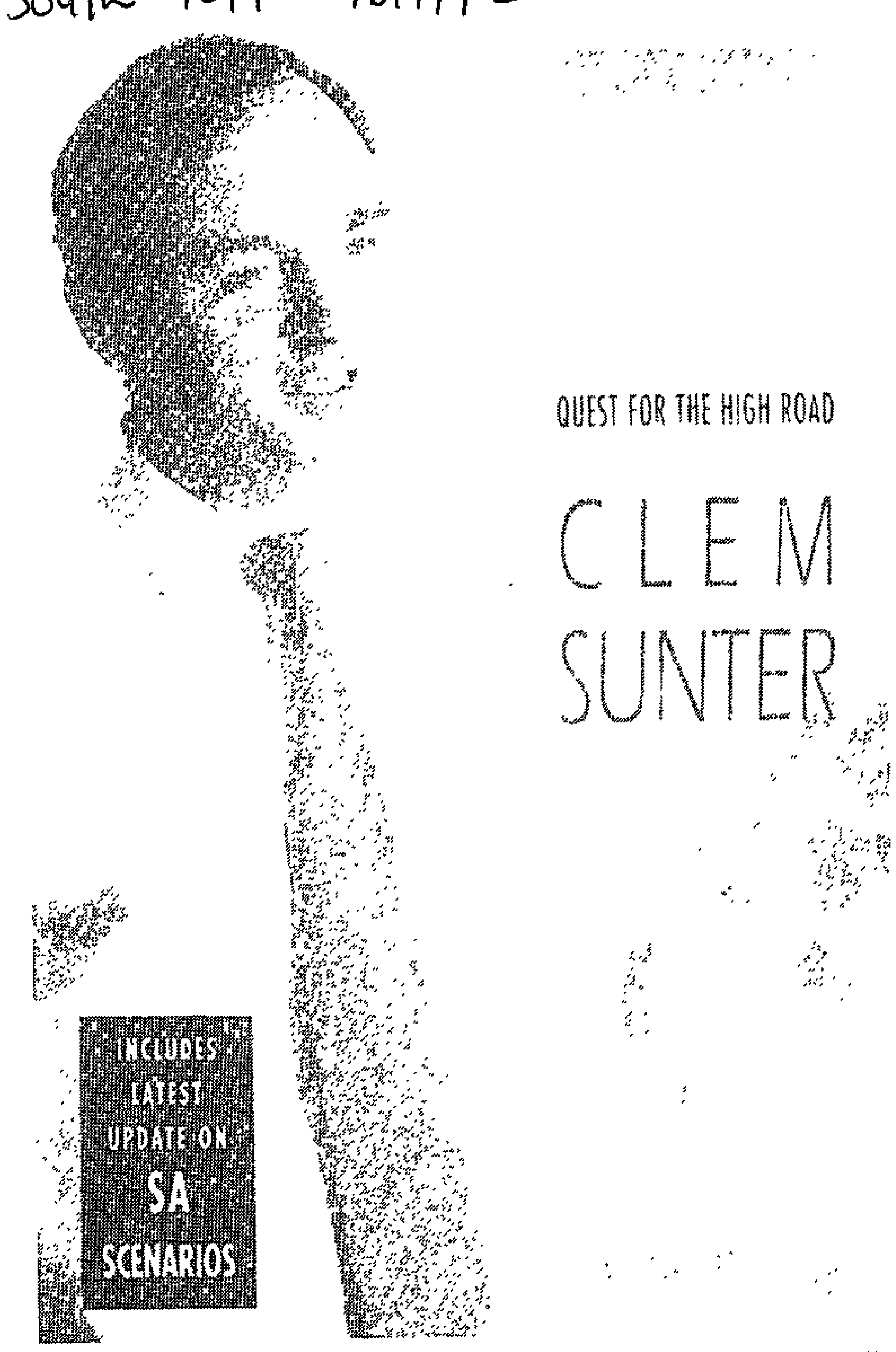
The first Anglo scenario was developed in 1985 and has been constantly updated since. The book and video on the scenarios have been read and seen by thousands, including government and liberation movement leaders.

The scenarios have been uncannily accurate — they forecast the disintegration of the Soviet Union 21 months before it took place — and, even if you don't agree with with some of the values in the scenarios, they contain a great deal of food for thought.

Sunter says the scenarios are based on sets of certainties and uncertainties about the future.

For example, it is likely that no matter what happens in the future, nations will still be around and will still be fighting one another. There will be money in circulation and people will be trading with each other.

The Anglo team took four things as certain — continued population growth in poor countries, the revolutionary impact of technology on society, the shift of values from crude materialism to a more balanced approach to life, and the unchanging characteristics of a winning nation.



When looking at uncertainties about the future, it realised these could include the effect of Aids on population growth, what fundamentalist Islam could do to geopolitics, and what changes in the global climate could do to agriculture.

In the end, however, it realise[d] that perhaps the greatest decidin[g] factor in the future would b[e] whether rich nations "will rise t[o] the challenge of assisting the poo[r] to become winners in their ow[n] right, or will they turn their back?"

The articles on this spread loo[k] at various possible answers to thi[s] question.

Our last chance to save the world

(49) South 12/9 - 16/9/92.

THE PRESENT generation is the last which will be able to avert global disaster, says Mr Clem Sunter, head of Anglo American's scenario team.

Sunter says the late eighties and early nineties saw such great and rapid change in the world that the scenario team called the period the "second reformation". In the first reformation, which began in 1517, Martin Luther revolutionised European thinking.

"This time the revolution is all about the collapse of Marxism and the move towards free markets — taking power away from the state and handing it back to the people," says Sunter.

But, at the same time, the divide between the north ("the rich old millions") and the south ("the poor young billions") has grown and the world has reached a crossroads.

It could take the "High Road" to growth and prosperity or the "Low Road" to poverty, violence and despair.

The High Road would mean the "rich old millions" sharing ideas and technology with the "poor young billions", investing in developing countries, opening world trade, clamping down on the arms trade to ensure peace and taking greater care of the environment.

The team does not think increased aid or loans to developing countries would make much difference — "It is much better to teach a man to fish that to give him a fish."

But if the rich north turns its back on the south, chaos, poverty and misery as well as ecological destruction on an unprecedented scale would follow.

This could happen because the Triad countries (America, Europe and Japan) are too busy fighting among themselves over trade and other issues, or because their internal social and economic problems makes them too weak to help the rest of the world, or because they just don't care.

"The third option is the rea[l] option. You talk to the averag[e] American, European or Japanese They're not really interested in th[e] rest of the world.

"We are the first generation tha[t] can irreversibly transform th[e] planet for the worst. We are th[e] last generation that can avert dis[-]aster. We are not at the end o[f] history, as some people believe, w[e] are at the beginning of a ne[w] chapter."

Why this almost apocalypti[c] approach?

Sunter says that after 20 years of almost uninterrupte[d] progress, the rich nations ca[n] no longer count on progres[s] continuing.

"There is too much povert[y] around which can drag the wh[ole] system down. The poverty eve[n] exists within rich nations.

"Worse still, education — th[e] passport to progress — has bee[n] deteriorating in some of tho[se] nations too, particularly in Brit[ain] and America."

The first step to ensuring t[he] High Road is chosen is to get gov[-]ernments to accept they can an[d] should play a limited role.

"The main force which wi[ll] close the gap between rich an[d] poor is the natural desire of mo[st] human beings to uplift themselv[es] given half a chance."

... and how we got here

South 12/9-16/9/92. (49)

THE WORLD is at a crossroads because nations have not been following the "rules of the game", says Anglo.

- The first rule is population. The team divided the world's population into two parts — the rich old millions and the poor young billions. The rich old millions live in what has been called the Triad — Western Europe, Japan and North America.

They earn 70 percent of the world's income and make up only 15 percent of the world's population.

Because they are well-off, they have fewer children. And when you have a static or declining population, there are more middle-aged or old people than young ones.

The Triad members are also creating strong regional markets in their areas, moving towards a common market, and tending to prevent trade from outside wherever they can.

The poor young billions, because they are poor, have more children — the world population is growing at the rate of about a billion every 12 years. As a result about half the population of developing countries is under 15 years old.

- The second rule of the game is technology, which has changed rapidly during the 20th century.

Micro-electronics and bio-technology are revolutionising production, transport and communications, health and even how we look after the environment.

The rich north has access to this technology, the poor south does not.

- The third rule is values. The way people think changes society.

There are two ways people have not changed.

The desire to kill is still there and there are more sophisticated and deadly weapons these days, and strict arms control and gun control have become essential to halt mass killings we see on TV daily.

Another thing that has not changed is the desire for roots — nationalism, language, culture and religion are very strong life forces. The question is how to accommodate these, not eliminate them.

But one change has been "the general move away from ideology towards systems that work. People are no longer duped by single ideas, by ideology peddled by ideologues.

They are looking for something more sophisticated . . . a mixture of opposites like the ancient Chinese philosophy of yin and yang — the yin of good, the yang of evil: the yin of generosity, the yang of selfishness: the yin of justice, the yang of mercy. In other words, life has qualities and antiqualities.

"So you have to get used to this mixture of opposites," he says.

- The fourth rule of the game concerns winners and losers — what countries do to ensure they are winners. Too many countries are losers.

No roads lead to paradise

South 12/9 - 16/9/92.

Some economists urge South Africa to move towards an outward-looking economy, while others want it to redistribute wealth as a route to growth. A visiting Egyptian economist discussed the options with **LYNDA LOXTON:**

(49)

SOUTH Africa should not expect miracles from any new economic order. This is the warning from Egyptian economist Dr Samir Amin, who recently visited Cape Town as a guest of the Centre for Southern African Studies at the University of the Western Cape.

He said in an interview that for the 40 years under apartheid the economy had been dominated by the state's a failed strategy to build an export-orientated economy with some import substitution for the benefit of the white minority.

The state had visions of being a sub-imperial power, an industrial exporter in Africa competing on a global level. It hoped to achieve this through the super-exploitation of labour.

The approach, however, failed as the struggle against apartheid intensified and labour unions gained more power. As a result, the mainspring of the South African economy remained raw material exports, which have not been enough to ensure sustained growth.

South Africa is now at the crossroads and being urged by two sides to consider which way forward, argued Amin.

He touched on the widely-debated issue of whether there should be redistribution through growth, or growth through redistribution.

Progressives favoured growth through redistribution because the need for redistribution is so fundamental, any other approach is reactionary and superficial.

But such an option will require a strong majority on the left of the new government — and an immediate start to the restructuring of the productive system, said Amin.

Care would have to be taken, however, to ensure that what redistribution did take place did not benefit only organised labour in the formal sector, but also the rural areas, including the present "homelands".

This would require extensive land reform, wide support for small farmers and the decentralisation of small industries.

The result, however, would be only slow growth — "there will be no miracle". This is mainly because of social and economic difficulties involved in structural change. A strong popular alliance of the various parties in the country would be needed to reconcile conflicting interests.

Amin criticised an alternative strategy which stresses the need for South Africa to become a global competitor, and be more outward orientated. This pays lip-service to redistribution, makes concessions to organised labour but really aims at a gradual weakening of progressive forces on the principle of divide and rule, he said.

Not only would this approach weaken the position of the working class, but it was built on the illusion that the economy could quickly be shifted into the export mode and therefore fast growth. In fact, becoming competitive took a long time, and had not even been achieved in the era of apartheid's cheap labour.

Most importantly, export-orientated growth strategies needed to be backed up by international finance/investment — and there was no guarantee that this would be forthcoming.

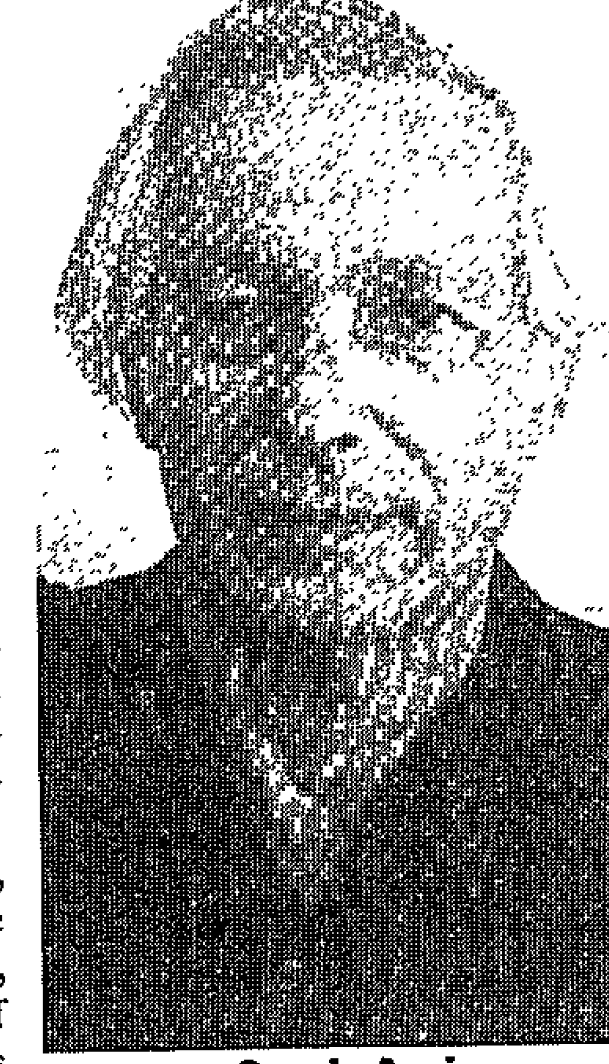
Amin said South Africa's poor export record so far would not attract investors, while the end of the Cold War meant it was no longer a "strategic" market important to support.

In either strategy it was clear there is no easy road ahead for the South African economy or the working class. Achievements would be modest and no one should expect — or predict — "paradise" once apartheid ended.

Amin agreed that heightened expectations might tempt a new government to adopt populist economic policies to win votes or remain in power. But the experience of countries like Tanzania showed populist policies did not benefit the majority in the long run.

Of the two strategies, Amin believed the growth/redistribution path would be best suited to South Africa as long as it was implemented modestly, although decisively.

Nationalisation, if attempted, should not lead to merely a change from private to state ownership, but also to a real involvement of workers in running the enterprises involved.



Samir Amin

Banks, civics join forces

South 12/9 - 16/9/92

BANKERS are traditionally hard-headed and conservative but are learning to unbend in South Africa.

They are not necessarily undergoing a radical transformation, but realising they will be hit hard where it hurts most — their pockets — if there is not a lot more give-and-take in their relationship with, particularly, civic organisations.

Some banks have had small business units for some time to broaden their outreach and lessen criticism that they are for "big business only".

But this has not helped them reach grassroots communities. There, complaints are common that people have not been able to get loans because of a lack of collateral and general discrimination by banks against black people, especially women.

This has affected the ability of many township residents to buy or build houses or start businesses. The lack of banking facilities in townships has also been a bugbear, although violence has undoubtedly played a part in keeping banks away.

It is no wonder, then, that the South African National Civic Organisation (SANCO) this year started making noises about banks as legitimate targets of mass action, including a possible bond boycott.

This, and militant statements issued by SANCO president Moses Mayekiso, has resulted in a steady war of words between SANCO and the Mortgage Lender's Association (MLA).

But last week SANCO reached what it called an "historic and pioneering agreement" with the Perm which could pave the way for peace with MLA and avoid the bond boycott, which has in any case received only little support.

SANCO and the Perm have joined forces to initiate socio-economic development programmes, housing development programmes and home-loan schemes to make it easier for people to get loans.

The details are still being worked out, but SANCO hopes it will open the way for the development of a code of conduct to make banks more receptive to linking up to grassroots community needs.

Lynda Loxton

Wednesday's, Sept 9 quotations for unit trusts:

General Equity Funds:	Buy	Sell	Yield
ABSA	130,88	122,46	6,06
BOE Growth	133,18	124,44	4,81
Community Growth Fund	108,95	103,50	n/a
Fedgro	116,05	108,35	5,33
CU Growth	104,43	97,50	5,55
Guardbank Growth	2207,92	2057,82	5,18
IGI	121,36	113,59	4,60
Momentum	215,83	202,44	4,89
Metfund	168,77	156,65	4,37
Metlife	105,75	98,79	8,0
NBS Hallmark	856,15	799,65	6,29
Norwich	315,16	294,35	4,92
Old Mutual Investors	2415,29	2249,96	4,29
Sage	2197,23	2052,10	4,81
Sanlam	1513,73	1415,74	4,15
Sanlam Index	1145,70	1071,47	4,29
Sanlam Dividend	417,11	390,85	4,84
Southern Equity	174,38	163,24	4,92
Standard	1076,84	1012,22	7,91
Syfrets Growth	254,23	238,06	4,66
Syfrets Trustee	108,18	101,37	n/a
UAL	1849,96	1736,28	5,10
Specialist equity Funds:			
ABSA Industrial	118,30	110,65	9,28
Guardbank Resources	127,52	119,78	6,25
Guardbank Industrial	106,53	100,04	6,65
Sage Resources	98,19	91,69	7,31
Sanlam Industrial	938,28	877,87	3,40
Sanlam Mining	254,77	237,96	5,79
Southern Mining	109,35	102,30	6,06
Southern Pure	103,28	96,78	n/a
Standard Gold	136,80	128,22	9,20
Standard Industrial	104,18	98,23	n/a
Standard International	91,81	85,95	n/a
UAL Mining and Resources	322,44	301,83	5,16
UAL Selected Opportunities	1573,68	1472,50	4,69
Old Mutual Mining	199,47	185,76	5,97
Old Mutual Industrial	313,53	292,09	4,98
Old Mutual Gold Fund	82,04	76,33	7,34
Old Mutual Top Companies	216,21	201,59	n/a
Income/Gilt Funds:			
Metboard Income	114,55	113,34	14,59
Guardbank Income	121,83	119,33	15,17
Old Mutual Income	112,70	111,47	13,44
Standard Income	94,39	93,41	14,45
Syfrets Income	113,94	112,80	14,38
Syfrets Gilt	1153,88	1142,34	n/a
UAL Gilt	1269,04	1256,35	12,65

Bars to big spurt after recovery

(49) **By ZILLA EFRAT**

STRUCTURAL problems in the South African economy will inhibit a jump in economic growth when a recovery does arrive, say economists.

They believe growth will average between 2% and 4%. But growth of about 6% a year — last recorded in the 1960s — is seen as unlikely.

Econometrix director Tony Twine says none of SA's structural impediments to long-term growth have been dealt with.

They include deficit financing, government's size and over-regulation in the economy. Others are the concentration of economic power and high protectionism.

Mr Twine says: "These factors are worse in 1992 than they were in 1982."

Economists expect the upturn to take off slowly, but say it will last longer than the "short and sharp" upturns of the 1980s.

Mr Twine says: "If the economy did start taking off like a rocket there would be a great danger that it would achieve burn-out too quickly. We would end up with a mini-boom lasting two to three years."

Handelsinstituut economist Nick Barnardt says SA's surplus labour, plentiful supply of commodities and reduced inflationary pressures suggest that the next upswing could be sustained for longer.

But because worldwide economic cycles are not synchronised, the upturn will take off gradually. He expects a total world recovery from 1994 onwards, led by a pick-up in the US next year.

Sacob economist Keith Lockwood says much will depend on the type of recovery the world economy experiences.

Certain sectors of SA's economy have historically taken off faster than others.

Mr Lockwood believes SA will be able to sustain a recovery for longer than those in the 1980s and enjoy higher growth than in that decade.

S/Times (Buss)

13/9/92

Line

Growth will be boosted by SA's international acceptance and its access to foreign finance. Improved agricultural conditions would help.

Mr Lockwood says an export-led recovery would minimise pressure on the balance of payments — a change from the previous consumer-led upturns when the Reserve Bank had to put on the brakes to protect them.

He says some fundamentals of the economy, such as the foreign-currency reserves, inflation rate and financial stability of the currency, are much healthier than they have been in the past 10 years.

Sanlam chief economist Johan Louw says SA will enjoy better growth in the next few years than the past three, but it will not be in line with the population growth rate.

Mr Louw expects the growth rate to firm in the mid-1990s with the release of pent-up consumer demand worldwide, the resolution of SA's political problems and the introduction of a reconstruction programme.

Decrease in loans for development

49

B/DAY 14/9/92

PETER DELMAR

SA's leading development agencies have all cut back on loans recently.

The Small Business Development Corporation (SBDC) has already reduced loans to small and medium-sized entrepreneurs by 20% and predicts that a further 20% cut could be in the pipeline if the organisation does not find new funding.

The Development Bank of Southern Africa's most recent annual report shows that only R759m of a budgeted R932m was disbursed in the last financial year.

And an Industrial Development Corporation (IDC) spokesman confirmed that in the past three months industrial funding allocations had dropped for the first time in several years.

The cutbacks are the result of the current recession and various other factors. But the agencies say they are well placed to help lead an upswing if political and other conditions are met.

The SBDC's cutbacks relate to a reduction in state capital funding to the SBDC from R100m to less than R8m.

SBDC accounting GM Tertia van der Merwe says negotiations are being held with various parties but as yet no major new funding have become available.

Meanwhile, applications for loans are expected to grow by 30% this year.

The DBSA's Nic Christodoulou said the reduction in disbursements was the result of a complex set of factors, including poor economic conditions, lack of clear community support for projects and low institutional capacity.

Although there had been a lower flow of funds in the past financial year, the outlook was positive with "a lot of people coming to agreement" on projects. There had also been a positive shift in priorities as well as a move towards sounder planning.

"There is a growing consensus that in a new SA we will have to live within our means and highlight the need to spend in productive areas with more prudent spending in the consumption areas," he said.

It was hoped the DBSA would disburse at least R850m this year.

☐ To Page 2

Development

B/DAY 14/9/92 49

☐ From Page 1

IDC GM Malcolm MacDonald said up until May this year the IDC had granted industrial financing worth about R1,2bn — slightly up on previous years. Since June, however, the moving average had been lower.

In July the IDC dropped its interest rates to stimulate capital investment, but the effects of this move could not yet be determined.

One positive development was the IDC's recently launched funding for ecotourism. Applications for funding of about R170m were being investigated, while R30m had already been approved.

Major projects collectively worth several billions were in the final stages of being approved and would have a stimulatory effect when they came on stream.

MacDonald said that despite the recent dip in financing for smaller ventures, the larger projects and spending on ecotourism would mean that the current financial year was likely to see a record disbursement by the IDC.

London seminar focuses on SA

(49)

SHARON WOOD

LEADING SA politicians, businessmen, bankers and economists will be debating the country's political and economic future at a one-day conference to be held in London this month. BIDAY 14/9/92

The high-powered conference, entitled SA's Future: Opportunities and Risks for Foreign Business and organised by leading UK research and consultancy firm Business International, is being sponsored by Standard Bank.

The conference aims to give insight into the latest developments in SA to potential foreign investors and exporters.

The economic situation will come under the spotlight of Finance and Trade Minister Derek Keys and ANC economist Tito Mboweni, while Constitutional Development Deputy Minister Tertius Delport and senior members of the ANC and IFP will discuss political issues such as the continuingviolence, a new constitution and an interim government.

Standard Bank Investment Corporation chairman Conrad Strauss will look at Johannesburg's new role.

National African Federated Chamber of Commerce and Industry deputy president Archibald Nkonyeni will examine the achievements and future propects of the black business sector.

World Bank principal economist on southern Africa Ataman Aksoy will give an international perspective on SA's "new beginning".

focus on Recession

Sowetan 15/9/92

The living standards of white South Africans used to be among the highest in the world. No longer, according to new comparisons of international price and income trends. The recession and inflation are to blame, reports *Sowetan* correspondent **Michael Chester**.

49

WHITE FAMILIES in South Africa, aboard a platform of affluence that floated above the black poverty all around them, used to enjoy one of the highest living standards in the world.

But not even the racial exclusivity that used to exist has been able to provide protection from chronic economic stagnation, sky-high inflation, the nosedive of the rand on international currency markets and the longest and deepest recession in decades.

The gradual slide of South Africa in the league table of living standards around the world has been followed by annual surveys carried out by the Economic Research Department of the Union Bank of Switzerland (UBS).

Johannesburg is one of 48 major cities - from Los Angeles to Tokyo - which the researchers regularly put under the microscope to monitor trends in incomes and prices and work out shifts in comparative affluence or poverty.

Since the surveys concentrate on "European consumer practices" to provide a common denominator in inter-city profiles and to level the playing fields of comparisons, the researchers have fastened attention mainly on the white population when bringing Johannesburg into the studies.

Thus it becomes important to note that the results do not even pretend to try to reflect the enormous overall gaps in black-white living standards.

Downward slide

Even so, the probe into comparisons of prices and incomes provides a fascinating insight into the relative downward slide in average living standards that has hit all population groups in South Africa in the past two decades.

The UBS team has ironed out obvious wrinkles caused by exchange rates and laid out all of its comparisons in terms of US dollars. (Here, to make it easier to follow, figures have been turned into rands using a rough current rate of R2,75 to the dollar.)

The crunch comes when incomes are matched against consumer prices. The researchers have used a huge mixture of goods and services to match prices with as much fairness as possible.

Here, believe it or not, Johannesburg prices are shown as lower than in 34 of the 48 cities - little more than half the price levels in Zurich.

The most expensive spots in the world are Norway, Japan, Finland and Sweden, with even higher prices than in Switzerland.

You were correct if you suspected that London is now dearer than either New York or Paris but will be surprised to learn that London prices have now been overtaken in Madrid, Copenhagen and Taipei.

The cheapest cities are Bombay and Cairo.

Living standards have dropped, as shown by this dejected group of unemployed people.

But how do prices look to the people who actually live in each city? How do they find the real purchasing power of their money? In short, how far does their cash go after paying taxes and social security deductions of all sorts?

Purchasing power

The actual purchasing clout of local salaries when it comes to buying local goods and services works out best in the European cities of Zurich, Geneva and Luxembourg, followed by Chicago and Los Angeles in the United States and Toronto in Canada.

Poor Johannesburgers.

The buying power of their pay packets is less than half that of their counterparts in Zurich. They are slotted down in 28th place, in the bottom half of the global table.

More and more economists believe the acid test comes when one analyses just how long one needs to work to buy a particular item.

Actual family budgets face the flak when the researchers look at the cost of a whole basket of goods and services - 112 items that start with food products and include beverages, tobacco, clothing, household appliances and even electricity bills.

The selection is based on the average consumer habits of a family of three.

In Zurich, the basket costs R4 801. In Oslo, an even higher R5 544.

That compares with R4 042 in London, R3 918 in Paris, R3 399 in Sydney and about R3 231 in Tel Aviv.

So Jo'burgers should be able to find a little comfort - though it may be doubtful that they will - in estimates that the total cost here would be R2 453, only a fraction more than half the cost in Zurich.

But the harsh realities about the relative decline in living standards in Johannesburg are spelt out in the analysis of actual purchasing power - the amount of goods and services that pay packets can buy.

There's a list of no fewer than 27 cities around the world where wages and salaries have more clout when the household bills arrive and the family budget comes to the ultimate crunch.

Change 'should be a challenge'

SOWETAN 15/9/92 (49)

JONO WATERS

THE SA mining industry's influence on the economy was recently demonstrated, with the JSE catching a "chill" when the De Beers financial results were announced.

This was said yesterday by Sacob deputy director-general Ron Haywood at the opening of the 1992 Electra Mining Exhibition in Johannesburg.

He said the industry was under pressure, but it still made a major contribution to SA's economy through job and wealth creation in its downstream activities.

Mining houses were major players in initiating the expansion in the manufacturing industry, and billions of rands would be spent in the years to come.

"When the world economy improves, boardrooms will give the green light to projects that are on hold."

Haywood said he was encouraged by the latest GATT report, which predicted the world economy would pick up next year and grow by an average of 2,7% over the next few years.

"While we are living in an uncertain world with dramatic and traumatic change taking place, I would like to see change as another word for challenge to maximise opportunities in the coming years," Haywood said.

However, as important as mining was to SA, the emphasis was shifting to manufacturing, especially in the export of value added products.

He said he found the "export culture" generated by the mining industry at the exhibition far stronger than he had expected.

World economies hit by debt deflation as banks get cold feet

(49)

STAR 16/9/92.

GENEVA — The world's economies are suffering under the spectre of "debt deflation" for the first time since the Great Depression, the UN Conference on Trade and Development (Unctad) says.

The agency's 1992 Trade and Development Report says debt deflation is a downward spiral that occurs when banks get cold feet about lending.

The unexpected severity of the global recession reflects the presence of debt deflation in a number of industrialised economies and the United States, Japan and Britain are particularly hard hit.

The result has been that individuals and businesses spend less, borrowers find it harder to take out loans and people lose confidence in the economy.

The traditional way out of recessions is for businesses to borrow so that they can expand, but the global economy appears to be at an impasse, with the private sector in most major economies unable to take the lead in reigniting growth.

The report recommends that governments in developed countries temporarily increase investment in public projects like highways — "areas that have been badly neglected, particularly in the three largest economies suffering from debt deflation."

It adds: "Without a swift policy response, cumulative forces may be unleashed, damaging all countries."

Further cuts

Unctad also endorses further cuts in German interest rates. Germany's short-term interest rates, which exceed nine percent, should move down nearer the three to four percent levels in the United States and Japan, it says.

The high rates have pulled investments from the United States and Japan, strengthening the German mark to record high levels against the US dollar.

The reports syas the current round of debt deflation began in the 1980s because of heavy lending for investments in commercial property. This led in some countries to a "massive oversupply" of office space, followed by a sharp fall in prices.

In the United States the savings and loan crisis was part of the problem.

Savings and loans institutions, set up to help Americans buy homes at low interest rates, have suffered losses for a decade because of economic turmoil, uneven deregulation, sloppy government supervision and sometimes poor or fraudulent management.

The scandal, which grew out of real-estate speculation in the 1980s, is costing the government billions of dollars.

In Britain, Japan and the United States, banks have sharply curtailed lending for real estate because of their losses. This has forced companies that could not get loans to sell property they already had, driving down the market prices of the assets held by the banks still further.

Home loans

The impact has also been felt by homeowners, many of whom are having trouble making payments on their home loans because their incomes have risen little or have even declined.

The situation so far is "far from a full-scale debt deflation," the reports syas, but it warns that conditions could combine to prevent a sustained recovery.

The report says the danger of debt deflation is that if it continues, recessions can be prolonged or even turn into full-scale depressions. — Sapa-AP.

Stability 'SA's first priority'

(49)

CT 16/9/92

By AUDREY D'ANGELO
Business Editor

IN spite of talk about restructuring the economy the most pressing task in SA is to introduce stability and rationality, says Leon Kok, managing editor of Martin Spring's Prescon group.

Presenting a case for staying in this country, he points out in Syfrets investment newsletter "Money Matters" that political uncertainties will cloud new investment for some time.

"And some investors will be unconvinced that predominantly black governments will make the economy a success story.

"Be that as it may, the real business of running the economy will probably remain reasonably safe in the hands of the bureaucracy and major corporate interests.

"The bureaucracy, for example, is a major stabilizing factor in Italy's volatile political situation but impressive economic performance. The same applied to postwar France.

"It is reasonable to assume that there will be considerable devolution of power in a future dispensation which might also result in fundamental shifts of financial resources and responsibilities to the second-tier states and, as such, this will result in a general economic liberalisation."

Discussing the outlook for whites, Kok says:"Whites generally will be a major force to reckon with

"They will continue to control the private sector and most of the media and, like Jewish Americans on foreign policy issues, will constitute a strong model of effective policy mobilisation."

He points out that the international focus on SA and strong white links with most leading Western European countries — particularly Britain — mean that "white political mobilisation and influence is likely to provide major levers against black majority governments."

Kok continues:"Authoritative Union Bank of Switzerland figures suggest that white living standards in SA are still among the highest in the world.

"True, there has been a sharp drop in standards during the past 20 years and this trend will continue. But, equally, SA will remain a country of great opportunity

Besides, a great many South Africans have shown themselves to be hardworking, enterprising, innovative and resilient. This bodes extremely well for the future."

FW urged to give undertakings

Mandela calls for help on peace summit

(49)

BDAY 16/9/92.

PATRICK BULGER
and PETER DELMAR

ANC president Nelson Mandela last night appealed for President F W de Klerk's help in creating conditions to get their peace summit off the ground.

Arriving back in Johannesburg after a short visit to Zambia, Mandela said an undertaking from De Klerk on the release of political prisoners, the fencing of hostels and the banning of the public display of weapons would be sufficient to get the two leaders talking face to face.

Mandela indicated last night that he was facing pressure from within the ANC to maintain a hard line in regard to talks with government.

Mandela said he hoped De Klerk would give the undertakings which would help him to "convince everybody around me to meet the government so that we can try to address the problems facing the country.

"If he makes an undertaking and stipulates the time-frame within which he will implement those undertakings, we will be prepared to consider them," he said.

Although the ANC has postponed its proposed march on Bophuthatswana this weekend, Cosatu has announced an escalation of mass action and the SACP has saluted the role mass action has played in obtaining government agreement on a constituent assembly.

It is believed that Finance Minister Derek Keys's concern about the poor state of the country's economy has played a role in prompting the ANC leader to redouble efforts to break the negotiations deadlock.

Mandela has also had several meetings with business representatives in recent weeks.

Keys recently gave ANC economic planning department head Trevor Manuel and others a detailed analysis of the extent to which major economic sectors had declined. Manuel conveyed this information to Mandela, who said it frightened him.

The Keys presentation was made at the recent launch of the Mont Fleur economic scenarios compiled by a widely representative team, including ANC economists, businessmen and academics. The scenario paints a picture of GDP falling by 2% annually by the turn of the century if a generally acceptable government is not installed.

Keys has said it is necessary to cut public sector consumption of GDP from its current 21% to 16% in the next four to five years, and boost private fixed investment to about 22% to produce annual growth of 3% or 4%.

Keys said yesterday he was pleased economic realities were "starting to figure in the decisions of the major players in SA".

Sacob chief economist Ben van Rensburg said the chamber welcomed "the obvious recognition by the ANC and Mr Mandela of the reality that the economy is a very determining factor in whether a political transition will be successful or not".

"We hope that this will result in the calling off of further mass action which would result in further damage to the economy and loss of life," Van Rensburg said.

BILLY PADDOCK reports that ANC negotiator Mohammed Valli Moosa last night spelled out further details of the organisation's conditions for a summit between De Klerk and Mandela.

The ANC had identified at least 120

□ To Page 2

Mandela (49)

□ From Page 1

prisoners who clearly fell within the terms of the Groote Schuur and Pretoria agreements on indemnity.

They had to be released immediately, and an agreed time-frame established for the rest to be freed, he said.

The ANC had also identified 18 hostels in the PWV they believed were being used to launch attacks on its supporters. Special security arrangements had to be made at these sites. BDAY 16/9/92

"We are happy to negotiate and compare our list of hostels, which we have given to the Goldstone commission, with that of government. Once we agree on a final list, we want to see government acting immediately, by starting to fence off the hostels and upgrade security at the entrances to prevent weapons being taken in or out. We also want the hostels checked to ensure no weapons are being stockpiled," he said.

"We also want definite commitments on the blanket banning of the carrying of weapons in public before we can move on to the final phase — the summit on violence," said Valli Moosa.

The ANC was eager to see substantive constitutional negotiations on track again as soon as possible, but there was no question of rushing into situations that would not be successful.

ANC secretary-general Cyril Ramaphosa has also said thorough preparation for the summit has to be completed to ensure its success.

Valli Moosa said: "We cannot allow the summit to fail which is why we are insisting on these obstacles being resolved first. We are very worried that at the end of the summit neither ANC president Nelson Mandela nor President de Klerk should say that there was not much progress."

He said this would be a disaster for the country and would intensify the atmosphere of gloom and doom and even lead to greater conflict and tension.

In the past week ANC sources have consistently pointed out that the release of political prisoners is the single most important demand. They stress that when rank and file members see friends and relatives freed from jail and fences erected around hostels they will back a return to negotiations with government.

SA should aspire to German model of 'unitary federalism'

BDAY 16/9/92 **PHILIP VAN RYNEVELD** (47)

THE merits of decentralisation as a means of giving people more control over their lives and ensuring that public services are efficient and appropriately tailored to local conditions are widely accepted. However, the constraints on what powers can be devolved have not been clearly spelt out in the debate on federalism.

These include, firstly, the need for the authorities to be able to ensure sound macroeconomic management. A prerequisite for implementing effective stabilisation policies is that sub-central governments' autonomy over taxation, borrowing and spending must not clash with effective overall management.

Secondly, if markets are to operate efficiently, distortions must be minimised. Differences between regulations, standards and the structure of taxation across regions introduce distortions, inhibiting resources from flowing to best use. The more marked the differences, the more severe will be the distortions. Giving regions power to distort economic conditions in their favour is likely to have chaotic results which, in the long term, will benefit nobody.

Thirdly, related to this, is the need to co-ordinate redistribution nationally so that the burden of this intervention is spread evenly across the country. This restricts the room for manoeuvre that can be given to the regions not only in terms of progressive taxation but, more significantly, in the structure of spending.

It is the pattern of public expenditure, especially on social services, which largely determines the redistributive content of fiscal policy. In SA, the severe spatial mismatch between the location of resources and needs, largely resulting from apartheid planning, is a further reason why redistribution needs to be co-ordinated nationally.

Fourthly, given the inevitability of large-scale urbanisation in coming decades, urbanisation policies are required which enable consistent intervention both at the origin and destination of demographic flows. If regions are given the power to compete in making themselves as unattractive as possible to poor incoming migrants in the hope that migrants will go elsewhere, then implementing coherent urbanisation policies will be impossible.

These constraints limit significantly the autonomy that can be given to regions, rendering much of the thinking on federalism among government and its Codesa allies unworkable. Their proposals are particularly inappropriate given the staggering increase in the mobility of goods, people, services and information over the past two decades.

It is this increased mobility which has led to the creation, for example, of the single European market, and the need, troubling to many Europeans, to shift substantial policy-making powers from the level of the nation state to a co-ordinated, European-wide level. The Maastricht treaty is an important step in rationalising that inevitable process.

Against this background it becomes clear that, given modern economic conditions, it is inappropriate to think of regions in SA as mini-national governments. While only the volkstaters will admit it openly, it would appear that this apartheid paradigm still determines much of the thinking on federalism in government and among its allies.

Instead, the important policy-making focus of regions should be expressed collectively at the national level, probably through a second chamber, so that national policies are sensitive to regional variation.

Regions also have an important role in enhancing local control over how nationally determined policies are implemented, ensuring that they are well adapted to local needs. This requires regions to work closely with local authorities.

The German constitution has developed largely in this direction. The only area where the 16 German Länder have significant autonomy is over cultural issues. However, their influence over national policies through the Bundesrat — the second chamber — has increased over the years, and they have substantial responsibility for implementation of national policies. Germany is often characterised as a "unitary federal" system, a label well worth aspiring to in SA!

It follows that, if regions are required to enrich national policies and strengthen local control within the framework of these policies, then the seven regions recently unveiled at government's conference on federalism are too big. The same is true of the 10 regions proposed by the ANC's constitutional committee. (The proposal was not accepted at the ANC's May policy conference, pending further debate.)

Smaller regions are required to give voice to the different logic in life in different areas. The non-metropolitan areas need to be separated from the metropolitan areas so that the non-metropolitan voice is not swamped by the more vocal and increasingly large metropolitan populations in some regions.

By the same token, the capacity of the metropolitan areas to deal with massive population growth over coming decades will be impaired by a regional layer between them and the centre. Smaller regions can work more flexibly and intimately with the local level, ensuring that as much power as is feasible can be moved to this level.

Most revenue will have to continue being collected at national level with a large proportion being transferred to the regions and localities, much of it earmarked to ensure implementation is within the terms of national policies, but some of it unconditional.

An independent national finance commission should assist in ensuring this is done fairly, transparently and in a manner that enables clear planning and is not subject to arbitrary political interference. This is a much better way of getting resources into areas of greatest need than trying to link poor areas with rich ones within large regions and hoping this will ensure the required redistribution.

It is sometimes argued that having more, smaller regions — somewhere between 15 and 25 — would make government more expensive. However, if regional governments are not thought of as mini-national governments, this need not be the case.

Furthermore, having smaller regions would obviate the need for another level of government which, in the context of seven or 10 regions, would be necessary. Replicating national bureaucracies seven times over, as appears to be the intention in the new NP model, would be an enormous drain on state coffers.

Smaller regions would add variety to the country's politics and, in the short term, would reduce the potential for conflict in areas such as Natal by avoiding a winner-takes-all situation.

Substantial decentralisation is necessary to enhance democracy, as well as ensure that when problems arise responsibility does not always get passed to the centre, as this undermines the potential to maintain fiscal discipline. But this must happen within the framework of coherent national institutions.

The balance is a delicate one. For this reason it is a pity that the NP's political strategy is so dependent on an alliance with existing homeland leaders and other institutions spawned by apartheid, as this diminishes the capacity for reason to be brought to the design of perhaps the single most important element of our new constitution.

□ Van Ryneveld is employed by the Economic Policy Research Project, University of Western Cape, which undertakes research for organisations in the "democratic movement". This article represents a personal view and should not be construed as ANC policy.

SPOT DESK

Cabinet stalls on economic forum

(49) CT 17/9/92

By BARRY STREEK
Political Staff

THE proposed National Economic Forum suffered a setback yesterday when the cabinet deferred its decision on it because Cosatu did not appear to operate within the provisions of the law, the Minister of Finance, Mr Derek Keys, said yesterday.

The government had "reluctantly" decided to defer the decision until his return from the International Monetary Fund meeting in Washington when he would immediately invite Cosatu for discussions, Mr Keys said in a statement.

The cabinet decision was taken after a defiant statement this week by Cosatu in which it called for more mass action and a blockade of Parliament when it re-opens on October 12.

Mr Keys emphasised that the arrangements he had already made to ensure that labour and business had direct access to government's decision-making mechanism were unaffected.

He left last night to attend the annual meetings of the IMF and the World Bank in Washington.

'Mass action hurts economy more'

(49)

Business Editor

SOUTH AFRICA has lost more through recent mass action and violence than from years of sanctions, says Mr Raymond Parsons of the South African Chamber of Business (Sacob).

He and Minister of Finance, Mr Derek Keys, have "warned" the ANC leadership that the already weakened SA economy could be destroyed permanently by using it as a political battleground.

Sacob chief economist Dr Ben van Rensburg said yesterday: "Sacob saw Mr Mandela three times in a month to drive the message home that mass action could drive the economy into a black hole from which no government could save it.

He said the message got home that it is frightening foreign investors away and preventing SA business investing to provide more jobs.

The presentations given to Mr Mandela contained no surprises, he said.

"But it probably carried a great deal of weight with the ANC that these facts came from Mr Keys and Mr Parsonswho cannot be suspected of being politically motivated.

The ANC should be most concerned that people whose interests they are fighting for are running deeper into poverty, through lack of investment and the creation of jobs.

"It is a question of life and death for ANC and Cosatu members."

CT 17/9/92

Business, SACP to discuss economics

PATRICK BULGER 49

THE SACP is going to the Top of the Carlton in search of an economic policy, party officials said yesterday.

The occasion on October 9 will take the form of a fundraising dinner at which prominent communists like Chris Hani, Joe Slovo and Sam Shilowa will meet the business community to discuss economics.

Asked by a member of the audience at an Islamic Bank function yesterday whether SACP and ANC economic policies differed, SACP organiser Gavin Sinclair said his party was formulating its own policy.

Until now, the SACP had had only "the overthrow of the bourgeois state and the transfer of the means of production to the victorious proleteriat" as a "policy". But it had now abandoned pure state ownership, accepted private ownership and was exploring other forms of ownership such as joint and co-operative ventures, SACP spokesman Essop Pahad told the bankers.

The SACP is also looking to devise policies in other fields — notably housing, health and local government. Asked if this meant the SACP was preparing a distinct party platform for an election, party officials said no, but they felt having clearly identifiable policies was an advantage.

Sow 17/9/92

Govt decision puts economic forum on hold

BDay 17/9/92. (49)

BILLY PADDOCK

COSATU's determination to go ahead with mass action and boycott PAYE has caused government to defer its decision to take part in the economic forum — due to have been launched this week, Finance Minister Derek Keys said last night.

The forum, hailed as a breakthrough in joint participation in national economic policy, has effectively been put on hold.

Keys said the Cabinet was, in principle, in favour of participation in an economic forum with organised business and organised labour, but had decided to defer its decision until after Keys met Cosatu on his return from IMF and World Bank meetings in Washington next week.

Keys said if the forum was to be successful "all the parties ought to have the pursuit of economic growth as a primary aim — an aim for which other aims may need to be constrained or sacrificed — within a framework of relationships subject to the provisions of the law of the land".

Cosatu was an important member of the forum but it appeared it did not "currently satisfy this condition".

All parties have viewed the forum as a vital area of co-operation that could get the country's stagnant economy moving.

Last week, Cosatu leaders met Keys to reassure him that undercurrents of militancy in the organisation were not as serious as they sounded. But on Monday Cosatu said it would be intensifying mass action and putting pressure on companies to stop PAYE payments to government.

Keys emphasised that arrangements giving the business-labour nexus direct access to government's decision-making mechanisms and the facilitating role of two Deputy Ministers and the finance adviser remained unchanged.

He said assurances he gave two weeks ago about avoiding unilateral restructuring and seeking full participation in policy-making "remain of full force and effect".

'Mass action more harmful than sanctions'

(49) CT 17/9/92

By AUDREY D'ANGELO
Business Editor

SA has lost more through recent mass action and violence than from several years of international economic sanctions, Raymond Parsons, director general of the SA Chamber of Business (Sacob) warned yesterday.

And it no longer has "a cushion or margin" that would enable the economy to survive being used as a political battleground.

Urging political and business leaders to face the facts of "the real SA" before starting to build a new SA, Parsons said action taken now would decide whether this country became a bread basket or a basket case.

Parsons was giving the keynote address at a conference organised by the Investment Analysts Society of Southern Africa in Johannesburg.

He warned that there was a risk that the economy would go into a downward spiral if business confidence continued to be undermined.

"A lack of confidence has a potential longterm dimension because it may be impossible to correct a tarnished image in the future, even when we have all agreed upon a new political dispensation."

Parsons said some ANC members justified mass action and a call for sanctions to be retained by claiming that the economy was already in such a mess that further disruption would make no difference.

"Such an attitude speaks at best of a complete misunderstanding of the resilience of a market economy — however flawed — and at worst of another agenda.

"Remarks about businessmen seeing 'their' economy crumbling must be interpreted in the same way."

Parsons said one of the reasons the ANC and the Government had been prepared to resume tentative negotiations in the past few days was "an increasing recognition of the growing costs of not talking.

"We must not underestimate the extent to which a strong economy is necessary to underpin political progress."

Global economy 'will continue to recover'

Biddy 17/9/92.

SIMON WILLSON

WASHINGTON — World growth should continue to recover at a moderate pace over the next 12 months, the IMF says in its latest review of the world economy.

In its second look at world economic prospects this year, the IMF revises down the world growth forecasts in its first 1992 review, published in May. But the latest review, published today, remains bullish on the outlook for global inflation and world trade flows.

The fund said world output was stagnant last year, having edged up only 0,1%. But it forecast world growth of 1,1% this year and 3,1% next year. In May the IMF's forecasts for world growth this year and next were 1,4% and 3,6%.

After falling to 2,3% last year, world trade volume growth is expected to grow to 4,5% this year and to 6,7% in 1993. The major industrial countries' import growth is expected to more than double from last year's 2,4% to more than 5% in 1993.

The IMF says the recovery will continue to be slower than this, following the recessions of 1974-75 and 1981-82. The effects of property and equity speculation in some of the major economies are blamed for the slower recovery, along with the effect of some countries' large budget deficits.

The US budget deficit is forecast to rise to 6,3% of GDP in fiscal 1992, while the UK's is projected to jump to 5,5% and Italy's to 10,4%. The IMF expects Belgium, Finland, Greece and Portugal to have budget deficits above 5% of GDP this year.

Growth has remained relatively strong in many developing countries in spite of the weak international environment, the IMF finds. It attributes the resilience of some of these developing economies to the "substantial progress" many of them have made in introducing stabilisation measures and economic reforms.

The fund says the failure of many countries to implement medium-term strategies for fiscal consolidation and structural reform continues to impede performance.

Efforts to stimulate activity by reducing short-term interest rates are counter-productive, the IMF claims, when such efforts errode credibility of the commitment to contain future inflation and, therefore, are reflected in high long-term rates.

"In countries where short-term interest rates have been substantially reduced, additional interest rate reductions would not now appear to be warranted. Moreover, the monetary authorities in these countries will need to remain alert to signals of increasing inflation and to be prepared to undertake prompt upward adjustments to short-term interest rates."

Nevertheless, the IMF projects a further slowing in inflation worldwide over the next 12 months, with average inflation among the world's seven biggest industrial economies falling to 3,2% next year — only narrowly above the 2,9% average posted by them between 1960 and 1969.

Inflation in the world's developing countries is also sharply down, it notes. Average inflation in the Third World halved to about 40% in 1991 and is projected to recede to less than 30% next year.

The IMF attributes the sharp fall in world developing-country inflation to macroeconomic stabilisation and fiscal and structural reforms in several countries.

Ministers to discuss funds

(49)

NEW YORK — Against the background of a world economic slowdown, 46 Commonwealth foreign ministers met yesterday to discuss how to keep development funds flowing to poor nations.

More than 250 delegates are expected at the two-day British Commonwealth finance ministers' conference, held before next week's IMF and World Bank annual meetings.

Commonwealth delegates will discuss better co-operation between its London-based secretariat and the Commonwealth Fund for Technical Co-operation, which promotes development in poorer countries.

World Bank and IMF topics will be discussed, as some Commonwealth nations are worried about getting IMF loans.

The Commonwealth Secretariat said in a news release there was concern about difficulties some of the fund's traditional borrowers continued to have in gaining access to resources. The secretariat said continued impediments to development included high real interest rates, weak commodity prices and difficulties in debt servicing. — Sapa-AP

BDAY 17/9/92.

Parsons slams 'economic battlefield'

B/Day 17/9/92 (49)

SHARON WOOD and HILARY GUSH

VIOLENCE and mass action had undermined business confidence and caused more damage than years of economic sanctions, Sacob president Raymond Parsons said yesterday.

Speaking at a Johannesburg conference, he said SA could not afford to make the economy a political battleground. Business confidence could not prevail in an environment of political instability and the need to make economic progress also emphasised why the business community was often impatient with mass actions and strikes, he said.

Parsons emphasised the political and economic performance of the country were interdependent and would have to be reconciled if the "new SA" was to be a success.

"Local investors must eventually lead the way in winning confidence overseas and in demonstrating their hope in the future," he said.

SA would have to satisfy the IMF and other international organisations that it would use bridging finance wisely. The correct policies would have to be in place to ensure sustained growth and development.

Financial Services Board deputy chairman Gad Ariovich said provided there was an "acceptable" political settlement, and SA achieved a 3% to 4% economic growth rate over the long term, local financial markets would join the "global village" and rapidly adopt international trading technologies.

The international trend was towards the globalisation of financial and securities markets. He hinted the JSE, which had become increasingly outdated compared with world stock exchanges, should soon permit negotiated commissions, dual capacity and corporate memberships.

The international trend was towards multifunctional financial organisations with financial institutions acting as both broker and principal in many fields.

ARG 17/9/92 (49)

Economic setback

Pause by Cabinet

MICHAEL MORRIS and PETER FABRICIUS
Political Staff

PLANS for an forum to generate economic consensus between government, business and labour had a setback last night when the cabinet decided to pull out for the time being.

Cosatu's plans for intensified mass action were singled out as the reason.

But Finance Minister Mr Derek Keys made it clear the government remained in favour of joining organised business and organised labour in an advisory National Economic Forum.

He also indicated that he would soon invite Cosatu for a discussion of its position.

The cabinet had decided yesterday that it was in favour, in principle, of taking part in an advisory consensus-seeking body.

But Mr Keys added: "If it is to be successful, however, all the parties ought to have the pursuit of economic growth as a primary aim — an aim for which other aims may need to be constrained or sacrificed — within a framework of relationships subject to the provisions of the law of the land."

Cosatu was an important member of organised labour participation and it seemed from its announcements this week that it did not satisfy the government's conditions for taking part in an economic forum.

For this reason the cabinet had "reluctantly" decided to defer its decision to join the forum. He would invite Cosatu to discuss its position after his return from Washington to attend the annual meetings of the International Monetary Fund and the World Bank.

Economic forum: Cosatu shocked

THE shocking turnabout by the government in suspending its involvement in the National Economic Forum (NEF) had damaged the prospects of constructive negotiations on the economy, Cosatu said yesterday.

"The cabinet's decision reflects the same type of intransigence and narrow party politicking, on economic matters, as we saw from the government at Codesa II.

"This seriously raises the question of whether the government can be treated as a bona fide negotiating partner," it said in a statement in response to the cabinet's decision this week to defer a decision on participating in the forum because of Cosatu's policies on mass action.

"This shocking turnabout by government is a flagrant breach of an agreement reached last week between a delegation of labour, a delegation of business, and a government delegation led by Finance Minister Mr Derek Keys."

In London today Mr Keys said a cabinet decision on the NEF had had to be delayed because of government differences with Cosatu over economic growth and the rule of law. — Political Staff, Own Correspondent (49) CT 18/9/92

Decision on economic forum shocking — Cosatu

SIMC 18/9/92. (49)

By Thabo Leshilo and Carina le Grange

Cosatu has criticised the Cabinet's decision to suspend involvement in the National Economic Forum as "a slap in the face" for organised labour and business.

The Cabinet action, announced by Finance Minister Derek Keys late on Wednesday, was defended in a new statement issued last night by the Ministry of Finance and Trade and Industry.

The statement said Mr Keys would discuss Cosatu's position with them immediately after his return from International Monetary Fund and World Bank meetings.

Mr Keys also reiterated his previous assurance that he did not intend to restructure the economy unilaterally.

Yesterday, Cosatu said the "shocking turnabout" by the Government was a "flagrant breach" of a tripartite agreement reached last week.

The NEF agenda was to focus urgently on job creation, food prices and other issues.

Cosatu has said the country may well have seen meaningful results from the NEF within six months.

"The Government's absurd decision has now dashed these prospects, with potentially devastating results for the economy."

The trade union federation said that the Cabinet's reversal of the agreements undermined the ability of its Ministers to negotiate with credibility.

A Finance Ministry spokesman, however, said last night that the Government has not closed its door on the NEF.

The spokesman said the Government, while committing itself to the principle of an economic forum, has deferred its decision to establish the forum until it was convinced that all parties participating were pursuing economic growth as a primary aim.

According to Cosatu, Government concerns about mass action and the PAYE campaign were fully addressed at last week's meeting.

All outstanding issues had been resolved and a firm date, October 2, had been set for the plenary of the NEF. It was also agreed that a joint announcement would be made on September 21.

Cosatu will discuss its position on the future of the forum and what action to take at a meeting of its central executive committee early next month.

'No upturn without stability' — Sanlam

CT 18/9/92 (49)

Business Editor

THERE will be no economic recovery next year unless political and social stability are re-established soon, Sanlam chief economist Johan Louw warns. And SA cannot afford to let the recession carry on longer.

This blunt warning, given in the Sanlam Economic Survey for September, follows a similar one from the director-general of the SA Chamber of Business (Sacob), Raymond Parsons, this week.

Parsons told the Investment Analysts' Society of Southern Africa there was a danger the economy would go into a downward spiral if confidence continued to be undermined by violence and mass action.

Louw says in his survey, released today: "The close interplay between the SA economy and events on the international economic front, domestic political developments and climatic conditions is now more evident than ever.

"Not only is SA in the throes of struggling with serious structural economic problems — it is also being burdened with the side effects of the poor performance of economies abroad, one of the most severe droughts in living memory and the ongoing political unrest and violence.

"These factors have led to a disturbing confidence crisis among both South Africans and foreigners and have brought about a kind of paralysis in the country — which has increased still further the uncertainty regarding a future economic upswing."

He points out that the recession deepened considerably over the past year. "The downturn, which began in the second quarter of 1989, has lasted for over 40 months and is having a destructive effect on production, employment and the general prosperity of consumers and the business sector."

Louw says the decline in total production of goods and services, excluding agriculture, has not been as steep as in previous downswings. But he expects it to continue, resulting in fewer jobs.

"Production in most sectors diminished further during the past year, with serious consequences for employment. It would appear this trend could continue for several months to come."

Minorco in

Devalued

Closing gold prices

FM 18/9/92. THE ECONOMY (49)

A slight change of tune?

It may be clutching at straws, but there is at last hope that — however much the real economy remains mired in recession — the attitudes of some important players are changing.

And not just in the white establishment. Before leaving for Zambia this week, Nelson Mandela told *The Star* he's "deeply concerned" about the state of the economy, following a "frightening" report from Finance Minister Derek Keys. If Keys achieves nothing else, persuading the leader of the ANC of the importance of a healthy economy would on its own justify his appointment.

Let us hope Mandela will be sufficiently concerned — and able — on his return from Zambia to quash such damaging absurdities as rent and tax boycotts and to impress on the Marxist activists the long-term harm that mass action will do to the already slim chance under *any* government of creating enough jobs for the lost generation.

Meanwhile, those who look for coded messages also detect a distinctly more up-beat tone in Reserve Bank Governor Chris Stals's interview with Reuters this week than in his annual address only three weeks before.

Then, he talked about inflation remaining "stubbornly high"; now, though still emphasising the need for financial discipline, he's talking positively about a return to single-digit inflation next year, for the first time in 20 years. Stals claimed that the Bank opted for a "relatively soft approach" to get inflation down, rather than adopt harsher measures that might have worked faster but would have caused more hardship — especially given the recessionary environment.

It could be argued that it might have been more painful — but would have started the cure sooner — if we'd swallowed all the nasty medicine at once. But the immediate point is, these are not the remarks of someone who's getting ready for a further tightening of the screws.

Of course, none of this changes the fundamentals. The economy won't pick up until (a) there's a political settlement at home and (b) world markets for our key exports improve.

We have no control over the latter requirement, but the former lies entirely within our own power. At the same time, the *FM* has argued repeatedly and consistently that we cannot just sit back and wait for a political settlement before we tackle economic issues.

Framing a constitution, by nature, means arguing about specifics and details. Economic policy can be met by a broader, philosophical approach. If the NP and ANC could agree in principle that a new government will follow a broadly liberal, free-market approach, at least we would be able to take advantage of it when the other conditions for economic revival fall into place. ■

7. ***Algemeen en sluitingsdatum:***

7.1 BA (MW)-graad.

BSc Rekenaarwetenskap/B Com Inligtingstelsels.

B Pharm-graad.

- Beurshouer studeer voltyds sonder salaris en ontvang gedurende universiteitsvakansies wanneer diens verrig word, volle salaris.
- Die beursgeld ten opsigte van die bovermelde studierigtings beloop tans R9 300 per jaar en sluit klas-, eksamen-, en registrasiegelde in.
- *Sluitingsdatum:* 30 September 1992.

7.2 MA Kliniese Sielkunde. (Alle registrasiekategorieë.)

- Beurshouers studeer voltyds met behoud van salaris en is self verantwoordelik vir hul studie-uitgawes.
- *Sluitingsdatum:* 29 November 1992.

7. ***General and closing date:***

7.1 BA (SW) degree.

BSc Computer Science/B Com Information Systems.

B Pharm degree.

- Bursary holders study full-time without salary and receive full salary during the university holidays when they perform duty.
- The bursary fees for the above-mentioned qualifications are now R9 300 per year and include class, examination and registration fees.
- *Closing date:* 30 September 1992.

7.2 MA clinical Psychology. (All registration categories.)

- Bursary holders study full-time with retention of salary and are responsible for their own study expenses.
- *Closing date:* 29 November 1992.

DEPARTEMENT VAN NASIONALE OPVOEDING

No. 2623 **18 September 1992**

WET OP NASIONALE GEDENKWAARDIGHEDE, No. 28 VAN 1969

BERGINGSPERMIT

Ingevolge artikel 12 (2C) (c) van die Wet op Nasionale Gedenkwaardighede (Wet 28 van 1969), bied die Raad vir Nasionale Gedenkwaardighede hierby geleentheid vir die rig van vertoë oor die uitreiking van 'n bergingspermit vir die stoomskip "Itzehoe", wat op 24 Mei 1911 naby Port Elizabeth gestrand het.

Sodanige vertoë moet die Raad vir Nasionale Gedenkwaardighede, Posbus 4637, Kaapstad, 8000, binne drie weke vanaf die datum van die publikasie van hierdie kennisgewing bereik.

G. S. HOFMEYR,
Direkteur: Raad vir Nasionale Gedenkwaardighede.

DEPARTMENT OF NATIONAL EDUCATION

No. 2623 **18 September 1992**

NATIONAL MONUMENTS ACT, No. 28 OF 1969

SALVAGE PERMIT

In terms of section 12 (2C) (c) of the National Monuments Act, 1969 (Act 28 of 1969), the National Monuments Council hereby invites representations on the issuing of a salvage permit for the steam ship "Itzehoe", which sank near Port Elizabeth on 24 May 1911.

Such representations should reach the National Monuments Council, P.O. Box 4637, Cape Town, 8000, within three weeks from the date of publication of this notice.

G. S. HOFMEYR,
Director: National Monuments Council.

DEPARTEMENT VAN STAATSBESTEDING

No. 2617 **18 September 1992**

Staat van Ontvangste in en Oordragte uit die Skatkisrekening vir die tydperk 1 April 1992 tot 31 Augustus 1992.

Tesourie, Pretoria.

DEPARTMENT OF STATE EXPENDITURE

49

No. 2617 **18 September 1992**

Statement of Receipts into and Transfers from the Exchequer Account for the period 1 April 1992 to 30 August 1992.

Treasury, Pretoria.

ONTVANGSTE—RECEIPTS

Inkomstehoof 1991	Head of Revenue	Maand Augustus Month of August 1992	2	Totaal 1 April tot 31 Augustus Total 1 April to 31 August 1991	1992
		R	R	R	R
Skatkissaldo, 31 Maart 1992	Exchequer Balance, 31 March 1992	—	—	1 317 346 453	—
Skatkissaldo, 31 Julie 1992	Exchequer Balance, 31 July 1992	7 229 353 845	—	—	—
Staatsinkomsterekening	***State Revenue Account***				
Binnelandse Inkomste	Inland Revenue	4 318 128 863	5 024 467 190	23 783 756 584	24 493 663 445
Doeane en Aksyns	Customs and Excise	1 034 824 567	1 006 307 744	3 881 980 844	2 793 677 511
	R	5 352 953 430	6 030 774 934	27 665 737 428	27 287 340 956
Suid-Afrikaanse Ontwikkelingstrustfonds	South African Development Trust Fund	—	250 101	11 786 428	5 938 725
	R	—	250 101	11 786 428	5 938 725
	R	5 352 953 430	6 031 025 035	27 677 523 856	27 293 279 681
Ander Ontvangste	***Other Receipts***				
Skatkisbiljette	Treasury Bills	8 242 407 000	—	36 414 749 500	—
Leningsheffing 1989–94	Loan levy 1989–94	143 700	—	117 400	—
Belegging—Artikel 10 (1) (a) van Wet 66 van 1975	Payments in terms of section 10 (1) (a) of Act 66 of 1975	—		879 103 588	
Obligasies	Bonds.				
Onbepaalde Termyn Skatkis-obligasies	Indefinite Period Exchequer Bonds	70 100	—	336 700	—
Onbepaalde Termyn Nasionale Verdedigingobligasies	Indefinite Period National Defence Bonds	22 058 800	—	51 533 450	—
Binnelandse Geregistreerde Effekte	Internal Registered Stock.				
14%, 1997	14%, 1997	350 000 000	—	4 027 153 000	—
		—	—	(132 619 000)	—
12,5%, 1995/1996 (R144)	12,5%, 1995/1996 (R144)	(50 000 000)	—	(3 819 568 915)	—
		—	—	(397 556 000)	—
11,5%, 1999/2000	11,5%, 1999/2000	—	—	2 231 000 000	—
		—	—	(436 284 000)	—
13%, 2009/10/11	13%, 2009/10/11	1 760 300 000	—	4 177 300 000	—
		(216 220 000)	—	(547 785 000)	—
12%, 1994	12%, 1994	—	—	1 638 000 000	—
		—	—	(108 451 000)	—
12%, 2004/5/6	12%, 2004/5/6	500 000 000	—	(135 153 000)	—
		(67 372 000)	—	(153 004 000)	—
13,5%, 2014/15/16	13,5%, 2014/15/16	1 562 800 000	—	4 032 480 000	—
		(162 326 000)	—	(533 460 000)	—
14%, 1993	14%, 1993	30 000 000	—	380 000 000	—
		(26 000)	—	(1 636 000)	—
14%, 1994	14%, 1994	—	—	225 000 000	—
		—	—	(2 261 000)	—
Z001, 1997	Z001, 1997	—	—	25 417 465	—
		—	—	—	—
Z002, 1999	Z002, 1999	—	—	30 028 096	—
		—	—	—	—
12,5%, 1995 (R004)	12,5%, 1995 (R004)	50 000 000	—	2 505 219 962	—
		—	—	—	—
12,5%, 1996 (R145)	12,5%, 1996 (R145)	—	—	2 455 723 991	—
		—	—	—	—
12,5%, 1996 (R146)	12,5%, 1996 (R146)	800 000 000	—	3 255 219 962	—
		(23 559 000)	—	(23 559 000)	—
14,5%, 1993	14,5%, 1993	30 000 000	—	30 000 000	—
		—	—	—	—
7,75%, 1998	7,75%, 1998	20 000 000	—	20 000 000	—
		(4 305 000)	—	(4 305 000)	—
Vasgestelde Statutêre Toewysings, 1991–92	Fixed Statutory Allocations, 1991–92	149	—	7 577 615	—
Terugstortings, 1991–92	Surrenders, 1991–92	59 669 706	—	186 033 029	—
	R	13 377 449 455	—	58 617 271 843	—
*Min Diskonto R S.A Effekte	*Less Discount R S A Stocks	473 808 000	—	2 340 920 000	—
	R	12 903 641 455	—	56 276 351 843	—
	R	18 256 594 885	—	83 953 875 699	—
Inkomsterekening: Volksraad	***Revenue Account: House of Assembly***				
Binnelandse Inkomste	Inland Revenue	5 090 663	67 154 999	52 117 803	72 242 852
Oorplasing vanaf Staatsinkomsterekening	Transfer from State Revenue Account	801 807 382	657 570 000	4 713 865 882	4 033 242 000
Terugstortings, 1989–90	Surrenders, 1989–90	—	—	—	209 528 809
Terugstortings, 1985–86	Surrenders, 1985–86	—	—	140 296	—
	R	806 898 045	724 724 999	4 766 123 981	4 315 013 661

Inkomstehoof 1991	Head of Revenue	Maand Augustus Month of August 1992	2	Totaal 1 April tot 31 Augustus Total 1 April to 31 August 1991	1992
		R	R	R	R
Inkomsterekening: Raad van Verteenwoordigers	***Revenue Account: House of Representatives***				
Binnelandse Inkomste	Inland Revenue	4 351 396	3 426 465	29 890 146	13 614 441
Oorplasing vanaf Staatsinkomsterekening	Transfer from State Revenue Account	402 600 000	292 000 000	2 049 600 000	1 712 000 000
Terugstortings, 1986–87	Surrenders, 1986–87	—	—	—	9 132 250
Terugstortings, 1991–92	Surrenders, 1991–92	—	—	13 550 000	—
	R	406 951 395	295 426 465	2 093 040 146	1 734 746 691
Inkomsterekening: Raad van Afgevaardigdes	***Revenue Account: House of Delegates***				
Binnelandse Inkomste	Inland Revenue	718 820	1 945 027	3 372 029	2 566 143
Oorplasing vanaf Staatsinkomsterekening	Transfer from State Revenue Account	210 000 000	155 000 000	802 000 000	685 000 000
	R	210 718 820	156 945 027	805 372 029	687 566 143
Rekening vir Provinsiale Dienste: Kaap	***Account for Provincial Services: Cape***				
Oorplasing vanaf Staatsinkomsterekening	Transfer from State Revenue Account	333 000 000	258 750 000	1 733 000 000	1 584 000 000
Terugstortings, 1989–90	Surrenders, 1989–90	—	—	—	36 062 590
	R	333 000 000	258 750 000	1 733 000 000	1 620 062 590
Rekening vir Provinsiale Dienste: Natal	***Account for Provincial Services: Natal***				
Oorplasing vanaf Staatsinkomsterekening	Transfer from State Revenue Account	153 000 000	89 000 000	815 000 000	784 388 000
	R	153 000 000	89 000 000	815 000 000	784 388 000
Rekening vir Provinsiale Dienste: Oranje-Vrystaat	***Account for Provincial Services: Orange Free State***				
Oorplasing vanaf Staatsinkomsterekening	Transfer from State Revenue Account	121 103 000	120 000 000	598 896 000	457 000 000
Terugstortings, 1989–90	Surrenders, 1989–90	—	—	40 702 547	—
	R	121 103 000	120 000 000	639 598 547	457 000 000
Rekening vir Provinsiale Dienste: Transvaal	***Account for Provincial Services: Transvaal***				
Oorplasing vanaf Staatsinkomsterekening	Transfer from State Revenue Account	381 964 000	447 000 000	2 410 448 000	2 033 673 000
Terugstortings, 1991–92	Surrenders, 1991–92	120 200	—	120 200	—
	R	382 084 200	447 000 000	2 410 568 200	2 033 673 000
	R	20 670 350 346	—	97 216 578 602	—
Totaal (insluitende Aanvangsaldo)	Total (including Opening Balance) R	27 899 704 191	—	98 533 925 055	—

UITBETALINGS—ISSUES

49

Dienste	Services	Begroting Estimates 1991–92	Maand Augustus Month of August 1992	1991	Totaal 1 April tot 31 Augustus Total 1 April to 31 August 1992	1991
		R	R	R	R	R
Staatsinkomsterekening	***State Revenue Account***					
Begrotingsposte	***Votes***					
1 Staatspresident	State President	21 101 000	1 850 000	1 850 000	8 938 000	7 570 000
Statutêre Bedrag	Statutory Amount	218 000	22 000	18 000	95 000	89 000
2 Parlement	Parliament	31 429 000	2 200 000	4 880 000	15 249 000	24 929 000
Statutêre Bedrag	Statutory Amount	55 154 000	4 605 000	2 440 000	22 805 000	11 172 000
3 Buitelandse Sake	Foreign Affairs	5 794 389 000	686 000 000	465 000 000	2 470 000 000	2 114 000 000
Statutêre Bedrag	Statutory Amount	2 830 000	235 000	215 000	1 175 000	1 075 000
4 Staatkundige Ontwikkelingsdiens	Constitutional Development Service	41 211 000	3 431 138	1 327 750	17 165 026	8 722 750
5 Waterwese en Bosbou	Water Affairs and Forestry	389 016 000	28 000 000	33 000 000	158 000 000	153 000 000
6 Administrasie Volksraad	Administration House of Assembly	9 067 549 000	801 807 382	657 570 000	4 713 865 882	4 033 242 000
7 Openbare Ondernemings en Privatisering	Public Enterprises and Privatization	7 541 000	623 000	300 000	3 115 000	1 500 000
8 Justisie	Justice	728 358 000	52 000 000	48 000 000	266 000 000	235 000 000
Statutêre Bedrag	Statutory Amount	49 526 000	3 500 000	3 500 000	17 500 000	16 300 000
9 Finansies	Finance	1 038 801 000	123 969 000	114 209 000	690 945 000	699 936 000
Statutere Bedrag	Statutory Amount	20 306 857 000	4 308 465 000	4 130 655 852	9 464 765 000	8 227 255 852
		(4 041 000 000)	(473 808 000)	(700 648 000)	(2 340 920 000)	(2 096 013 000)
10 Staatsbesteding	State Expenditure	603 843 000	50 000 000	—	290 000 000	—
11 Oudit	Audit	2 410 000	—	—	—	—
12 Administrasie Raad van Verteenwoordigers	Administration House of Representatives	4 709 600 000	402 600 000	292 000 000	2 049 600 000	1 712 000 000
13 Administrasie Raad van Afgevaardigdes	Administration House of Delegates	1 635 715 000	210 000 000	155 000 000	802 000 000	685 000 000
14 Korrektiewe Dienste	Correctional Services	1 484 041 000	118 280 000	102 900 000	638 319 000	534 500 000
15 Binnelandse Sake	Home Affairs	288 744 000	23 000 000	22 000 000	116 000 000	117 000 000
16 Onderwys en Opleiding	Education and Training	4 555 967 000	400 000 000	320 000 000	1 988 000 000	1 494 000 000
17 Mineraal- en Energiesake	Mineral and Energy Affairs	687 157 000	72 714 000	103 400 400	498 155 607	641 615 000
18 Landbou	Agriculture	452 579 000	61 000 000	8 000 000	272 000 000	192 000 000

Dienste	Services	Begroting Estimates 1991–92	Maand Augustus Month of August		Totaal 1 April tot 31 Augustus Total 1 April to 31 August	
			1992	1991	1992	1991
		R	R	R	R	R
19 Nasionale Gesondheid en Bevolkingsontwikkeling	National Health and Population Development	1 169 993 000	—	48 000 000	245 000 000	222 057 000
20 Polisie	Police	5 645 143 000	450 000 000	494 000 000	2 521 000 000	2 252 000 000
21 Streek- en Grondsake	Regional and Land Affairs	20 285 727 000	1 802 609 150	70 000 000	9 559 810 149	258 532 000
Statutêre Bedrag	Statutory Amount	699 537 000	58 293 000	—	291 465 000	—
22 Nasionale Opvoeding	National Education	283 878 000	24 000 000	79 000 000	148 721 000	169 872 000
23 Omgewingsake	Environment Affairs	207 012 000	14 000 000	14 523 500	74 088 000	71 173 000
24 Kommissie vir Administrasie	Commission for Administration	53 536 000	3 732 500	—	19 930 000	55 000 000
25 Verbetering van Diensvoorwaardes	Improvement of Conditions of Service	2 278 080 000	—	—	—	—
Statutêre Bedrag	Statutory Amount	5 000 000	—	—	—	—
26 Vervoer	Transport	1 998 288 000	226 000 000	121 000 000	1 088 000 000	596 000 000
27 Weermag	Defence	9 704 549 000	450 000 000	850 000 000	3 580 000 000	2 987 000 000
28 SA Kommunikasiediens	SA Communication Service	51 625 000	—	3 466 000	17 200 000	17 330 000
29 Plaaslike Regering en Nasionale Behuising	Local Government and National Housing	979 556 000	40 000 000	40 000 000	192 000 000	284 000 000
Statutêre Bedrag	Statutory Amount	—	—	914 750 000	—	4 839 673 000
30 Openbare Werke en Grondsake	Public Works and Land Affairs	1 909 750 000	100 000 000	100 000 000	767 000 000	725 000 000
31 Mannekrag	Manpower	294 837 000	22 000 000	27 000 000	135 000 000	137 000 000
32 Handel en Nywerheid	Trade and Industry	3 059 986 000	103 000 000	155 000 000	1 706 986 000	887 000 000
33 Sentrale Ekonomiese Adviesdiens	Central Advisory Service	4 352 000	400 000	385 000	1 835 000	1 945 000
34 Ontwikkelingshulp	Development Aid	—	—	572 108 000	—	2 766 912 000
Statutêre Bedrag	Statutory Amount	—	—	54 628 000	—	273 140 000
	R	100 584 885 000	10 648 336 170	10 010 126 502	44 851 727 664	37 453 540 602
*Min Diskonto RSA Effekte	*Less Discount RSA Stocks	4 041 000 000	473 808 000	700 648 000	2 340 920 000	2 096 013 000
	R	96 543 885 000	10 174 528 170	9 309 478 502	42 510 807 664	35 357 527 602
Staande Toewysings	***Standing Appropriations***					
Suid-Afrikaanse Ontwikkelingstrustfonds	South African Development Trust Fund	—	—	250 101	—	1 533 124
Uitbetalings, SA Ontw Trust 1990–91	Issues, SA Developm Trust 1990–91	—	—	—	11 786 428	—
	R	—	—	250 101	11 786 428	1 533 124
	R	96 543 885 000	10 174 528 170	9 309 728 603	42 522 594 092	35 359 060 726

Inkomstehoof	Head of Revenue	Maand Augustus Month of August		Totaal 1 April tot 31 Augustus Total 1 April to 31 August	
		1992	1991	1992	1991
		R	R	R	R
Ander Uitbetalings	***Other Issues***				
Skatkisbiljette	Treasury Bills	3 857 595 000	—	29 358 869 800	—
Leningsheffing	Loan Levy	15 377	—	49 244	—
Betaalmiddele Bydrae, I.D.A	Currency Subscription, I.D.A	—	—	1 978 530	—
Betaling ingevolge art 10 (1) (e) van Skatkis Wet	Payments in terms of section 10 (1) (e) of Exchequer Act	—	—	165 278	—
Betaling ingevolge art 10 (1) D Wet 66 van 1975	Payments in terms of section 10 (1) D of Act 66 of 1975	—	—	18 232 974	—
I M F Valuta Aanpassing	I M.F Valuation Adjustment	—	—	173	—
Betaling ingevolge artikel 3 van Finansiewet 131 van 1992	Payment in terms of section 3 of Finance Act, 131 of 1992	17 314 607	—	18 637 279	—
Betaling ingevolge artikel 1 van Finansiewet 131 van 1992	Payment in terms of section 1 of Finance Act 131 of 1992	2 000 000 000	—	2 000 000 000	—
Obligasies.	Bonds				
Onbepaalde Termyn Skatkis-obligasies	Indefinite Period Exchequer Bonds	2 634 300	—	14 124 500	—
Onbepaalde Termyn Nasionale Verdedigings-obligasies	Indefinite Period National Defence Bonds	556 050	—	3 632 450	—
Onbepaalde Termyn Senior Burger Spaarobligasies	Indefinite Period Senior Citizens Savings Bonds	1 313 800	—	8 645 500	—
Binnelandse Geregistreerde Effekte	Internal Registered Stock.				
Wisselende Koers	Floating Rate	—	—	799 650	—
14%, 1992	14%, 1992	—	—	1 780 000 000	—
12%, 2004/5/6	12%, 2004/5/6	—	—	221 847 000	—
12,9%, 1992 (R108)	12,9%, 1992 (R108)	1 000 000 000	—	1 000 000 000	—
10,5%, 1992 (R063)	10,5%, 1992 (R063)	1 558 424 900	—	1 558 424 900	—
6,5%, 1992 (R029)	6,5%, 1992 (R029)	698 979 810	—	698 979 810	—
Buitelandse Lenings en Kredlitte	Foreign Loans and Credits:				
1982–86	1982–86	773 331	—	773 331	—
1989–92	1989–92	4 534 065	—	4 534 065	—
1983–85	1983–85	537 711	—	537 711	—
1982	1982	55 907 538	—	55 907 538	—
1982	1982	937 377	—	937 377	—
1982–86	1982–86	84 688	—	84 688	—
Uitbetalings, 1991–92	Issues, 1991–92	32 060	—	11 550 996	—
	R	9 199 640 614	—	36 758 712 794	—
Totaal Staatsinkomsterekening	Total State Revenue Account R	19 374 168 784	—	79 281 306 886	—

Inkomstehoof	Head of Revenue	Maand Augustus Month of August		Totaal 1 April tot 31 Augustus Total 1 April to 31 August	
		1992	1991	1992	1991
		R	R	R	R
Inkomsterekening: Volksraad	*Revenue Account: House of Assembly* R	801 807 382	657 570 000	4 713 865 882	4 033 242 000
Inkomsterekening: Raad van Verteenwoordigers	*Revenue Account: House of Representatives* R	402 600 000	292 000 000	2 049 600 000	1 712 000 000
Inkomsterekening: Raad van Afgevaardigdes	*Revenue Account: House of Delegates* R	210 000 000	155 000 000	802 000 000	685 000 000
Betaling ingevolge artikel 1 van Finansiewet 70 van 1992	Payment in terms of Finance Act 70 of 1992	—	—	7 747 262	—
Rekening vir Provinsiale Dienste: Kaap	*Account for Provincial Services: Cape* R	333 000 000	258 750 000	1 733 000 000	1 584 000 000
Rekening vir Provinsiale Dienste: Natal	*Account for Provincial Services: Natal* R	153 000 000	89 000 000	815 000 000	784 388 000
Rekening vir Provinsiale Dienste: Oranje-Vrystaat	*Account for Provincial Services: Orange Free State* R	121 103 000	120 000 000	598 896 000	457 000 000
Rekening vir Provinsiale Dienste: Transvaal	*Account for Provincial Services: Transvaal* R	381 964 000	447 000 000	2 410 448 000	2 033 673 000
	R	2 403 474 382	2 019 320 000	13 130 557 144	11 289 303 000
Totale	Totals R	21 777 643 166	—	92 411 864 030	—
Skatkissaldo, 31 Augustus 1992	Exchequer Balance, 31 August 1992 R	6 122 061 025	—	6 122 061 025	—
Totale	Totals R	27 899 704 191	—	98 533 925 055	—

DEPARTEMENT VAN WATERWESE EN BOSBOU

No. 2638 **18 September 1992**

WATERNAVORSINGSFONDS: BELASTINGS EN VORDERINGS

1. In my hoedanigheid van Minister van Waterwese en Bosbou hef ek, Magnus André de Merindol Malan, hierby kragtens artikel 11 van die Waternavorsingswet, 1971 (Wet No. 34 van 1971), die volgende belastings en vorderings:

(a) Eenhonderd vyf-en-vyftig sent (155c) ten opsigte van elke hektaar grond wat te eniger tyd gedurende die 1993/94-waterjaar kragtens artikel 63 (7) van die Waterwet, 1956 (Wet No. 54 van 1956), ingelys is of ten opsigte waarvan 'n toekenning ingevolge artikel 56 (3) van genoemde Waterwet gemaak is met die oog op die besproeiing daarvan te eniger tyd gedurende genoemde waterjaar met water wat uit 'n Staatsdam verskaf of beskikbaar gestel word. Hierdie belasting word verhaal deur of in opdrag van die Direkteur-generaal: Waterwese en Bosbou gelyktydig met enige belasting of vordering wat ek gedurende genoemde tydperk kragtens artikel 66 van genoemde Waterwet ten opsigte van die betrokke grond hef, of indien geen sodanige belasting of vordering gehef word nie, is die belasting wat hierby gehef word, op aanvraag aan die Direkteur-generaal: Waterwese en Bosbou betaalbaar.

(b) Die bedrag in (a) hierbo vermeld ten opsigte van elke hektaar grond wat onder beheer van 'n besproeiingsraad of ander statutêre liggaam kragtens artikel 88 van genoemde Waterwet

DEPARTMENT OF WATER AFFAIRS AND FORESTRY

No. 2638 **18 September 1992**

WATER RESEARCH FUND: RATES AND CHARGES

1. I, Magnus André de Merindol Malan, in my capacity as Minister of Water Affairs and Forestry, hereby levy, in terms of section 11 of the Water Research Act, 1971 (Act No. 34 of 1971), the following rates and charges:

(a) One hundred and fifty-five cents (155c) in respect of each hectare of land which at any time during the 1993/94 water year is scheduled in terms of section 63 (7) of the Water Act, 1956 (Act No. 54 of 1956), or in respect of which an allocation has been made in terms of section 56 (3) of the said Water Act for the irrigation thereof at any time during the said water year with water supplied or made available from a Government dam. This rate shall be recovered by or on the instructions of the Director-General: Water Affairs and Forestry simultaneously with any rate or charge which I may levy in respect of the land concerned during the said period in terms of section 66 of the said Water Act or, if no such rate or charge is levied, the rate levied hereby shall be payable upon demand to the Director-General: Water Affairs and Forestry.

(b) The amount mentioned in (a) above in respect of each hectare of land scheduled under the control of an irrigation board or other statutory body in terms of section 88 of the said Water Act

Sanlam strikes optimistic note

STAR 18/9/92 (49)

By Derek Tommey

Sanlam is expecting a fall in the inflation rate, a smaller balance of payments surplus and lower interest rates.

These are some of the predictions made by Sanlam's chief economist Johan Louw in its latest economic survey.

However, he warns that continuing political violence, together with a number of other factors hampering the economy, have created a kind of paralysis that is further increasing uncertainty about an economic upswing.

He adds that if political and social stability are not re-established soon, nothing will come of the significant recovery phases predicted for next year.

He foresees a further reduction in the inflation rate for a number of reasons. These include:

- The recent drop in mortgage rates and the possibility of another one before the year-end;
- Lower food prices as weather conditions return to normal;
- The slower rise in salaries and wages, which should lead to lower unit costs and to lower consumer prices;
- More moderate price rises at the production level, which should also be reflected in consumer prices;
- Sustained monetary discipline; and
- Technical factors such as the effect of the changes from GST to VAT disappearing from the system by October.

But Mr Louw warns that there are a number of factors that could upset this picture, including the uncertainties of the weather and the considerable under-recoveries on the fuel equalisation fund.

He also says there is a possibility of a hike in indirect taxes or higher levies on fuel to help finance rising Budget deficits

All in all, he expects an average inflation rate of about 14 percent this year, dropping to 11 percent to 12 percent next year.

Mr Louw foresees the current account of the balance of payments showing smaller surpluses and even deficits in the next 12 months.

Among the reasons are the sustained rise in imports, a marked decrease in gold earnings, a moderate increase in net foreign services and transfer payments, and a slowdown in the rate of goods exported.

Mr Louw says this year's surplus, estimated at about R5 billion, could shrink to R2 billion next year. However, as the domestic situation improves, the capital account could perform better.

Short-term interest rates should decline in the next six months in conjunction with a continued sluggish rate of expansion, sustaind surpluses on the current account and a slowdown in demand for credit.

The noticeably slower growth rate of the money supply and of credit extended, as well as the expected significant deceleration in the inflation rate, will pave the way for further decreases in Bank rate.

The prime overdraft rate of banks will therefore be of the order of 16 percent to 17 percent at the end of 1992, against the current 18,25 percent.

Similarly, a continuation of the downward trend in long-term interest rates can be expected in the next few months because of lower short-term interest rates, declining inflation and limited alternative investment opportunities.

Keys sees some ground for hope amid the gloom

STAR 18/9/92

By Neil Behrmann 49

LONDON — Political violence, an economic civil war and business caution about change had driven domestic investment down to maintenance levels, Finance Minister Derek Keys said yesterday at a London conference organised by Business International.

Nevertheless there were several economic achievements that made Mr Keys more hopeful about South Africa's long-term economic potential.

Examining the depressing economic climate first, Mr Keys recalled the advice that some people gave him. "Cheer up," they said, "it could get worse."

"I cheered up and — sure enough — it got worse," Mr Keys said.

"The low level of fixed investment in factories, plant and equipment that are essential for new jobs, has and will remain my central preoccupation," said Mr Keys.

Unfortunately, the amount of attention given to investor confidence, said Mr Keys, had had no perceptible effect and the situation had deteriorated further.

"While investment confidence was absent during the transition (towards democracy), consumer confidence held up in the initial stages.

"The prospect and reality of mass action, coupled with the effects of the prolonged recession, however, have materially lowered the level of consumer spending, leading to still more business failures and darkening the prospect of a return on new investment still further."

Drought, ongoing deterioration in the terms of trade, falls in precious metals prices and the US dollar, in which most of SA's export sales were denominated, had not helped, he said.

Derek Keys . . . the situation had deteriorated further

Nevertheless, there were achievements, despite the bleak economic climate, said Mr Keys.

The Government had stopped taking the investment decisions that should be left to entrepreneurs.

It realised there had been too much spending on the civil service.

The aim should thus be to reduce government consumption spending from 21 percent of gross domestic product to 16 percent.

The Government was also consulting business, labour and other parties and had "stopped believing that it knows best".

Other gains in the economy were declines in inflation and interest rates and the likelihood of further falls.

Exports were ahead of imports and reserves were building up.

Budgeted revenue was below expectations because taxable income in the depressed economy was falling.

"Fortunately, however, we feel we can handle the divergence without raising taxes and without recourse to money creation."

"We intend committing ourselves to conultation and discussion and to avoid unilateral actions, unless there is absolutely no alternative," said Mr Keys.

He was "setting great store by the National Economic Forum, which we hope will be operative soon".

"In my contacts with the ANC economic decision makers, I detect a very healthy degree of pragmatism and realism.

"They are deeply conscious of the shortcomings of capitalism and sceptical about the ability to tame this particular animal, but they have also seen the wasteland created by planned economies."

He was particularly impressed by ANC department of planning economist Tito Mboweni's pragmatism.

He certainly did not call for disinvestment and sanctions, but pleaded for co-operation.

In a recent conference speech, Mr Mboweni had also called for higher growth through co-operation among government, trade unions and business.

But the ANC would still consider nationalisation or government shareholding in strategic industries.

The ANC would also introduce ant-monopoly and merger policies to improve competition and reduce structural inflation.

Trade policy would aim at raising productivity and competitiveness and the ANC would encourage foreign investment.

Mr Keys warned, however, that the "world is a sceptical place" and will "wait until it sees signs that this hopeful prognosis is more than a fantasy".

"Sending the right sort of sign to world markets may take a little while to get into place, but I am convinced it will be done," said Mr Keys.

SA officials hoping for stronger ties with IMF

BDay 18/9/92 (49)

SIMON WILLSON
in Washington

FEW SIGNS of visible progress in SA's relations with the IMF are likely to be on view during the organisation's annual meeting, which opens in Washington on Tuesday. But although SA officials attending the meeting are keen to play down any expectations of a breakthrough, they are quietly confident that, behind the scenes, relations with SA will be placed on a firmer footing.

Exactly 10 years after SA's last official IMF drawdown, SA officials firmly discourage speculation either that an IMF standby facility for SA will be announced or that SA will see any of the special drought assistance the IMF is marshalling for southern Africa, or that the Bush administration has yet pushed for World Bank co-ordination of an international effort to provide assistance to SA.

Assistance along each of these three lines is thought to be in the pipeline and even into the drafting stage. But actual implementation, as with so many other internal and external facets of the SA economy, is seen to be contingent on a political settlement

There are undoubtedly fewer political obstacles to a normalisation of relations now than there were two years ago. The Gramm amendment, which required the US representative at the IMF to vote against any SA application for a loan facility unless certain conditions were met, is effectively in abeyance since SA now meets most of the conditions.

But IMF rules on balance of payments support are not hard and fast, and bilateral discussions between the fund and the SA authorities are thought likely to prepare the ground for a future standby facility. Such discussions, however, are unlikely to take place next week.

SA officials are also keen to dampen expectations which arose earlier this year that SA was in line for substantial drought relief funds from the IMF. The fund is anxious to support only those drought-hit southern African countries that have already implemented economic structural adjustment programmes (Esaps).

The fund's reasoning is that it must support countries where Esaps are already in place to give the programmes the best possible chance of ultimate success.

Any World Bank involvement in SA, and any support from the US for such involvement, is conditional on the establishment of an interim government. But even if such a government took power tomorrow, SA officials here are convinced that most US foreign policymaking concerning Africa is on hold until after the US presidential election in November.

Another factor which suggests a delay in any full and formal restoration of SA's links with the IMF is the relatively long gestation period of any official fund report on the SA economy. A team of IMF economists was in SA last month to carry out the annual economic review performed on each of the organisation's member countries.

Although the IMF team passes the host country a preliminary report at the end of its visit, the process of producing the final document has scarcely begun. An internal staff report is then compiled, which then becomes the basis for a final report that only emerges up to three months after the team visit. No final IMF assessment of the SA economy is likely to be available, therefore, until early next year.

Thus the fund's attitude to SA as the 1992 annual meeting gets under way remains largely passive. A further prerequisite to normalisation of links is agreement on a feasible structural adjustment programme.

Any such programme has to have a reasonable chance of lasting its full medium-term course if it is to offer any reassurance to multilateral lending organisations or to any other foreign investor.

Both the IMF and World Bank are thought to be eager to dispel any impression that they are charitable institutions which have become a soft touch for basket-case economies. Observers believe that both organisations are now deliberately acting as any other financial institution would on being presented with a lending proposal: coldly assessing the risk.

If that means, in SA's case, a delay in the credit assessment of the country pending a change in the would-be borrower's personal circumstances, such a delay will be regarded as purely prudential — however urgent the borrower's needs.

The last official word on the Gramm amendment was in March this year, when US Assistant Secretary of State for African Affairs Herman Cohen was openly conciliatory at a House of Representatives foreign affairs committee hearing. "Should (SA) in the future apply for IMF facilities, the US would no longer be bound to oppose the application as they were two years ago," he said.

But SA officials do not view this apparent invitation from the US administration as any kind of green light for an application for a standby facility. Even though the political obstruction has evidently been cleared, a procedural blockage remains. Strictly, IMF standby facilities for balance of payments support are extended to countries with current account deficits that cannot be financed through private lending channels. SA, in its seventh consecutive year of comfortable current account surplus hardly qualifies, therefore, on a technical interpretation of IMF requirements.

LETTERS

Dear Sir

Govt action on forum 'slap in face'

BDAY 18/9/92 (49)

DIRK HARTFORD

COSATU accused government yesterday of seriously damaging prospects for constructive consultation on economic matters by deferring a decision to participate in the economic forum.

The labour federation said government's position was a "slap in the face both to organised labour and organised business".

However, the newly formed Business Forum — which includes the AHI, Chamber of Mines, Sacob, Seifsa, Bifsa, Nafcoc and Fabcos — said even though the economic forum had been delayed it had to be given a chance to "do its job". Business still believed the forum was the best mechanism for addressing the concerns of all parties to the economy.

Business would arrange meetings with government and labour to discuss how best to proceed in the current situation.

Cosatu alleged government wanted to proceed with unilateral economic restructuring without being fettered by socio-economic negotiating forums.

It said all outstanding issues had been resolved between the parties to the forum and a firm date — October 2 — had been set for its launch. "The Cabinet reversal of the agreements reached undermines the ability of its Ministers to negotiate with credibility."

Although Cosatu described government's decision as a "flagrant breach of an agreement" reached with Finance Minister Derek Keys last week, minutes of the meeting indicate that Keys was careful to stress that the consensus reached was conditional on a "positive response" from Cabinet.

Keys said at the meeting, which was also attended by Manpower Minister Leon Wessels, State Expenditure Minister Amie Venter and Finance director-general Japie Jacobs, that a forum plenary session "was one of the most difficult issues for him to sell to his constituency". In addition, he had to work methodically to build consensus among government departments.

The meeting identified Cosatu's mass action and anti-PAYE campaigns, as well as government's "unilateral economic restructuring" as the main obstacles to getting the forum off the ground.

Employer representatives at the meeting, including Barlow Rand's John Hall, Anglo American's Bobby Godsell, Sacob's Raymond Parsons and Seifsa's Brian An-

☐ To Page 2

Forum

BDAY 18/9/92 (49)

☐ From Page 1

gus, generally argued that Cosatu's positions on PAYE and mass action should not prevent the forum from starting work. However, Godsell emphasised that business was opposed to these actions which "if pursued by Cosatu would influence the ability of business to continue talking in the forum".

The Business Forum said last night there was no way it could support an anti-PAYE campaign.

Last night a spokesman for Keys emphasised that government had not closed its doors on the forum but was waiting until it was convinced that all parties were pursuing economic growth as a primary aim subject to the law.

WILSON ZWANE reports that Cosatu is set to invite employers to discuss its planned PAYE boycott.

Cosatu spokesman Neil Coleman said yesterday the federation was in the process of discussing the tax rebellion and how it should be implemented.

Coleman said employers needed to discuss the PAYE boycott with Cosatu as such an action was an attempt to pursue the same objectives set in an agreement between Cosatu and Saccola. These included an end to violence and a speedy establishment of a democratic government.

Saccola spokesman Bokkie Botha said the employer body was still examining the matter and would comment "when it is appropriate".

Cosatu announced on Monday it had set November 1 as a target date for employers to start withholding PAYE payments from government.

The announcement prompted the Inland Revenue Department to warn employers that they would be prosecuted or penalised in terms of the Income Tax Act if they defaulted in PAYE or SITE payments.

Prospects for economic revival waning — Sanlam

B Day 18/9/92 (49)

LINDA ENSOR

CAPE TOWN — Time was running out for an upturn in the SA economy next year, Sanlam chief economist Johan Louw warned in Sanlam's latest Economic Survey.

"If political and social stability is not re-established soon, the beginning of the economic upturn will be delayed even further and the moderate recovery phase predicted for 1993 will not be realised."

Louw said the combination of local and international recession, the severe drought and ongoing political violence and unrest had created "a disturbing confidence crisis among both South Africans and foreigners and had brought about a kind of paralysis in the country". He added that this had exacerbated the uncertainty about a future economic upswing.

The recession had deepened considerably over the past year, particularly as a result of a sharp contraction in the agricultural sector, and a further decline in production and employment could be expected, Louw believed.

The effects of the weak international economic situation, the continued drought and the worsening political climate would probably mean a shrinkage of the economy of about 1% this year. Louw added that a comprehensive restructuring of the economy to eliminate structural weaknesses was a prerequisite for a lasting expansion.

A noticeable decline in inflation by December was forecast as a result of the cut in bond rates, the slower rise in salaries and wages, moderate producer price rises, sustained monetary discipline and technical factors such as the introduction of VAT. An average inflation rate of about 14% for 1992 and a rate of between 11% and 12% in 1993 was forecast.

But Louw sounded a note of caution about the effects of a possible increase in fuel prices as a result of the considerable underrecoveries on the fuel equalisation fund.

"Chances are that a hike in indirect taxes and/or higher levies on fuel could be employed in next year's budget to help finance rising budget deficits."

Economic forum on hold (49)

THE government has pulled back from joining the National Economic Forum, citing Cosatu's mass action campaign and decision to try to boycott PAYE payments. W/Mail 18/9-24/9/92

Violence has spawned paralysis

STAR 19/9/92

(49)

FINANCE STAFF

ONGOING political violence, together with other factors hampering the economy, have created a kind of paralysis in the country, says Sanlam in its latest economic survey. The result is a further increase in uncertainty about any economic upswing.

If political and social stability is not re-established soon, nothing will come of the significant recovery phase predicted for next year, says Johan Louw, Sanlam's chief economist.

Before a lasting expansion can be achieved, the structural weaknesses in the economy will also have to be eliminated with a comprehensive programme.

Fortunately, the authorities realise that this is essential, says Louw, and attempts are being made to use such a programme as a point of departure for higher economic growth and greater price stability in the longer term.

The recession deepened noticeably in the past year and has now been going for more than 40 months.

This is having a severely adverse effect on production, job opportunities, and the general prosperity of consumers as well as business. Most companies, including a number of blue chips, are struggling.

Regarding interest rates, Sanlam expects a reduction in the next few months. A prime overdraft rate of between 16 and 17 percent is foreseen for the year-end against 18,25 percent at present.

This trend is associated with the continuously sluggish rate of expansion in the economy, sustained surpluses on the current account of the balance of payments and a deceleration in the demand for credit.

Sanlam expects a significant decline in the inflation rate for the rest of the year. This should reduce the average for 1992 to about 14 percent. In 1993 it could drop to between 11 and 12 percent.

Louw emphasises that this favourable tendency has largely developed for technical and cyclical reasons. Underlying factors creating inflation in the South African economy have not been removed.

Global currency crisis has positive side

SA smiles as Europe shakes

(49) ARG 19/9/92

JOHN SPIRA
Weekend Argus Correspondent

South Africa emerged from a week of global currency chaos with a smile on its face.

Following Britain's withdrawal from the European exchange rate mechanism on Wednesday night, the pound plunged, the dollar soared and gold added a quick five dollars.

Since then, currency markets have been in a state of flux. The level at which they eventually settle hinges largely on the outcome of Sunday's French vote on the Maastricht treaty on European union.

The French, having observed the failure of British attempts to protect the pound, may well reject the treaty — which includes a plan for a single European currency unit — in which case the chaos on foreign exchange markets will continue.

But the pointers suggest that gold and the dollar will remain firm and sterling will stay weak, with positive implications for South Africa.

Among few negatives is the upward pressure on the petrol price, since South Africa's oil imports are denominated in a dollar which has firmed sharply.

Uncertainty over future currency movements invariably triggers a flight into the relative safety of gold and the dollar. If gold holds on to its gains, South Africa will earn more foreign currency, the gold mines will reap higher earnings, the alarming downward trend in mining employment should be reversed and the State's take from mining taxes should improve, thereby raising the prospect of reductions in individual tax rates. If at the same time, the level of confidence in the country improves, businesses will invest in the future and help turn the economy around.

South Africa's biggest export earners include gold, diamonds, platinum, coal, chrome and manganese - all of which are denominated in US dollars.

Over the past several months, the dollar has been weakening against the rand, with the result that commodity exporters have been earning fewer rands for their trouble.

Now, with the dollar having strengthened, the mines (and, for that matter, all exporters who sell their output on a dollar basis) will be earning more rands - a welcome bonanza for existing exporters and an additional incentive for prospective exporters.

Imports from Britain — which is one of South Africa's largest trading partners — have suddenly become a lot cheaper. This reduces the upward pressure on prices from imported inflation and cheaper imports also encourage local suppliers to moderate price increases.

Germany and Japan are also substantial trading partners. The the mark and the yen have held up relatively well during the past few days of currency turmoil, so no relief on imports from these countries is in sight in the short term.

However, a good deal of scope exists for substituting British goods for those imported from Germany and Japan, with beneficial effects on domestic inflation — and on interest rates, since the Reserve Bank has repeatedly said it will lower interest rates if inflation drops.

More reports on page 4

Scenario Plans

S.A.'s ? FUTURE

mapping roads to the future

Developing a democratic culture

Scenario planning in South Africa is playing an important role in spreading awareness of the options open to the country. In this final instalment of a four-part series, financial writer **Lynda Loxton** evaluates the various scenarios featured on these pages over the past weeks:

Can the scenario plans change our minds?

(49)

South 19/9 - 23/9/92

SCENARIOS have had an impact, but the key uncertainty remains — will South Africans change traditional behaviour patterns enough to survive?

This is the question posed leading Johannesburg-based development consultant Dr Robin Lee, who has extensive experience in strategic and scenario planning.

Asked to evaluate the scenarios in this series over the last three weeks, Lee said that scenarios map out different *possible* futures.

"They are used to open up thinking about futures by individuals, groups or organisations. Sometimes they make an impact on a national scale. Scenarios are specially used in periods of rapid or decisive change.

"It's also useful to say what scenarios are *NOT*. They do not 'predict' the future. In fact, scenario planners explicity reject the concept of a specific, single future, which can be predicted in a single scenario. There must always be different possible futures."

Mr Lee also stressed another point about scenarios: working on them or thinking about them should "change the person's mindset" — that is, make him/her think more broadly about the future and acknowledge different options.

"Changing mindsets, the way people think, is not easy," said Lee.

So most scenarios develop attention-getting phrases: "kick-start the economy", "winning nation", the "ostrich scenario" and so on. This also helps people remember the scenario. The real test of a scenario is "whether a middle manager, who has heard or read the scenario once, will be able to remember the options in his/her shower a week later!"

Lee added: "To shake up people's mindsets, it is best to focus on what is *UNCERTAIN* in the present and future. Certainties can be predicted and planned for. Uncertainties introduce the unexpected options.

"All the scenarios explained in the series achieve that. The Sunter scenario asked whether or not rich nations would assist poor nations to achieve their own 'winning' model. The Mont Fleur scenarios asked whether we can accept that there are no quick fixes and commit ourselves to a long process. The Nedcor/Old Mutual scenarios explicitly asked the question: 'Will the will to survive overcome (the behaviour of) business as usual?'

"Scenarios map out possible futures to cause people to reconsider their options and then behave differently to achieve the future they prefer. Therefore, scenarios should be judged by the changes in people's behaviour, not by how accurate they are compared to 'what really happened."

At the same time, Lee noted that one could still see what had happened in terms of a specific scenario.

"In the case of the Nedcor/Old Mutual scenario, current trends reinforce its downside scenario. A lengthy transition in declining economic and social conditions is linked to high levels of violence.

"The political negotiation process is under stress, but not abandoned. International assistance and pressure to continue negotiation is increasing. Social accords or forums are being created almost daily. But the key uncertainty remains — will all South Africans change traditional behaviour patterns enough in order to survive?"

The Sunter scenario in video and live presentation has reached tens of thousands of people. The Nedcor/Old Mutual scenarios were presented on request to over 50 000 people and a video will soon be on sale. The Mont Fleur scenarios are being extensively presented now.

"There is no question that all key decision-makers have seen or know about all three. Some major shifts in policy targets relate to ideas which the scenarios created or popularised. In relation to their impact, the costs have been small," said Lee.

On a tightrope to the new SA

South 19/9 - 23/9/92. (49)

IF THE scenario planning series over the last month teaches anything, it is that South Africa urgently needs "good" democratic government and a major economic overhaul.

But these two issues are finely balanced and dreams of a democratic new South Africa could be in peril if something slips out of kilter.

In particular, whether we opt for the Flamingo of the Mont Fleur scenario, the changing gears and kick-start of the Nedcor/Old Mutual scenario or the High Road of Anglo American's Clem Sunter, we should be under no illusion that it will be easy, or that results will be forthcoming quickly.

That in itself poses a threat to a future democracy because, as the Nedcor/Old Mutual scenario shows, no country has ever experienced a successful transition to a stable democracy in the absence of sound economic performance.

Obviously, we have not had that sound economic performance either before negotiations started, or since — and we are unlikely to have any for some time.

Rising unemployment, poverty and social disintegration of the kind Dr Mamphele Ramphele spoke about in the Nedcor/Old Mutual scenario are with us still — and getting worse daily. This is fuelling sometimes unrealistically high expectations on the part of most of South Africans, and could tempt whoever takes power to adopt some of the populist policies which all the scenarios warn are unsustainable in the long-run.

How to deal with these problems and challenges have prompted a wide range of "solutions" from the various scenario experts consulted.

Almost all call for redistribution through growth, with that growth fuelled by an initial spurt of investment in basics such as housing and electricity and, in the longer term, by a fundamental restructuring of the economy to make it more competitive and export-orientated.

But it must be clear to everyone that a great deal more will need to be done to deal with the deep psychological damage done by decades of apartheid and the marginalisation of the majority of South Africans to the extent that they do not feel they have a stake in the economy at all.

In the Nedcor/Old Mutual scenario, Ramphele and Bob Tucker spoke of the need to act decisively to root out the culture of victimisation and entitlement, and to provide people with the means to take charge of their own lives — and insist on structure, standards and discipline.

Clem Sunter talked about turning ordinary people into champions: "Modern leadership is about supporting people, bringing out the best in them, liberating their spirit, making them leaders themselves."

These views seem to be sinking in some circles. In a recent discussion paper, even the state-funded Development Bank of Southern Africa (DBSA) said democracy was put at risk in the present economy.

"A functioning democracy assumes that conflicting needs and desires can be fairly sorted out through enfranchisement, political participation and a representative government. For this process to be judged fair by its participants, it is important that it rest on shared values, an elusive concept in a country of many cultures."

DBSA said: "Shared values are more likely in a society that is not deeply divided into alternate camps by inequalities in income, wealth and opportunity. Where inequality is most severe, political process is often co-opted by the affluent, leaving extremist strategies as the only option for the poor. Thus, the goal of a functional democracy in South Africa requires the closure of gaps in the economic domain just as surely as it does in the political domain."

'Kick-start' could do the trick

South 19/9 - 23/9/92 (49)

THE scenario-inspired concept that has aroused most debate is the Nedcor/Old Mutual "kick-start" for the economy through big spending on programmes like housing and electricity.

Most agree such an approach would be important in starting to redress socio-economic discrimination against black South Africans while also creating jobs and spurring growth.

It is agreed this kick-start should be accompanied by a fundamental restructuring of the economy to ensure sustainable long-term growth.

But, as a recent discussion paper by the Development Bank of Southern Africa showed careful attention will have to be paid to how the kick-start is implemented.

This is where the change in mind-set required by all scenarios is most needed — old ways of doing things will not be good enough.

The bank says any massive investment programme in housing, public works and the like should use labour intensive technologies. Without this, most of the money invested will be used to buy expensive construction machinery and ultimately go into the pockets of large, well-established construction companies and their relatively highly-paid employees.

"Without explicit labour intensity, the opportunity will be lost to direct most of this funding into jobs which can be filled by the lower income groups," said the bank.

This would not help income redistribution, which should be one of the main aims of social spending programmes.

The small business and informal sectors should also be involved in providing some goods and services needed for the programmes, which will further spread the benefits of the programmes.

It will also be important to ensure community participation to enhance the sense of "ownership" of the final product.

The bank recommended that housing, for example, should be provided on a site-and-service basis rather than by building large schemes.

Not only would this lead to more housing, but site servicing would be more labour intensive than building houses, the bank concluded.

An immediate priority would, however, have to be identification of land for further urban development. This land should not, as under apartheid, be far from places of work.

The already heavy strains on transport infrastructure would increase while it would be bad social planning to expect more people to spend hours every day travelling to and from work.

Another target for social investment is electricity.

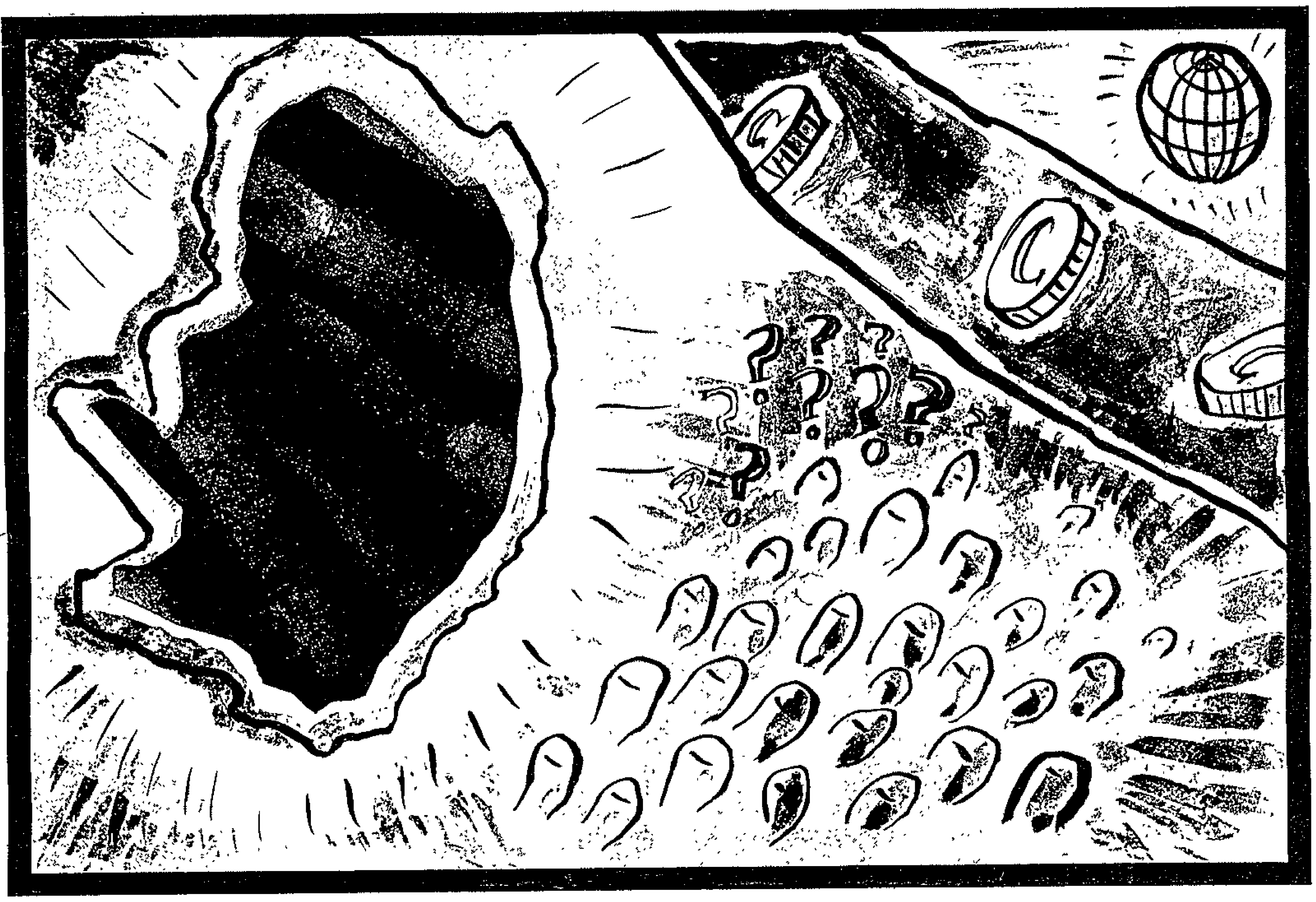
Electricity in the townships and in rural areas will have several social benefits, including an improved environment for learning, better health and access to modern ideas through electronic media.

It will also create demand for electrical goods, the manufacture of which is labour intensive and requires little imported input. This will strengthen production sectors which can provide more jobs without balance of payments strains.

Electrification will also stimulate small business development as more people will be able to run home industries using machinery. This will have a rapid impact on employment, incomes and goods and services available in townships.

See page 20

Scenario Plans



Is anyone out there?

THE KILLING fields continue with no final negotiated settlement in sight. Has no one read, or taken the slightest notice of, the scenario planners?

All three scenarios highlighted in SOUTH over the last three weeks have been presented, in person or by video, to all the major political players and business leaders in the country over the last few years — and all stress that time is running out.

We need a negotiated settlement now if we want any future for the South African economy. But it appears as if the scorched earth approach is dominating as all sides jockey for power, position and the hearts and minds of the masses.

To use the images of the Mont Fleur scenarios, the flamingo is being burnt at the stake while the ostrich continues to bury its head in the sand and is slowly asphyxiating. The government is holding out for the lame duck while the ANC seems to be angling for the populism of Icarus — and both options promise a bleak future for all of us.

SA must find niche in world markets

South 19/9 - 23/9/92. (49)

SCENARIO planners tend to agree that South Africa should become an outward-looking, export-orientated, internationally competitive, technologically-driven, market-orientated economy — but can it?

Although the outward-looking arguments are compelling, there are many people who still push for a more "autarchic" or inward-looking thrust to redress past social and economic imbalances instead of market-related policies that will limit redistribution.

It is difficult to predict who will win the day.

But the experience of neighbouring countries point to the dangers of ignoring the scenario planners' advice. True, they are economists, not politicians, and will not have to deal with the pent-up expectations of South Africans who want to see some improvement in their living standards *SOON.*

But, as economists, they also have a grasp of how redistribution and populism of the Icarus type, could build up pressures in the economy that will, as Zimbabwe recently found out, be a greater threat to the politicians than not meeting the initial expectations of the masses.

The irony, of course, is that no matter what politicians decide, all their good intentions could come to naught for the simple reason that the economy is in no condition to support change.

Metals and minerals, on which the South Africa economy is still based, have gone out of fashion in the world market. Developed countries don't buy them as much as they used to, and when they do, they set the prices. This means countries that rely mainly on exporting these basic commodities are poorer than they should be.

One of the main reasons why commodities have gone out of fashion is rapid technological change, mainly from Japan.

The argument is that countries like South Africa should be tapping into the new technologies to transform basic commodities into value-added products that will earn more on world markets.

South Africa should become a manufacturer, not just a producer of raw materials. It should become an exporter, and not remain an importer of manufactured goods.

This, however, is easier said than done. It requires painful structural change — and the world might not always play along.

To become an exporter, you first have to find out what you can make better than anyone else, and find out where you can sell it. This is called finding your "niche". It involves a lot of research and development work — something many companies might not have either the skills, money or verve to do.

That niche is particularly important because of protectionism in world markets, something all the scenarios complain about but which is not likely to change.

This underlies the inherent contradiction in their argument, which Clem Sunter recognises in his Low Road scenarios. They want countries such as South Africa to open their markets to the outside world, but much of that world — apart from Africa, perhaps — is gradually closing its markets.

The so-called Triad — Europe, Asia and North America — is developing into regional trading blocks, which might cut out the rest of the world altogether.

In retaliation, Africa has already started establishing its own regional market, which could provide a democratic South Africa with a huge market.

But most African countries have already, under the guidance of the World Bank, started their own "economic structural adjustment programmes" or ESAPs, aimed at making them more export orientated as well — so it will have to be a game of give and take for South Africa.

Bringing in technology and changing production lines will also mean a major reshuffle in many industries, sometimes at the cost of jobs as machines take over from people. Is this a good idea at a time of rapidly rising unemployment?

Of course not, say the scenario planners. But it will be necessary and can be countered by an equal emphasis on the promotion of small businesses and the informal sector. Worldwide, these are now the major sources of jobs while providing individuals and communities with the opportunity to improve living and working conditions.

What worries many South Africans is that it will lessen the power of the unions. Fewer workers in the formal economy have already dented the power of the once-strong unions in Britain, while the informal sector is often used by big companies through sub-contracting arrangements to side-step negotiations with unions.

This poses the painful question — which is most important: union power or more jobs? Technology means you cannot easily have both.

'Good intentions could come to naught if the economy can't support change'

Widening the mental map

South 19/9 - 23/9/92 (49)

SCENARIO planning is helping to widen South Africans' narrow "mental map" while also contributing to the development of a democratic culture.

According to the director of the South African office of the German Friedrich Ebert Stiftung (FES), Dr Winfried Veit.

He says the development of the Mont Fleur scenarios, in particular involved economists of widely differing political persuasions — and saw them emerge after a year of intensive sessions with a remarkable common understanding.

That does not mean they agreed on everything, but that they agreed on more than they used to.

This, believes Veit is a major contribution to the development of a democratic culture in South Africa — the give-and-take needed by representatives of different political views to come up with common views on major issues for the best long-term interests of the country as a whole, not necessarily their own political parties.

The Mont Fleur scenarios were funded by FES and the Swiss government and are now being presented around the country in a bid to further stimulate debate about the way forward.

Veit, who developed foreign policy scenarios in Germany in the eighties, said FES became involved with the Mont Fleur scenarios because of his personal interest in scenario planning and because of FES's long-standing relationship with Prof Pieter le Roux, director of the Institute for Social Development at the University of the Western Cape, who led the scenario team.

"This has been one of the most successful programmes we have been involved in here. Although we do not expect it to change South Africa, we hope that it can make a modest contribution to changing the way people look at economic options," said Veit.

Of particular importance was the need for a greater sense of urgency about getting the economy going again, and to involve all parties in the identification of policies that will change the present "lame duck" scenario to the "flight of the flamingoes".

Some people (including SOUTH columnist Sweetness B Rat) have criticised the symbols chosen for the scenario, but Veit said this was a well-known scenario tool to make relatively staid and boring issues more accessible to as many "ordinary" people as possible.

And, as this writer knows all too well, people's eyes tend to glaze over if there is too much talk about balance of payments, export-orientated strategies and the like — so why not flamingoes, lame ducks and even Icarus?

● The Friedrich Ebert Stiftung is named after a former Social Democratic president of Germany. It has had strong links with the anti-apartheid movement since the eighties and in 1990 opened its first office in South Africa.

Most of its programmes involve assisting the democratic movement to share international experiences and help clarify policy options.

SA must find niche in world markets

South 19/9 - 23/7/92. (49)

SCENARIO planners tend to agree that South Africa should become an outward-looking, export-orientated, internationally competitive, technologically-driven, market-orientated economy — but can it?

Although the outward-looking arguments are compelling, there are many people who still push for a more "autarchic" or inward-looking thrust to redress past social and economic imbalances instead of market-related policies that will limit redistribution.

It is difficult to predict who will win the day

But the experience of neighbouring countries point to the dangers of ignoring the scenario planners' advice. True, they are economists, not politicians, and will not have to deal with the pent-up expectations of South Africans who want to see some improvement in their living standards SOON

But, as economists, they also have a grasp of how redistribution and populism of the Icarus type, could build up pressures in the economy that will, as Zimbabwe recently found out, be a greater threat to the politicians than not meeting the initial expectations of the masses.

The irony, of course, is that no matter what politicians decide, all their good intentions could come to naught for the simple reason that the economy is in no condition to support change.

Metals and minerals, on which the South Africa economy is still based, have gone out of fashion in the world market. Developed countries don't buy them as much as they used to, and when they do, they set the prices This means countries that rely mainly on exporting these basic commodities are poorer than they should be.

One of the main reasons why commodities have gone out of fashion is rapid technological change, mainly from Japan.

The argument is that countries like South Africa should be tapping into the new technologies to transform basic commodities into value-added products that will earn more on world markets.

South Africa should become a manufacturer, not just a producer of raw materials It should become an exporter, and not remain an importer of manufactured goods.

This, however, is easier said than done. It requires painful structural change — and the world might not always play along

To become an exporter, you first have to find out what you can make better than anyone else, and find out where you can sell it This is called finding your "niche". It involves a lot of research and development work — something many companies might not have either the skills, money or verve to do.

That niche is particularly important because of protectionism in world markets, something all the scenarios complain about but which is not likely to change.

This underlies the inherent contradiction in their argument, which Clem Sunter recognises in his Low Road scenarios. They want countries such as South Africa to open their markets to the outside world, but much of that world — apart from Africa, perhaps — is gradually closing its markets.

The so-called Triad — Europe, Asia and North America — is developing into regional trading blocks, which might cut out the rest of the world altogether.

In retaliation, Africa has already started establishing its own regional market, which could provide a democratic South Africa with a huge market.

But most African countries have already, under the guidance of the World Bank, started their own "economic structural adjustment programmes" or ESAPs, aimed at making them more export orientated as well — so it will have to be a game of give and take for South Africa.

Bringing in technology and changing production lines will also mean a major reshuffle in many industries, sometimes at the cost of jobs as machines take over from people Is this a good idea at a time of rapidly rising unemployment?

Of course not, say the scenario planners But it will be necessary and can be countered by an equal emphasis on the promotion of small businesses and the informal sector. Worldwide, these are now the major sources of jobs while providing individuals and communities with the opportunity to improve living and working conditions

What worries many South Africans is that it will lessen the power of the unions. Fewer workers in the formal economy have already dented the power of the once-strong unions in Britain, while the informal sector is often used by big companies through sub-contracting arrangements to side-step negotiations with unions.

This poses the painful question — which is most important union power or more jobs? Technology means you cannot easily have both.

'Good intentions could come to naught if the economy can't support change'

Widening the mental map

South 19/9 - 23/9/92 (49)

SCENARIO planning is helping to widen South Africans' narrow "mental map" while also contributing to the development of a democratic culture.

According to the director of the South African office of the German Friedrich Ebert Stiftung (FES), Dr Winfried Veit.

He says the development of the Mont Fleur scenarios, in particular involved economists of widely differing political persuasions — and saw them emerge after a year of intensive sessions with a remarkable common understanding.

That does not mean they agreed on everything, but that they agreed on more than they used to.

This, believes Veit is a major contribution to the development of a democratic culture in South Africa — the give-and-take needed by representatives of different political views to come up with common views on major issues for the best long-term interests of the country as a whole, not necessarily their own political parties.

The Mont Fleur scenarios were funded by FES and the Swiss government and are now being presented around the country in a bid to further stimulate debate about the way forward.

Veit, who developed foreign policy scenarios in Germany in the eighties, said FES became involved with the Mont Fleur scenarios because of his personal interest in scenario planning and because of FES's long-standing relationship with Prof Pieter le Roux, director of the Institute for Social Development at the University of the Western Cape, who led the scenario team.

"This has been one of the most successful programmes we have been involved in here. Although we do not expect it to change South Africa, we hope that it can make a modest contribution to changing the way people look at economic options," said Veit.

Of particular importance was the need for a greater sense of urgency about getting the economy going again, and to involve all parties in the identification of policies that will change the present "lame duck" scenario to the "flight of the flamingoes".

Some people (including SOUTH columnist Sweetness B Rat) have criticised the symbols chosen for the scenario, but Veit said this was a well-known scenario tool to make relatively staid and boring issues more accessible to as many "ordinary" people as possible.

And, as this writer knows all too well, people's eyes tend to glaze over if there is too much talk about balance of payments, export-orientated strategies and the like — so why not flamingoes, lame ducks and even Icarus?

- The Friedrich Ebert Stiftung is named after a former Social Democratic president of Germany. It has had strong links with the anti-apartheid movement since the eighties and in 1990 opened its first office in South Africa.

Most of its programmes involve assisting the democratic movement to share international experiences and help clarify policy options.

Forget politics — only hard labour can save us now

S Times 20/9/92

SHEILA VAN DER HORST appeals for a return to the old values of discipline, work and honesty

WHICHEVER government comes to power in terms of the new constitution, be it the ANC, a coalition, or even the PAC, a nasty surprise lies in store for it and the great majority of its supporters.

No attempt to transfer wealth from the few affluent so-called fat cats to the great majority of the poverty stricken, will alter this. For all this glitter of diamonds, gold and other minerals, South Africa is not and never has been a rich country.

It has been saved time and again by economic miracles — the discovery of diamonds, cyanide recovery of gold, and the rise in the price of gold in the 30s. Its land is mostly arid and unable to support its population without irrigation and other capital inputs.

Myth

The thesis that, but for the appropriation of land by the whites, the blacks would constitute a prosperous peasantry, is largely myth. Anyway, who would the "prosperous peasants" have sold their crops to but the burgeoning mining camps and towns?

To blame colonisation for every evil in South Africa — the colour-bar, the appropriation of land and the wage gap — is easy, but does not do justice to the whole picture.

I am compelled to write this because I have been associated with the South African Institute of Race Relations for over 50 years.

Through the institute I have met and come to be friends with some of South Africa's great thinkers and do-ers: the Hoernle's, the Rheinalt Joneses, Nobel prize-winner Chief Albert Luthuli and Senator Edgar Brookes.

I wonder what these leaders of thought and action would think of our present leaders? I have known many stormy times, but I have never known such bitterness, confrontation and evasiveness as today.

Colonisation, let us remember, is not all bad. It brought the spade, the plough, the wheel, the mill and Christianity, which many blacks as well as whites cherish. Missionaries put the Bantu languages into written form. The British abolished the slave trade and slavery long before it was abolished in the US and Brazil. From 1834 to 1872 discriminatory legislation was disallowed by the British government.

Births

Today's teeming population is only alive because of modern medicine. The old Bantu-speaking culture is gone and cannot be wholly restored. It has its virtues, two of which were family spacing and respect for the elderly. The politicising of birth control has been disastrous.

The black leaders have a great responsibility to call on their people to control their birth rate. I am not sure that it is not a crime against humanity to bring children into the world where they will lead a life of poverty and frustration. Do we want to resort to China's methods of population control? What do the younger generation want? To nourish grievances and keep stirring up trouble endlessly?

The whites have experience of that from the Anglo-Boer wars onwards and it has done them no good, nor will it the blacks. Do they want to reduce South Africa to a wasteland? It would seem so. It is they who will suffer, are suffering, now. Is that their revenge?

One of South Africa's greatest problems today, even more than the economic and political problems, is the "lost generation"; in fact, almost two school generations of adolescents and young adults who are uneducated and out of control.

In the 30s the government was confronted with the problem of the drift to the towns by the white rural population. Its youth was aimless and uneducated. It tried, in part, to meet the situation by establishing the Special Service Battalion at a bob-a-day. Could something like this be done now? Would youth volunteer to work and learn a trade for that? Would it submit to the discipline of regular work?

There is a grave danger that our semi-educated youth will spurn manual work, even the trades.

We must also reduce our wasteful bureaucracy and those in it who obstruct change.

The economic kingdom will not follow automatically on the resolution of the political. The cry of liberation before education has been seen to be not only fruitless, but disastrous for those now devoid of any means of livelihood, ripe only for revolution.

Recently, in the US, I heard a Chinese professor explaining why the Vietnamese and other Oriental people were academically out-performing the American children. He attributed it to discipline at home and school. What can the despairing parents and many teachers do about instilling a work ethos into the present generation of African children?

Lazy

South Africans, white and black, are for the most part averse to hard work. We talk of entering the export market and so overcoming our poverty, but, to my mind, we have little hope of competing with countries of the Far East rim.

Some countries have succeeded in becoming wealthy through education and hard work without having even such thin resources as South Africa. Switzerland and Japan are examples.

At present, South Africa has more infrastructure than other African countries. But infrastructure has to be maintained. Some 30 years ago an economist pointed out that it was easier to run an oil refinery in the Third World, which could be done by imported experts, than to maintain roads because a refinery, if not run efficiently, would not run at all, whereas roads could deteriorate into potholes and eventually become useless.

Can we not get on with resolving our economic and administrative problems while the politicians resolve the political ones?

● *Dr Sheila van der Horst is a former president of the SA Institute of Race Relations and associate professor at UCT*

(49)

Investment in four possible 'new SAs'

49

SlTimes (Buss) 20/9/92.

ED Hern Rudolph portfolio managers Andre du Plessis and Steve Meintjes have taken the political scenarios theme a step further with investment strategies pertinent to each of four possible outcomes.

The four are widely acknowledged under various headings. We can follow the highway (1), go up the cul-de-sac (2), have to return to go (3), or suffer a smash at speed (4).

In the highway scenario, negotiations resume before the yearend and an elected interim government will work through a decisive transition period. A constituent assembly, requiring a 70% majority for all decisions, will be elected in the first half of next year.

The ANC wins 55%, Nats 25% and Inkatha 8% of the vote. A year later, a new constitution entrenches powers for 10 federal regions with 10 senate members each. No party has an outright majority in the senate.

The constituent assembly becomes the lower house and elects Nelson Mandela president. An ANC cabinet rules from March 1994, FW de Klerk leads the opposition and Mangosotho Buthelezi governs Natal. But the ANC has to compromise on vital issues, such as the economy. All sanctions go by March 1993.

Equity sector allocation (%)	Scenarios 1	2	3	4
Mining and exporters	20	20	35	30
Finrand hedges	15	75-80	25	40
Finance	10	—	5	5
Infrastructure/GDFI	25	—	15	10
Consumer	30	0-10	20	15
Blue Chips	70	100	80	90

This scenario leads to high growth and good times. But after an initial decline, inflation climbs and the rand weakens from 1994. Prescribed investments are reintroduced.

The scenario team rates at better than even the chance of hitting the highway.

Blue chips will be first to benefit and the economic revival will help small companies. Shares such as Driefontein, Rusplats, Samancor, Gencor, Anglo American, Barlows and SA Breweries, will find their way back into foreigners' investment portfolios.

Infrastructural and capital goods stocks, such as Murray & Roberts, Afrox, Powertech, LTA, Anglo Alpha and Boumat, will do well, as will cyclical and recovery stocks — Barlows, Unitrans, Datakor, Imperial, Holdains and Ellerine Trade and tourism will help Safren, SunBop, Safcor and Bidcorp. A strong weighting in selected consumer stocks is advocated.

The cul-de-sac scenario follows a breakdown in negotiations. There is an alliance of moderates and certain black groups. But it all leads to more violence, confrontation and mass action, with sit-ins at State and corporate offices, retaliatory attacks, defence force intervention and a state of emergency. In spite of FW's efforts to brief the international community, sanctions are reimposed.

Mr Du Plessis and Mr Meintjes foresee no growth in a siege economy, strikes, high unemployment — the worst of everything. In this case — if you are still in the country — high liquidity must be maintained with preferably no property or equity as affairs deteriorate. It must be 100% investment in equities with foreign assets and hard-currency earnings — Richemont, Charter, Oceana, Minorco and Fit.

Mining and other exporters with a strategic advantage — platinum shares, Samancor, Sappi, Royfood, Trencor — could be bought, with marginal involvement in a few defensive consumer stocks providing basic requirements, such as Pep and Tiger Oats.

Twelve months into the cul-de-sac we proceed to scenario 3 — return to go. Renewed negotiations will lead to a return to scenario 1. But by then, the economy will have been seriously damaged, inflation soaring. There is a slow return to square 1.

The Ed Hern team recommends shares and property only on signs of successful negotiations. Otherwise, copy the cul-de-sac path for equity investments before gradually hitting the highway strategy.

Scenario 4, the smash at speed, is arrived at through negotiation, but involves an unrestricted ANC government with a two-thirds majority required in a constituent assembly. Federal regional power is not entrenched and the ANC controls the senate and Natal.

This is better than the cul-de-sac, but a greater risk than the highway. It leads to low growth and high inflation, violence from excluded parties, misallocation of resources, economic interference and controls and government paper issued well in excess of prescribed investment-generated demand.

CHOICES OUTLINED: Andre du Plessis and Steve Meintjes

Property and gilts are largely inappropriate, say the analysts, and equity still offers the best protection and flexibility in a rapidly changing socio-political and inflationary environment. But beware of haphazard and arbitrary government action which from time to time will affect particular sectors.

The Ed Hern team believes nationalisation has been largely discarded as an economic policy. Although higher social spending and redistribution are inevitable, indications are that they will be realistic relative to the economy's capacity.

IMF and World Bank funding awaits a transitional government and any meaningful private-sector investment requires an end to violence and a new constitution.

But until the odds of hitting the highway shorten and because international markets remain unsettled, Mr De Villiers and Mr Meintjes still advocate a high cash holding while equity selection is still in "smash at speed" mode

World could break into 400 weak states, warns UN chief

Sowetan 21/9/92

(49)

■ Fragmentation of Yugoslavia sets dangerous example:

NEW YORK - United Nations secretary-general Boutros Boutros-Ghali feels the world could splinter into 400 economically crippled mini-states unless the rights of minorities move to the top of the international agenda.

In an interview at the weekend as the 47th session of the General Assembly got under way, Boutros-Ghali said he feared the break-up of Yugoslavia might set an awesome example for the 21st century.

"The new danger which will appear in the world in the next 10 years is more fragmentation," he said.

"Rather than 100 or 200 countries, you may have at the end of the century 400 countries," he said. "And we will not be able to do any kind of economic development, not to mention more disputes on boundaries."

One solution was to find ways to protect minorities by "offering the strongest machinery possible to defend human rights", including further action by the Security Council.

As North American and Western European states were attempting to break down frontiers, he said, Eastern Europe and other areas appeared to be going the other direction.

He said a hypothetical example of a worst-case scenario would be in Africa, already split into 50 countries.

"There are 5 000 tribes. Suppose each tribe would say it has the right to self-determination, you will have a kind of new micro-nationalism with small states of 50 000 or 100 000 people."- *Sapa-Reuter.*

Govt heads for R7bn deficit

(49)

CT 21/9/92

From GRETA STEYN

JOHANNESBURG. — The government will have to borrow about R7bn more than budgeted as its cash crisis deepens and it heads for a deficit of more than 6% of GDP, economists say.

Revenue and spending figures released at the weekend show the revenue squeeze did not ease in August, contrary to expectations that seasonally large tax payments would provide relief. Instead, Inland Revenue deposited 14% less in the Exchequer account in August compared with last year.

The major problem is the under-collection of VAT, with a projected shortfall of at least R5bn. Unable to increase the VAT rate because of its political sensitivity, the government will be forced to borrow excessively — building a debt mountain that will be a burden for years to come.

Persistent recession is also playing havoc with government finances as other tax collections reflect the slack economy. The cash-strapped Exchequer's deficit is already running at about 90% of the budgeted R15,9bn.

Economists immediately revised their deficit and borrowing projections for the year. Forecasts for the deficit now range from R22bn-R25bn, from R20bn after the previous figures were released. This represents a deficit of more than 6% of GDP, against a budgeted 4,5%. They warned that a tight rein would have to be kept on spending to avoid more pressure on shrinking resources.

The surprisingly low revenue figures for August prompted the Finance Department to issue a statement to calm the capital market. The statement ascribed the low Inland Revenue figures to a "reasonably large month-end carry-over" to September, low VAT collections and differences in departmental incomes between August 1991 and this year.

Economists are assuming that the April-August pattern will not continue for the full fiscal year, otherwise SA would have a deficit of R30bn.

Total revenue was up by only 1,4% after the first five months of the fiscal year, but projections are for an increase of about 7% for the year. This compares with a budgeted rise of 15,7%.

Business, labour urge consultation

3520 **DIRK HARTFORD** 1404

GOVERNMENT has been urged by business and labour to avoid presenting its integrated normative economic model — which Finance Minster Derek Keys has said will be ready in November — as a fait accompli.

The forum's future hangs in the balance after government decided to defer its decision on whether to take part because of Cosatu's mass action and anti-PAYE campaigns. 49

Cosatu negotiator Jayendra Naidoo argued it was difficult to consider documents from any party which had gone through extremely rigorous scrutiny, resulting in that party being strongly committed to it.

He said labour and business were keen to see all proposals — before they were fine-tuned — on the table at a plenary session of the proposed economic forum. BIDAY 21/9/92

Business representative John Hall said while business understood time-constraints on government regarding its economic model, employers had been frustrated by "pseudo-consultation" in the past.

Anglo American's Bobby Godsell said there were many long-term documents which the economic forum — when it was launched — should begin comparing immediately.

Borrowings of R7bn likely

Fiscal crisis as deficit heads for 6%

BDAY 21/9/92.

(49)

GRETA STEYN

GOVERNMENT will have to borrow about R7bn more than budgeted as its cash crisis deepens and it heads for a deficit of more than 6% of GDP, economists say.

Revenue and spending figures released at the weekend show the revenue squeeze did not ease in August, contrary to expectations that seasonally large tax payments would provide relief. Instead, Inland Revenue deposited 14% less in the Exchequer account in August compared with last year.

The major problem is the under-collection of VAT, with a projected shortfall of at least R5bn. Unable to increase the VAT rate because of its political sensitivity, government will be forced to borrow excessively — building a debt mountain that will be a burden for years to come.

Persistent recession is also playing havoc with government finances as other tax collections reflect the slack economy. The cash-strapped Exchequer's deficit is already running at about 90% of the budgeted R15,9bn.

Economists immediately revised their deficit and borrowing projections for the year. Forecasts for the deficit now range from R22bn-R25bn, from R20bn after the previous figures were released. This represents a deficit of more than 6% of GDP, against a budgeted 4,5%. They warned that a tight rein would have to be kept on spending to avoid more pressure on shrinking resources.

The surprisingly low revenue figures for August prompted the Finance Department to issue a statement to calm the capital market. The statement ascribed the low Inland Revenue figures to a "reasonably large month-end carry-over" to September, low VAT collections and differences in departmental incomes between August 1991 and this year.

The statement said: "Provisional tax payments by individuals are usually made in August. Due to the extent of this type of payment the effect of a month-end carry-over on the August revenue figures is substantial. The low August figure for revenue cannot be used to deduce the revenue pattern for the entire fiscal year."

Economists are assuming that the April-August pattern will not continue for the full fiscal year, otherwise SA would have a deficit of R30bn.

Total revenue was up by only 1,4% after the first five months of the fiscal year, but projections are for an increase of about 7% for the year. This compares with a budgeted rise of 15,7%.

Finance Minister Derek Keys, who is in Washington for the IMF/World Bank meetings, said in London last week: "As taxable income declines with the economy, we are not achieving our budgeted revenue. Fortunately, we feel we can handle the divergence without raising taxes and without recourse to money creation."

Nedbank chief economist Edward Osborn said the deficit could be as high as R25bn. He was concerned about the interest payments incurred through more borrowing.

☐ To Page 2

Deficit

BDAY 21/9/92. (49)

☐ From Page 1

Even assuming very conservative borrowing and spending in the future, interest payments could rise to almost 18% of total spending in the financial year 2002/3, from a budgeted 16,4% in the present fiscal year and 11,7% in 1983.

HILARY GUSH reports Standard Bank economist Nico Czypionka noted Inland Revenue collections were down compared with the April-August period last year.

"Note that the decline is in nominal and not real terms. This is an ugly situation. It shows the Minister of Finance has an extremely difficult job. The main culprit is the undercollections for VAT. To some extent, government can do little about revenue, but government expenditure will have to be curtailed."

OPINION

Desmond Colborne asks if Africa, and South Africa, are being written off

Key question for 'lost continent'

STAR 22/9/92

(49)

WHEN will Afro-pessimists brighten up and stop seeing Africa as a "lost continent" of conflict and catastrophe? This question is vital for South Africa, too often seen these days as going the African way· down the tube. It is also a question important to France which, of all countries outside Africa, is still most involved in the affairs of our continent.

Africa now represents only about two percent of the world's economic product and two percent of its trade, attracting less than three percent of international investment. What a change from the '60s when a country like Ghana produced as much as South Korea and when decolonisation catapulted leaders like Nkrumah, Sekou Touré and Senghor on to the world scene. But in those days Africa in general, and South Africa in particular, was not only a question of conscience but a source of wealth

These days, Africa as a whole is seen as a source of problems, Aids and unwanted immigrants. It has been well and truly marginalised, relegated to the sidelines But less so in France than elsewhere. There are still 8 000 French soldiers based in Africa, the economies of francophone African countries are part of the France zone and francophone leaders attach great importance to their annual summit meeting with France — one is due next month, in Gabon

Last week in France meanwhile, Africa was again, as in the "good old days", enjoying more attention. A number of television programmes and a big conference of Africanists, in the French Senate (involving senior officials, officers, professors, analysts and businessmen) focused on Africa.

Even in France, such a focus is, nowadays, unusual. Too many other questions are in the forefront and Africa is out of sight.

And when Africa is in the news these days, it is more and more as a disaster zone Charities ring the alarm bell over Somalia today and perhaps the drought in the south tomorrow.

Even the dramatic events in the Ciskei attracted only the briefest flurry of media interest, and the story, outside Britain, was hardly ever in the headlines or on the front pages. As a story, it faded fast. Europe's attention span for African affairs is becoming shorter and shorter.

So the one-and-a-half day conference in the French Senate was an unusual opportunity to reflect on Africa's destiny and provide some well-meaning advice. Here are some of the conclusions reached.

(1) Time horizons have to be expanded. 30 years is a blink of an eye in the history of Africa, the birthplace of the human race. So the failure of the post-decolonisation period is hardly conclusive.

(2) Africa has been geopolitically devalued by the end of the cold war. It is no longer of particular interest ideologically, diplomatically or economically

(3) African economic development has lagged far behind that of the other parts of the developing world. "Asia is an antheap — at work. Africa is an antheap — at rest."

(4) Africa's capacity for economic development? A much talked about book by a young Cameroun woman, Axelle Kabou, is titled "And if Africa refuses to develop?" At times there seems to be almost a "repulsion" towards productive investment. Dependency hang-ups and cargo cults abound — they have to go. A former Senegalese Cabinet Minister quoted Senghor· "As long as we Africans don't think for ourselves, we will become increasingly dependent on the outside world "

(5) For economic growth to resume, the economy should go private and the state should go public. The state too often served private interests and should be "nationalised", while the economy needed privatisation.

(6) Aid was now conditional, depending on economic and political progress in recipient countries. A French Cabinet Minister has even spoken about "the right to interfere."

(7) Although the Organisation of African Unity was somewhat discredited, there had to be more inter-African solidarity. African economic spaces had to be enlarged, as in the rest of the world. Regionalism is an increasingly important factor

(8) There should not be exaggerated expectations about South Africa's role Apart from current political problems, its economic capacity in world terms is modest, with a gross national product only half the size of Austria's Development at home would take priority If however, a major problem for Africa was marginalisation, South Africa could combat this, as a major hub, linking southern Africa to Europe, Asia and elsewhere But South Africa could not go it alone As an engine of growth, it needed petrol (investments, trade) to keep going. As a gateway to the region, it should be part of trilateral arrangements. Would France, as the country outside Africa with the biggest investment there, cooperate more with South Africa in the broader interests of the continent"? □

● *Desmond Colborne is Paris Director of the South Africa Foundation*

Businessmen are still hopeful of creating joint strategy with unions

STAR 22/9/92

By Garner Thomson (49)

LONDON — South African businessmen are increasingly becoming directly involved in politics because they are frustrated at the failure of both white and black politicians to lead the way to a post-apartheid future, says the influential Financial Times.

According to a lengthy investigation by the newspaper, businessmen "have decided that politics are too important to be left to politicians, and are hoping that the institutions of civil society — business organisations, unions and churches — can work together to restore stability, without which economic growth is impossible'.

Writing from Johannesburg, the newspaper's southern African correspondent, Patti Waldmeir, comments: "With the economy in its worst recession since the turn of the century, labour and business have discovered a remarkable community of interest.

"Both want a rapid transition to democratic rule. Both know that permanent economic damage results from every delay in the transition."

Late in July, the two sides came within a hair's breadth of agreeing a joint strategy to put pressure on the politicians to resume constitutional talks, she reports, although since then relations have deteriorated.

"But liberal businessman argue that the basis has been laid for future co-operation. They say that the charter called for far more than just one day's strike action.

"It spelt out a joint commitment to curb violence, combat poverty ~~and seek~~ consensus on economic restructuring."

Initiatives in these areas are already under way, largely in the shape of the National Peace Committee.

"Businessman can succeed in separating warring black factions where the police, with their suspect background of involvement in political violence, cannot. Business has the resources to provide venues for local peace talks, and such mundane support as fax machines and transport."

Waldmeir quotes the Consultative Business Movement as arguing that business should be a bulwark in a fractured society.

But, it says, ad hoc dispute resolution is not enough. Business must work at creating the socio-economic and developmental foundation without which a negotiated solution will not be permanent.

Ken Ironside, public affairs manmager of Barlow Rand, claims business is reluctant about its responsibility to reshape society — but recognises its responsibilities.

He tells Waldmeir "But we won't be offended when society settles down and we can get back to making money."

Investor's Club meeting

The next meeting of the Star Investors' Club looks at property syndications.

Come and hear all about them on September 24 at the Sandton Holiday Inn from 6 pm to 8 pm.

Booking is essential and can be done through Cordev Marketing at (011) 483-3214/5.

Keys praises 'evolving' ANC economic policy

49

ARG 22/9/92

The Argus Correspondent

NEW YORK. — Minister of Finance, Trade and Industry Mr Derek Keys has praised the ANC's evolving economic policy after a period of "virtual civil war" on the issue.

He also told a National Foreign Trade Council Foundation conference on South Africa that his restructuring plans included reducing over-inflated government consumption expenditure over five years from 22 percent to some 16 percent of GDP.

Mr Keys said the Government and ANC were drawing closer in economic views.

● See page 17

(49) ARG 22/9/92

Keys applauds ANC's realism

DAVID CANNING of The Argus Financial Staff reports from New York.

MINISTER of Finance, Trade and Industry Derek Keys has praised the ANC's evolving economic policy after a period of what he described as virtual "civil war" on the issue.

On a different tack, he also told a National Foreign Trade Council Foundation conference on South Africa yesterday that his economic restructuring plans include reducing over-inflated government consumption expenditure over five years from 22 percent to 16 percent of GDP.

Praising recent indications from Nelson Mandela that economic issues had helped to influence the return towards negotiations, Mr Keys said the government and ANC were drawing closer in their economic views.

For the first time, economic considerations overtly had influenced what previously was regarded as a purely political process.

Mr Keys said the breakdown in Codesa essentially had been over checks and balances which the present government believed it would be wise to adopt. It essentially was a conflict between conservatives and radicals.

Since being unbanned, the ANC had been careful to preserve a radical option. Negotiations had been described as just part of the struggle.

The "negotiating faction" of the ANC was being asked to justify itself by bringing off a spectacular concession from the government.

Given "the position of strength" occupied by the radicals in the ANC structure "these efforts are going to require our very best efforts"

However, Mr Keys said, the "hopeless alternatives" opened up by mass action since July had a positive spin-off. He now believed a moderate majority within the country could be marshalled "for a conservative approach".

A summit devoted to violence could now succeed and lead on to wider issues and a government of national unity.

He emphasised that it was "necessary the government and ANC should join together to pursue economic stability and growth if South Africa is to have investment appeal".

On a positive note, there was evidence of growing agreement on the economy. In fact, he virtually could have "exchanged texts" with the ANC's Tito Mboweni at an investment conference in London last Thursday.

Mr Keys said the ANC had shown awareness of the need to temper extravagant hopes with sensible macro-economic constraints. He detected a healthy degree of pragmatism and realism. The ANC was deeply conscious of the shortcomings of capitalism and skeptical about its ability to tame it.

But it also was aware of the wasteland created by the planned economies. The ANC's international supporters were virtually all in market economies, and they had interests in seeing South Africa become a "more open" economy.

However Mr Keys said he had to draw a distinction between the ANC and Cosatu, whose leadership consistently had taken a radical line.

While continuing to"take every opportunity to talk to them," he balked at joining a "formalised mechanism" like the Economic Forum while Cosatu was pursuing counter-productive actions and encouraging people to break the law.

Mr Keys said his pre-conditions for discussions at the Economic Forum involved two basic commitments — to the importance of economic growth and to observing the laws of the land.

He also listed his "priorities" for the country — to stop the violence, to halt the economic war, to find a way of establishing representative government and to limit state spending effectively.

Mr Keys spoke of the government's high consumption expenditure problem which the ANC would have to help solve, probably as soon as next year. Consumption expenditure levels had crept up to unacceptable levels — from 9 percent of GDP in the '60s to the current 22 percent. In contrast, Japan today had a 9 percent ratio and Korea 10 percent.

While he confessed to being worried about how this could be achieved, Mr Keys said he remained optimistic that an exciting scenario could unfold.

● The World Bank, with the help of international donors, is pressing ahead with a multi-million rand poverty research project for South Africa.

And education experts from the Economic Development Institute, a bank offshoot, are trying to make up the training backlog among potential civil servants and other decision-makers in the "new South Africa".

World Bank poverty specialist Ms Neeta Sirur described the background to the ambitious poverty research project in an interview here. She said it would cost about R3 million and it was hoped a number of largely-European donors would sponsor it.

SA debate 'ill-focused on the economic issue'

STAR 23/9/92

By David Canning (49)

NEW YORK — SA's political debate is ill-focused when it comes to economic issues, says US Assistant Secretary of State for Africa, Herman Cohen.

He told the National Foreign Trade Council seminar yesterday the debate was focused too much on ill-considered statements about nationalisation and debt repudiation.

Mr Cohen said he was encouraged by the fact that South Africans were moving away from ideology in the economic debate.

"In recent years we have seen the dismal failures of statist, command-driven economies and mounting evidence that free market principles, social responsibility and a vigorous private sector are economic characteristics which offer the best hope for economic success."

He said South Africa's economy could not be expected to improve significantly until a political solution brought promise of stability.

Mr Cohen also mentioned that US President George Bush had become personally involved in speaking to key players in the negotiations, urging a resumption of talks.

STAR 23/9/92

Keys lauds ANC economic policy

Derek Keys . . . ANC's views encouraging.

By David Canning (49)

NEW YORK — Finance, Trade and Industry Minister Derek Keys has praised the ANC's evolving economic policy, which he said was emerging out of a period of "virtual civil war" on the issue.

Addressing a National Foreign Trade Council Foundation conference on South Africa on Monday, Mr Keys said the ANC had shown awareness of the need to temper extravagant hopes with sensible macro-economic constraints.

He said the ANC was deeply conscious of the shortcomings of capitalism.

But the organisation was also aware of the wasteland created by planned economies.

Praising recent indications from ANC president Nelson Mandela that economic issues were helping to influence the return towards negotiations, Mr Keys said the Government and ANC were drawing closer in their economic views.

Business Report

End to 'economic civil war' urged

CT 23/9/92 (49)

From SIMON WILLSON

WASHINGTON — Ending what he called SA's "economic civil war" was one of the country's most urgent priorities, Finance Minister Derek Keys told a meeting here yesterday.

Addressing a conference on investment in Southern Africa, Keys said ending the political violence and installing a representative government were the country's immediate tasks in the short term.

"Arising out of the political differences, various parties have taken actions which have been contrary to the promotion of economic growth and which have led to conflict stituations, a lack of productivity and generally adverse economic consequences," said Keys.

Negotiations

Addressing this problem would involve negotiations between business and organised labour before the economy could embark on a positive growth path.

SA's present political situation was unsatisfactory, and the sooner a representative government was installed, the better, he said.

"A government in the position of my government is not able to take the kind of forthright action which is required to tackle important matters. Simply looking at this from the point of view of good government it is necessary that we should get a government with which the people can identify as soon as possible".

Sharing the same platform at the meeting, ANC's economics department director Trevor Manuel said the ANC's economic prescription to end the violence was based on a medium-term emphasis on job creation.

This would involve a sense of inward industrialisation which took account of the need to absorb significant amounts of labour.

"In addition, we need to improve on our export capacity and to develop the manufacturing sector. Dealing with these issues has to create the stability and clarity which we believe will attract investment into SA," said Manuel.

Speaking at the same meeting, newly-appointed Bank of Zambia governor Dominic Mulaisho said SA's Southern African neighbours had tended to concentrate on the negative aspects of their proximity to the sub-continent's dominant economy.

"They have not looked at the opportunities which the presence of a liberated neighbour with such economic might and potential can create for the benefit of its neighbours. "We in Zambia intend to exploit that opportunity".

Flexibility

African Development Bank president Babacar Ndiye, who also shared the platform, called for greater flexibility in the lending criteria of the World Bank to allow more multilateral assistance to reach SA.

The World Bank's concessional lending window, the International Development Association (IDA) specifies a per capita GDP maximum of $750 (about R2 145) for beneficiary countries. SA's per capita GDP is measured by the World Bank at $2 530 (about $7 236).

"We cannot take the per capita level as an absolute line, we have to have a more sectoral approach and introduce innovations in lending criteria that can accommodate countries such as SA and Namibia," Ndiaye said.

Manuel outlines ANC position on sanctions and investment code

STAR 23/4/92 (49)

By David Canning

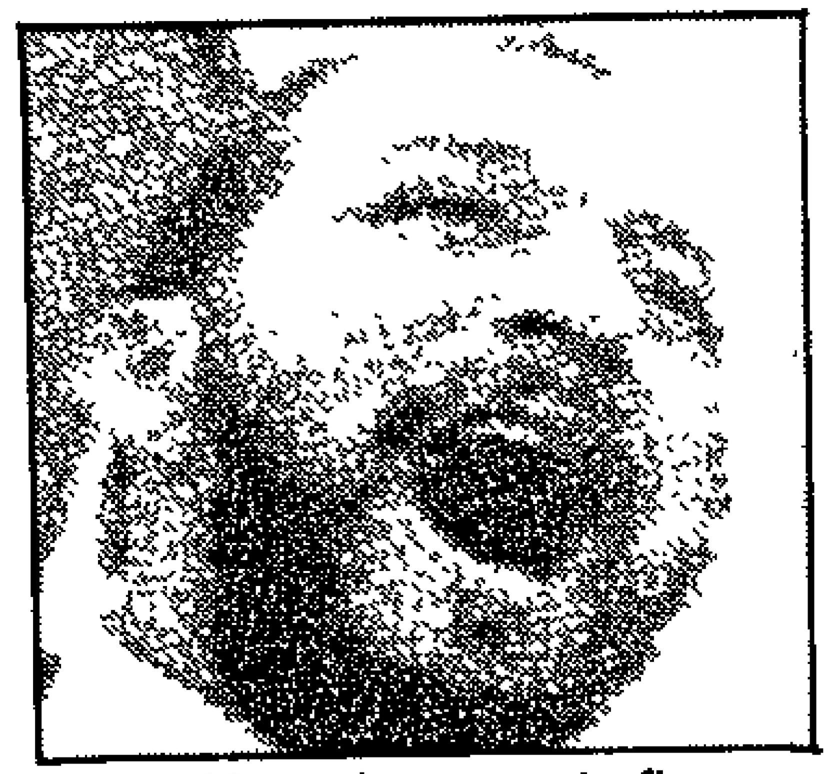
NEW YORK — Business and political leaders here are worried substantial US state and local sanctions will be maintained after democratic elections in South Africa.

The concern was raised repeatedly at a National Foreign Trade Council Foundation seminar on South African investment yesterday after Herman Cohen, US Assistant Secretary of State for African Affairs, urged that remaining sanctions should be quickly removed following installation of an interim government.

Mr Cohen called on South Africans, including the ANC, to send "a clear signal" to state and local authorities in the US to remove remaining sanctions legislation after elections in SA.

"In view of its parlous state, the South African economy could ill-afford the continuing effects of these impediments,' he said.

Harry Schwarz, the South African Ambassador, Dr Conrad Strauss, chairman of Standard Bank Investment Corp, and several business chiefs echoed his concern that legislation could be retained in an effort to achieve "social engineering" in South Africa.



Trevor Manuel . . . wants financial pressure maintained.

Dr Strauss said maintenance of such codes would hinder growth. "I am nervous about elements of social engineering which could creep into the process."

Another fear expressed by speakers by South Africa and American company executives was the shape of the "investment code" being proposed by the ANC. They wanted to know whether they would get an opportunity to participate in its formulation.

Answering questions on behalf of the ANC, Mr Trevor Manuel, director of its department of economic planning, said consultation with US companies would take place in the drafting of the investment code.

Such a code was important to create a sense of "transparency" for overseas investors.

Fielding questions about the ANC's threat to renounce debt being incurred by the present authorities, he noted that "very little" of this money was finding its way to disenfranchised groups.

He personally felt a future government would meet its foreign commitments, but would retain the right to reschedule in terms of the many priorities which it would face.

In his main address to the conference, Mr Manuel appealed to the international community to maintain financial pressure on the SA authorities until an interim government was established.

There was growing consensus about the need to fundamentally restructure the economy on the basis of a sustainable growth path. From the ANC viewpoint, this restructuring should be aimed at reducing economic inequalities and improving the quality of life of the majority.

The ANC remained deeply concerned about the deleterious stranglehold that a few conglomerates held in the SA economy. It also believed trade policy should be geared to raising levels of productivity.

While SA manufacturers were quite highly protected, trade barriers would have to be adjusted in a way that did not permit rapid destruction of jobs and domestic producers.

SA had the capacity and will to establish a deep-rooted democracy. "Never do we want to see South Africa balkanised or going the route to the wasteland that the former Yugoslavia has become."

focus on Africa

Sowetan 23/9/92.

Private enterprise has only received lip service in Africa, says **Joshua Raboroko**, who reports on the *Sowetan*/Development Bank SA summit on business and enterpreneurial development in Africa:

49

PRIVATE enterprise has long been recognised as a key factor in the development process in Africa.

Owners of capital innovate and assume risks. They employ hundreds of people and manage large labour forces. They open up markets.

They find new combinations of materials and products. They initiate change and facilitate adjustment in dynamic economies.

Yet, private business ownership has been played down in many African countries over the past 30 years. In part this has occured because indigenous entrepreneurs were presumed to be scarce and foreign businesses were distrusted.

During his visit to South Africa Harare-based manager of Africa Project Development Facility (APDF) World Bank Mr Omari Issa put it aptly: "We have demonstrated that African entrepreneurs are plentiful."

Earlier, the belief was that African men/women were confined to the informal sector. In a short period of time, APDF has confirmed the existence of small and medium-sized businesses that are owned by Africans.

Sowetan and Development Bank of Southern Africa last week presented a three-day summit that focused on Business and Entrepreneurial Development in Africa.

Participants were African entrepreneurs; Commercial and Development Finance Bankers; International Finance and Development Agencies; Representatives of the APDF; liberation movements and chambers of commerce.

The conference focused on how indigenous African entrepreneurs could work together and promote/cultivate the spirit of competitive business on the continent.

APDF general manager Mr Alexander Keyserlingk said as soon as a political settlement was reached in South Africa "we will enter with the aim to help business people".

After his visit to some of Soweto's entrepreneurs, he said there was a great potential for business to create jobs and wealth.

"This shows that Africans are genuine entrepreneurs. The success of many businesses depends directly upon a climate supportive of vigorous small businesses.

"APDF, by assisting African entrepreneurs in taking advantage of new opportunitiès, contributes substantially to the creation of that nurturing business environment and the new jobs that are an important consequence."

The conference outlined the problems encountered by African entrepreneurs in obtaining debt and equity financing.

This problem was appropriately put by SBDC general manager Mr Jo Schwenke when he said: "In South Africa we have a dilemma that many businesses cannot be viable with high gearing while those same businesses would do moderately well if financed with equity.

To solve this problem, he said, it was proposed that the Government each year for five years grant R2 billion, which would be invested into properly constituted development venture capital funds.

The role and importance of promoting more African women entrepreneurs were highlighted by women who have a long tradition of commercial activity in the African private sector.

Businesswoman Mrs Mokgadi Tlakula said women grew more than half the food produced in the world; yet governments and aid programmes tended to exploit their labour without supporting it, maintaining it, or enhancing it.

She said black women could not hold title to land, married women were not legally capable of entering contracts without the consent of their husbands

For example, she said, rural black women in the Northern Transvaal have carved a niche in making candles, making clothes, producing food, making sweets, vaseline, bricks, building latrines and houses, baking cakes, bread, selling liqour and achaar.

Eventually, she added, they would capture some of the business and make it their own, the only thing was that competition was unfair.

She urged the Government and industrialists to consider giving contracts to women.

The conference felt a massive affirmative action must be embarked upon by the corporate world business.

Premier Group chief executive Mr Peter Wrighton said many companies had affirmative action on their agenda

Mike Mohohlo and Frans van Rensburg of the Development Bank meet Sowetan Day Editor Thami Mazwai. The three organised the three day conference.

Economists: Rand heading one way — down

(49) CT 23/9/92

By ARI JACOBSON

"THE commercial rand is heading one way and that's down," was the comment from analysts yesterday — although the rand traded at an 11-month high against the pound at R4,85/£.

The UK currency has tended down following its temporary withdrawal from the European Exchange Rate Mechanism (ERM). The UK monetary authorities are now watching while the pound floats freely on world currency markets.

Added to this, the UK interest rate was cut by one percentage point to 9% yesterday, which is expected to weaken the currency further.

First National Bank's (FNB) Rob Wade mentioned that the commercial rand had up to now fallen some 3% against a basket of European currencies over the year.

"This indicates it should fall another 4% this year to tie in with the inflation differentials between these countries, based on the respective producer price indices."

But, Wade said "this fall in the value of the rand may not occur because of the possibility of prolonged uncertainty on European currency markets".

Frankel, Max Pollak's Peter Davey pointed out that the rand had strengthened against the dollar "but this is starting to change as the dollar responds to currency fears in Europe and as the US economy, currently at a low point, moves out of the recession".

From a stockbroking perspective, Davey said the current downtrend in the value of the pound was expected to be temporary and therefore "it will not impact on the rand-hedge component of a share portfolio".

"The falling pound will help UK exports which will in turn boost the earnings of these rand-hedge companies."

Old Mutual economist Ursula Maritz said the commercial rand would be affected by interest and inflation differentials between SA and its trading partners and "quite simply the demand and supply of rands which is brought on by trade-related transactions".

"The long-term trend for the nominal value of the rand is down, although there may be deviations along the way."

The PAC meets business leaders

Sowetan 23/9/92

■ After meeting the Government over a new dispensation, PAC caucuses with Sacob:

A HIGH-powered delegation of the Pan Africanist Congress met business leaders in Johannesburg yesterday to discuss the state of the economy and negotiations for a new dispensation.

Addressing a Press conference after the two-hour meeting, both parties pledged themselves to ending violence and to ensure that the downward trend of the economy "bottomed-out".

The PAC delegation was led by Mr Johnson Mlambo (first deputy president); secretary for foreign affairs Mr Gora Ebrahim, secretary for legal affairs Mr Willie Seriti, executive member Mr Carter Seleka, chief of protocol Mr Count Pieterson and director of economic affairs Mr Mos Malatsi.

The South African Chamber of Commerce was represented by president Mr Hennie Viljoen, deputy president Mr Spencer Sterling, director-general Mr Raymond Parsons, chief economist Dr Ben van Rensburg and manager of labour affairs Mr Gerrie Bezuidenhout

Ebrahim said the PAC had noted the downward trend of the economy and other problems that had been caused by apartheid. (49)

It was also concerned about the escalating violence and pledged itself to ending the senseless carnage that was gripping the country.

'Faith begins at home' (49)

By Jo-Anne Collinge

STAR 23/9/92

Unless South African businessmen demonstrated confidence in their own country, they could not expect the international community to have faith in the country's future, the Urban Foundation's London director, Sir John Leahy, said yesterday.

"Like charity, confidence begins at home," he quipped, in an otherwise sobering address to about 120 businessmen at a South Africa Britain Trade Association luncheon in Johannesburg.

Sir John, a former ambassador to South Africa, expressed the conviction that the future stability and prosperity of South Africa were linked closely to its ability to address underlying social problems

"The nub of your problem is that the economy has to grow fast enough to provide better education, housing, health services and employment prospects for all South Africans," Sir John said.

He noted that predictions for the next few years came nowhere near this level

Furthermore, social problems were growing rather than diminishing

Sir John stressed that political violence remained the greatest deterrent to British investment in South Africa, a factor against which "all others pale into insignificance".

Effective management of violence, a speedy conclusion of the negotiating process and the instalment of an interim government which plainly governed with broad consent were all essential to regaining foreign investor confidence

Whatever the damage caused by apartheid, South Africans should not delude themselves that the international community stood ready to mount anything like a Marshall Plan of assistance, he cautioned

They might find that the most meaningful foreign assistance was forthcoming in areas such as curbing political violence, monitoring transitional arrangements, and transforming mechanisms for maintaining law and order.

BUSINESS DAY, Wednesday, September 23 1992 3

(49)

Sacob tackles talks jam

RAY HARTLEY

SACOB would try to help break the political deadlock because business was an important stakeholder in the success or failure of political negotiations, Sacob president Hennie Viljoen said yesterday.

Viljoen told a meeting of Sacob and PAC leaders a future government would find it impossible to meet the expectations of South Africans if it inherited "an economic wasteland".

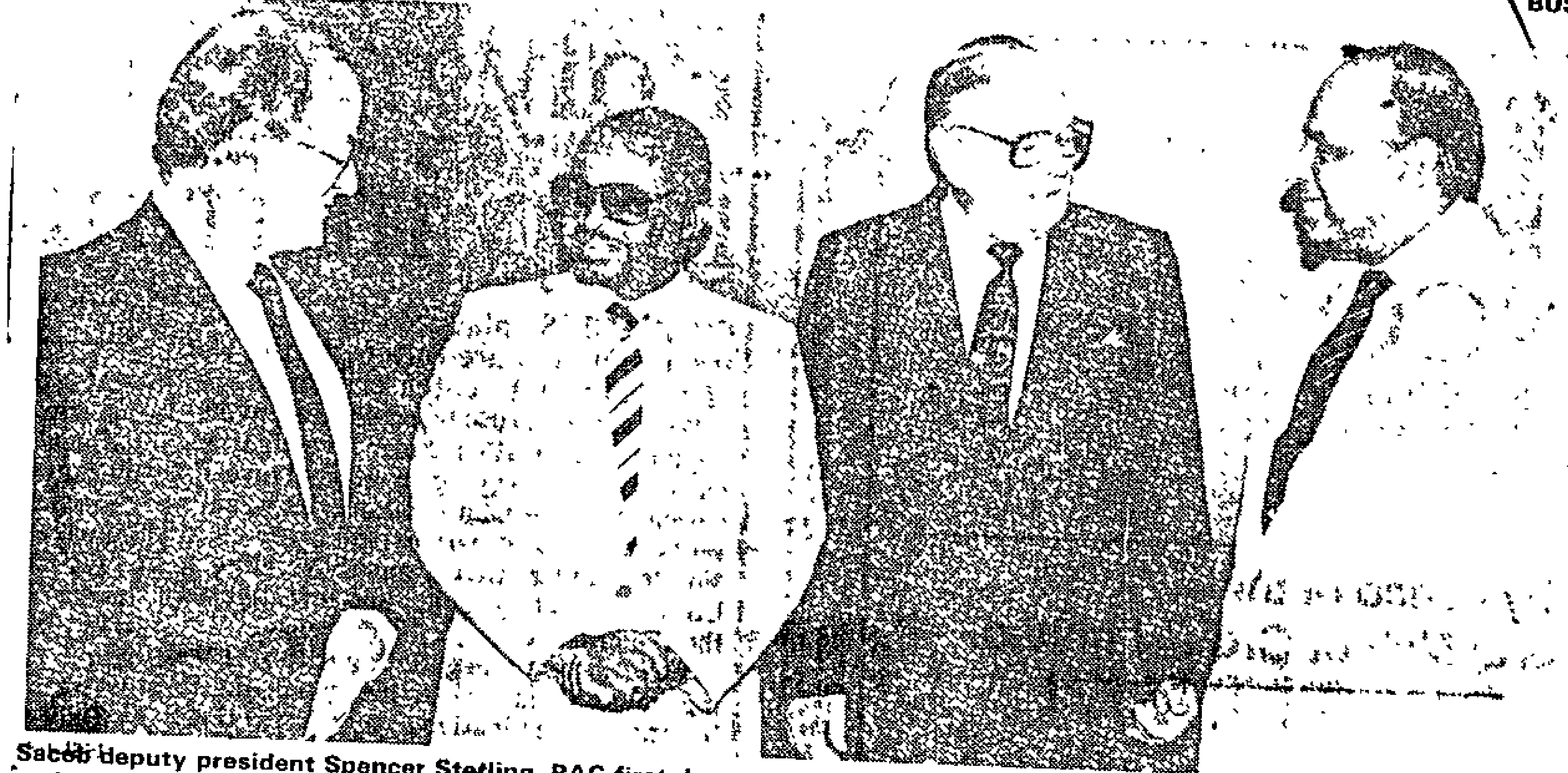
"All around us we see potentially profitable businesses impeded by work stoppages, we see political violence persisting, we see the continued devaluation of the rand in international terms and we still face an impasse on negotiations.

"The normalisation process which started in February 1990 should by now, according to our views, have brought peace, reconciliation, economic revival and prosperity to all South Africans," he said.

Sapa reports PAC foreign affairs secretary Gora Ebrahim said democracy and the establishment of a consituent assembly would restore confidence and economic growth.

He reiterated the PAC's commitment to redistribution of wealth but said this policy was one of creating wealth, rather than expropriation and handouts

BDAY 23/9/92



Sacob deputy president Spencer Sterling, PAC first deputy president Johnson Mlambo, Sacob president Hennie Viljoen and PAC foreign affairs secretary Gora Ebrahim at a meeting in Johannesburg yesterday.

Picture ROBERT BOTHA

'Economic civil war' must end

BDAY 23/9/92 (49)

SIMON WILLSON

WASHINGTON — Ending the "economic civil war" was one of SA's most urgent priorities, Finance Minister Derek Keys told a meeting here yesterday.

Political differences had led to various parties taking actions which damaged economic growth and led to conflict situations, a lack of productivity and generally adverse economic consequences, Keys told a conference on investment in southern Africa

Addressing this problem would involve negotiations between business and organised labour before the economy could embark on a positive growth path.

SA's present political situation was unsatisfactory, and the sooner violence was ended and a representative government was installed, the better, Keys said

"A government in the position of my government is not able to take the kind of forthright action which is required to tackle important matters.

"Simply looking at this from the point of view of good government, it is necessary that we should get a government with which the people can identify as soon as possible."

At the same conference, ANC economics department director Trevor Manuel said the ANC's economic prescription to end violence was based on a medium-term emphasis on job creation. This would involve inward industrialisation to absorb significant amounts of labour.

"In addition, we need to improve on our export capacity and to develop the manufacturing sector Dealing with these issues has to create the stability and clarity which we believe will attract investment into SA," Manuel said

Newly appointed Bank of Zambia governor Dominic Mulaisho said SA's southern African neighbours had tended to concentrate on the negative aspects of their proximity to the economy which dominates the sub-continent

"They have not looked at the opportunities which the presence of a liberated neighbour with such economic might and potential can create for the benefit of its neighbours We in Zambia intend to exploit that opportunity."

African Development Bank president Babacar Ndiye, who also shared the platform at the meeting, called for greater flexibility in the lending criteria of the World Bank to allow more multilateral assistance to reach SA.

The World Bank's concessional lending window, the International Development Association (IDA), specifies a per capita GDP maximum of $750 for beneficiary countries SA's per capita GDP is measured by the World Bank at $2 530.

"We cannot take the per capita level as an absolute line, we have to have a more sectoral approach and introduce innovations in lending criteria that can accommodate countries such as SA and Namibia," Ndiaye said.

Ron Schurink reports on the urgent need for economy-awareness

This is the way to the high road

STAR 24/9/92

(49)

ECONOMICS has from its very origins been concerned with the problem of how a social order comes into existence — through evolution, through a process of variation, winnowing and sifting — which far surpasses our vision of our capacity to design. Adam Smith was the first to perceive that we have found — or stumbled on — methods of ordering human economic co-operation that exceed the limits of our knowledge.

"In much of our economic activity, we do not know the needs which we satisfy, nor the sources of the things which we get. All of us serve people whom we do not know, and even of whose existence we are ignorant; and we constantly live on the services of other people of whom we know nothing." So said economist-philosopher Friedrich von Hayek.

It is plain that the social order represented by South Africa's economy is being seriously weakened because more primitive forces of division are taking over.

They are able to do so because the economy has not been properly "sold" to its largest — and hitherto least benefited — constituency. If you throw up your hands and claim: "How can that be done when there's illiteracy to cope with and even many sophisticated people do not understand the economy?" that's understandable.

Nevertheless, the message *can* be appropriately simplified and conveyed. The concept of "ubuntu" — mutual understanding and acceptance — is well understood among the masses of our people. Let us convey the economy as a huge, beneficient mechanism which will provide a better life for everyone. Let us portray the conomy as millions upon millions of transactions each day. And let us spread the message that increasing the number of daily transactions will mean increasing prosperity. If more products are sold, more get jobs to make products and that means more money around to buy more products.

It is a strong message, which doesn't have to involve putting most of the population through "wealth creation" courses such as those run by the Free Market Foundation and various consultancies. We shall all be served, whatever political dispensation we end up with, if South Africa becomes part of the world's "economy-aware" communities. Consciousness of the vast interaction by which we can feed, clothe and house ourselves at a decent level will be a big help in getting us to Clem Sunter's high road.

Who can push the politicians to take this road?

A campaign for economy-awareness, with thousands signing up, will be an improvement on the endless bleating from the business community about the beating the economy is taking. A Grow The Economy Movement. All South Africans would feel better about themselves, and the outside world and investors would feel we have come to our senses. It would feel that we have at last capitalised on having a much more advanced economy than most of Africa. □

● *Ron Schurink is a freelance journalist.*

Bootstrap factor will soon lift SA out of recession

BDAY 24/9/92. **MERVYN KING** (49)

FROM the '70s, SA came to realise that the economy was becoming more and more dependent on a skilled and productive black labour force and on black buying power. Of expected retail sales of R82bn in 1992, 57% will represent black consumers.

SA is undergoing a dramatic change to democracy And it is changing not because F W de Klerk is a good Samaritan or because Nelson Mandela is a forgiving man but because of economic realities. The process of change is irreversible, and there will be a transitional government in place in SA during 1993.

The political transition is taking place, firstly, in the context of the disintegration of the economies of SA's neighbouring states where socialist policies were implemented. SA is now surrounded by economies moving to multiparty democracies and free market principles.

Secondly, political change is occurring while the market-based economy and First World commercial structure remain intact.

Thirdly, with the end of the Cold War, African states lost their bargaining powers with the West and the East. Increasingly African states are now looking to SA as their main source for investment, capital, technology and expertise.

Fourthly, there is a lot of rehabilitation of infrastructures occurring in southern Africa — such as roads, rail lines, ports, energy supply, water supply as well as the beneficiation of raw materials.

With the collapse of socialism, the World Bank and the IMF are becoming deeply involved in infrastructural development in Africa, including southern Africa. There is $15bn a year of multilateral aid to Africa. This augurs well for SA business.

SA companies are already involved in some of these infrastructure programmes — for example, the Lesotho Highlands Water Project and the rehabilitation of Mozambique's Cahora Bassa hydroelectric project.

Construction companies LTA and Murray & Roberts are active in Botswana, Angola and Zambia; mining conglomerates Gencor and Anglo American are negotiating for a stake in the rehabilitation of Zambia's copper mines, Sasol is negotiating with Mozambique in regard to the exportation of natural gas deposits; and SA companies are involved in the rehabilitation of tourist projects in Mozambique and Zambia.

Fifthly, SA is the gateway to sub-Saharan Africa and perhaps to the whole of the continent By world standards, SA's economy might be small, but by continental standards it is a giant.

New markets are opening for SA with the breakdown of sanctions. Angola and Kenya are obvious ones, followed by Nigeria. Zimbabwe is a long-established market. There are countries with different seasons to SA, such as Morocco and Egypt, which opens interesting possibilities with seasonal goods.

In the region SA has, geographically, a tremendous competitive edge. It has excellent transport logistics which will enable local companies to outbid European and US companies in regard to the transportation of goods, particularly in the rehabilitation of infrastructures The weak rand also makes SA goods much cheaper for southern African countries than the goods of competitors with stronger currencies.

These are all good reasons why foreign investors should be curious about the possibilities of investing in SA. But there is a good reason why they should move from curiosity to actually pondering about investing.

The economies of the world are in recession and will remain so at least

☐ KING

until 1994. Previously the SA economy in recession has only come out of recession when the world has moved out of recession — following in big brother's footsteps, as it were. But history will not repeat itself in the last decade of this century because SA will come out of recession before the world economies.

A bold statement. But if I am right, there must be bootstraps by which SA will lift itself out of its present recession ahead of the revival of the world economies.

What are these bootstraps?

The first is the transitional government. SA's economy has, for 40 years, been run strategically and inwardly because of the anticipation of sanctions. There was stockpiling and non-viable projects to produce essential goods.

Now, the US Congress and the EC have said that, when the transitional government is in place, hundreds of millions of dollars of development aid will become available. Much of the aid will be directed at capital projects involving, for example, housing and improvements to educational facilities.

The African Development Bank is wanting to invest R1bn annually after the transitional government has been installed. The World Bank is planning to open an office in SA.

When development aid comes in, it will be local companies which will supply the bricks, the mortar and do all the things necessary to fulfil the programmes The building and construction industry is a primary one and is a generator for a turnaround in an economy.

The second bootstrap factor is Eskom which has agreed with the electricity authorities of Zaire, Zambia, Zimbabwe and Botswana on initial steps for a sub-Saharan power grid. There will be new stations and the grid will span Botswana, Zimbabwe, Uganda, Kenya and Angola. Studies have begun for a basis for Botswana, Zaire, Zambia, Zimbabwe and SA to share the supply of electricity. Work on supplying power to Zimbabw and Zambia has commenced

Simply put, Eskom will be buyir gravity from countries such as Zai Zambia, Zimbabwe, Botswana ai Malawi That means rands in tho countries — currency with which buy SA goods Eskom also predic local electricity prices will be lo ered through economies of scale

Eskom also has plans to electri 3-million low-income houses in SA a three- to five-year multimillio rand plan worked out with the AN and the World Bank has indicated willingness to finance this massi project after the transitional gover ment is in place. The project wou create 500 000 jobs. Again, a prima industry that will generate the tur around in the economy

The third and final bootstrap fa tor which will lift the economy out recession is SA's status as a memb of GATT.

At the end of the First World W Gen Jan Smuts was invited to adn SA as a developed country memb of GATT. In 1953, when the NP go ernment was invited to change th status to one of a developing countr it declined to do so. It is now cle that while SA has pockets of Fi World existence, it is mostly a Thi World country.

Discussions are now taking pla from government to government the basis that SA should be a dev oping-country member of GA with all the advantages that wou hold for exports. It is argued that t probability is that other countr will not agree to SA changing status at GATT, nor to it becoming member of the Lomé Convention. I cause SA would suddenly becor more competitive in First Wo markets than member countries.

What is probably going to happ is that First World governments a going to give preferential rights entry for SA products. SA goods w enter free of duty. This is the oth form of development aid which w come to SA after the transitior government is in place.

☐ **This is an edited version of address delivered this week Frame chairman King to a group SA business executives at a Red linghuys and Associates function Johannesburg. It was delivered multaneously on his behalf at investment seminar in New Yor**

Key role in relieving agony of Africa

By David Canning (49)

NEW YORK — South Africa had a key role to play in relieving "the agony of Africa, and of its own people," Conrad Strauss, chairman of Standard Bank, said at a National Foreign Trade Council Foundation seminar here. STAR 24/9/92

He said that while there naturally were fears that SA would dominate its neighbours, many opportunities for mutually-beneficial co-operation were opening up between it and other countries in the region.

Trade with Africa had grown by 25 percent a year in recent years.

While there was a strong imbalance in favour of South Africa, there also was considerable scope for correcting that problem. South Africa could benefit, for example, from some of Africa's resources like water and potential electricity generation.

Multi-nationals were increasingly using SA as the logical entry point for doing business with the continent, as it had the only really viable first world economy in Africa.

It accounted for a third of the continent's trade and its infrastructure was being developed to facilitate linkages with Africa.

"If you put South Africa into the Southern Africa Development Conference, it would have 70 to 75 percent of the combined GDP."

The next most important country would be Angola, with eight percent, and then Zimbabwe, with six percent.

Nigeria, often described as the giant of Africa with three times South Africa's population, had a GDP only one third the size of South Africa's — $32 billion against SA's $102 billion.

Financial sanctions in a sense had produced a positive spin-off in helping South Africa to establish a sound external balance sheet

The debt service ratio was only about six or seven percent and foreign debt at $18 billion was 17 percent of GDP and 65 percent of exports.

In comparison, the Australian debt service ratio was 42 percent and debt, as a percentage of exports, was 240 percent.

US election holds lesson for SA's Marxists, writes **Hugh Roberton** from Washington

The Bush-Clinton message

STAR 24/9/92.

(49)

IN some of the Washington thinktanks, and in a few corporate headquarters, they claim South Africa is the last country still debating whether there should be major government intervention in the planning and development of a national economy.

In our benighted country, they assert, too many people with too little knowledge of modern economics are bogged down in the ideas of the 1960s, adhering to discredited notions of centrally planned command economics, while the world is embracing the belief that free enterprise — "the freer the better" — is a panacea for economic and social ills.

Well, South Africans will be heartened to know that much the same debate is under way in America. It is at the vortex of the presidential election, and while prudence would dictate some scepticism in accepting the labels George Bush pins on Bill Clinton, and vice versa, they have agreed on what divides them.

Mr Bush believes in "less government", "smaller government", "lower taxes", and all the other accoutrements of what he claims is free enterprise, while Mr Clinton believes that none of America's major ailments is going to be cured without direct and sustained government intervention (or, as he puts it, "leadership") and higher taxes on the ultra-rich.

Mr Bush accuses Mr Clinton of being a man who comes from "a long ideological tradition of command economics" (about as close as he can decently get nowadays to calling him a socialist), while Mr Clinton lambasts Mr Bush for neglecting to intervene when pressing national problems were still incipient.

Naturally, there is deceit and doublespeak on both sides, just as there so often is in South Africa. Mr Bush, for instance, was vice-president when Ronald Reagan presided over the biggest spurt in public spending in the history of the US. It was direct, and sustained, intervention and it pushed up the national debt to some $400-billion — the interest on which consumes 60 c in every dollar paid in taxes.

With it has come the biggest political problem now facing Mr Bush — his credibility. To partly finance this massive spending, he agreed to one of the biggest tax hikes on record, after having won an election with those now-notorious half-dozen words: "Read my lips — no new taxes."

Worse, though, is the fact that as he campaigns for "less government" and "lower taxes" to help the private sector, there is scant evidence of the private sector having helped the country solve its major problems.

Granted, millions of small business jobs sprang up in response to the double strategy of unprecedented deficit spending and lower taxes. But the effect has been shortlived. Unemployment is rising again and only about one million new jobs have been created in the past four years — the worst performance of any recent presidency. A burning issue is the number of American jobs moving to Mexico as private investment pursues profit regardless.

Part of the Reagan-Bush economic strategy required spending on education to be cut back drastically, to the point where the US now has an education system which, with some stunning exceptions at the tertiary level, is widely regarded as one of the poorest in the industrialised world.

The result is that fewer Americans can compete in the global economy which Mr Bush keeps saying is the wave of the future, and little has been done to train laid-off workers for alternative jobs in a fast-changing market.

In an area where the free enterprise system was allowed almost unfettered rein, health care costs shot up to such burdensome levels that some 36 million Americans are now without health insurance of any kind, or any form of public health care.

It is no wonder that when Mr Clinton calls for government caps on health-care costs, and on the creation of a state-supervised system which would guarantee affordable health care for every American, his words are drowned by cheers. And it is no wonder that when Mr Bush says "our system can do the job", he is met by silence, or the polite clapping of only the most opulent of Republican loyalists.

These issues are the focus of the national debate in the US to the exclusion of almost everything else. Essentially they have become a debate on the limits and failures of the free enterprise system. There is now general agreement that the most potent weapon in Mr Clinton's arsenal is the mantra he intones at every opportunity — after 12 uninterrupted years of Reaganomics, "it's time for a change".

Lest the unrepentant Marxists who continue to influence thinking and policies in South Africa detect in this signs of the demise of capitalism, let them be warned that Mr Clinton is a more enthusiastic supporter of free enterprise than most Democratic Party aspirants to the presidency, and that he enjoys the publicly proclaimed endorsement of hundreds of leading businessmen.

While the debate in the US rages on about the extent there should be of government involvement and intervention in the economy, it is based on a bipartisan acceptance of the principles of the free enterprise system.

Mr Bush has become an exponent of what some Democrats describe as free-enterprise extremism, apparently believing that the system has magic powers. Mr Clinton has no such illusions and has become the more rational — and believable — exponent of the system.

For South Africans, faced by the challenge of planning an economy to address drastic social change, the American debate should serve as a warning of how elusive a national consensus on free enterprise can be, even when agreement is reached — and hopefully it will be — on the basic principles.

As the Americans are demonstrating, there is enough disagreement on the fine-tuning to fuel the costliest election in history — and one of the most acrimonious. □

ANC, Govt 'narrowing economic differences'

Star. 24/9/92 (49)

WASHINGTON — A top South African finance official says the Government and the ANC are narrowing their differences over the country's economic future, in spite of continuing political problems.

"It is essential to do something about the economy and I think the ANC is beginning to realise that," Gerhard Croeser, director-general of the Finance Department, said in an interview during this week's International Monetary Fund meetings in Washington.

"We cannot wait until everything is in place to start ensuring growth. It will be necessary to take those decisions now, even in an interim government," he said.

His remarks follow praise by Finance Minister Derek Keys for the ANC's evolving economic policy, which he said was emerging out of a period of "virtual civil war".

Mr Croeser said the Finance Ministry would publish a tough economic blueprint for the country's transition to majority rule at the end of October. The study would map out a comprehensive economic strategy, addressing capital flows, investment, government spending and taxation. — Sapa-Reuter.

Germans seek to identify further SA aid projects

STAR 24/9/92

49

By Helen Grange
Pretoria Bureau

The German government will be identifying further projects in South Africa which could benefit from its development aid programme, new German ambassador Dr Hans-Christian Ueberschaer said on Tuesday.

To this end, Germany's Minister of Economic Co-operation, Carl Dietrich Spranger, would be visiting South Africa from October 19.

He would look into the prospects for channelling aid through official channels rather than non-Government agents as was the case in the past.

Projects would probably focus on infrastructure development between South Africa and its Frontline states, and on education, especially in the technical and artisan fields. Attention would also be given to housing and technical aid to prospective black farmers.

Germany contributes R120 million a year to development projects in South Africa.

Assurance was given that these contributions would not suffer as a result of the recession in Germany.

Confidence

However, German investment would depend on the political and economic progress made in South Africa and on the amount of confidence South Africans showed in the economy.

Mr Ueberschaer said Germany would offer assistance in political matters only if asked and, if this was the case, it would probably be within the framework of the Economic Community.

Keys regrets lack of access to international aid

STAR 24/9/92 (49)

By David Canning

WASHINGTON — In view of its current needs, it was unfortunate that South Africa could not obtain "firmer and more substantive" commitments from the International Monetary Fund (IMF) and World Bank, Finance Minister Derek Keys said here yesterday.

In his maiden address as an IMF governor, Mr Keys also urged the world's major industrial countries to boost their economic performance and to move away from unjustifiable market distortions, generous subsidies and protectionism.

He told the world bodies that, in line with world trends, "economic liberalisation and political democratisation" had progressed in southern Africa.

South Africa was committed to addressing current economic imbalances and to exploring the possibilities of forging "closer regional structures and mechanisms" with its neighbours.

While disappointed about the continuing lack of access to full IMF and World Bank facilities, he was grateful that those bodies were becoming increasingly involved in South Africa. This was occurring through technical assistance and through policy and sectoral work.

Mr Keys said he hoped this would be the last time South Africa would have to speak to the world bodies as a "non-normal" member — one without a constituency to represent it on the executive boards.

Like many other countries, South Africa was involved in a transition to democracy. Unfortunately this was occurring in an environment of social unrest and economic stagnation "with the added constraint of the most severe drought in living memory in the region".

Despite this, South Africa had already gone some distance along a difficult road towards establishing the stability needed to support sustainable economic growth in the longer term.

Eventually this programme would raise the wealth-creating capacity of the economy and also increase its international competitiveness.

"It will also, hopefully, through the monetary system of the South African-bloc countries, have a spin-off on the economies of other countries in the region."

Mr Keys said the interim committee of the IMF had made special mention of South Africa's "extraordinary transportation efforts" to help its neighbours to obtain vital foodstuffs. South Africa was, in fact, providing additional assistance.

However, further financial assistance needed to be provided by aid institutions.

Referring to the wider picture from the perspective of a developing country, he welcomed movement towards macro-economic reforms aimed at achieving world economic stability conducive to growth.

However, it was imperative that the industrial countries should improve their economic performance.

These countries also bore responsibility for ensuring a speedy and positive outcome for the General Agreement on Trade and Tariffs' Uruguay round of multilateral trade negotiations.

The sacrifices of world economic structuring policies fell disproportionately on those least able to bear them.

Keys points to SA as land of opportunity

STAR 24/9/92 (49)

By David Canning

WASHINGTON — South African markets would present attractive opportunities to foreign investors for decades to come, Finance Minister Derek Keys said here.

He told a Southern Africa in Transition seminar that investment opportunities existed in two broad avenues — growing and unsaturated markets for all kinds of products and opportunities for beneficiation of exports and downstream manufacture.

Mr Keys said his economic policies were aimed away from those which had failed in the past — a closed economy, state assumption of investment decisions and commitment to a large public sector.

Areas of natural advantage for SA would become evident when markets were freed up. He described the three major priorities to be tackled by Government as violence, establishments of a representative government and an ending of "economic civil war" in the country.

Also speaking, Trevor Manuel, director of the ANC's department of economics, said there was a crisis of expectation within South Africa which no "wishing away" would remove.

While there was a lot of agreement about the type of economic policies which were needed, the country had been left with a legacy of misdirected resources.

Social engineering had impinged on the lives of millions and the state was going to have to intervene in economic processes because the free market would be unable to address all South Africa's inequalities.

However the ANC was committed to achieving stability and growth and supported markets.

The private sector would face major opportunities in providing the backlog of services — 1,8 million houses, electrical services, water supplies, etc.

Mr Manuel repeated the ANC's position that it would renegotiate debts being incurred by the present authorities. He said most of this capital was not going to help the disadvantaged and had been raised on sometimes onerous terms.

He stressed the ANC would not repudiate, but renegotiate, debt. Much of the violence in the country was related to lack of employment opportunities and other economic problems.

Labour absorption was so low because of the lack of economic growth.

The ANC did not have a short-term panacea for economic growth but in the medium-term there were opportunities from inward industrialisation - from tackling the economic backlogs.

Derek Keys . . . moving away from the failed policies of the past.

Keys bemoans IMF and World Bank response to urgent SA needs

BD AM 24/9/92

SIMON BARBER and SIMON WILLSON

WASHINGTON — Finance Minister Derek Keys yesterday expressed disappointment that SA remained a "non-normal member" of the World Bank and IMF with no access to their financing facilities.

"In view of our urgent needs," he told the organisation's annual meeting, "the absence of firmer and more substantive commitments is unfortunate."

SA's relations with the bank and fund remained "constrained and artificial", he said, but expressed the hope that the situation would be different by next year.

Making his first speech to the meeting as Finance Minister, Keys nonetheless noted that the bank, which is delaying direct financial assistance until an interim government is in place, was "positioning itself for greater future involvement" by providing "technical assistance" and undertaking policy and sectoral studies.

Though confronted with social unrest, economic stagnation and the effects of severe drought, SA was playing its own part to align itself with the policies favoured by the bank and fund.

Keys warned that the successful restructuring of developing economies such as SA's was dependent on stronger growth among the major industrial economies.

He reminded delegates of the developing economies' broad acceptance of and moves towards macro-economic reforms.

49

"Success in such matters often critically depends on the strength and stability of the global economy. It is therefore imperative that the industrial countries improve their economic performance," Keys said.

While multilateral institutions such as the IMF and the World Bank had stressed the need for corrective action among the developing economies, industrial countries' trade policies were characterised by unjustifiable market distortions, generous subsidies and protectionism.

Even though democratisation and good government were becoming realities in Africa, the continent was being increasingly marginalised by the international community, with tragic consequences. Real official development assistance had stagnated during the past decade as a result of new demands from other countries.

He told the meeting SA was in transition to democracy but was also caught in an environment of social unrest and economic stagnation, with the added constraint of the most severe drought in living memory. Nonetheless, SA was committed to addressing its current economic imbalances.

"We have already gone some distance on the difficult road towards establishing the internal and external financial stability needed to support sustainable economic growth in the long term.

"Eventually, this programme should raise the wealth-creating capacity of the economy and also increase our international competitiveness.

Keys thanked the bank for publicly praising SA's "extraordinary transportation efforts" to help its neighbours cope with the drought, but stressed that "further financial assistance needs to be provided by aid institutions".

'Good growth in 1993' — Keys

(49)

ARG 24/9/92

DAVID CANNING
reporting from the IMF conference in Washington

PROSPECTS of exceptionally good growth next year have been forecast by Finance Minister Derek Keys — provided a number of factors "come together."

And he has pledged that South Africa's new economic policies would contain "absolutely no draconian measures".

At an international Press conference after his address to the IMF and World Bank meetings, Mr Keys said he expected his minimum growth rate starting point to be about four percent a year. This would mean an average increase in per-capita income of about one percent a year for a very rapidly-growing population.

But this would also mean no change in the percentage of unemployed people.

He said this base would be "just the starting point for negotiation." He was not saying this was the right level.

If the authorities decided to go for a higher percentage of investment — as opposed to consumption — "then we will eat into the percentage of unemployed."

Having a higher level of investment, given constant assumptions about foreign capital flows, would mean accepting lower levels of consumption.

Mr Keys said he did not expect "anything great" in the sense of increasing foreign capital inflows. In the past few years there had been an outflow.

"We are hoping to stop that and get something of the order of one or two percent of GDP as a foreign capital inflow.

"We think that is a realistic assumption. If we can manage to get more than that we can raise our sights again."

It was hoped to make discussions about the intended direction of the economy as wide as possible.

Turning to next year's economic prospects, he said South Africa could expect very good growth.

The drought this year had reduced growth potential by about 1,8 percent. Reserve Bank figures showed an expected negative growth rate of minus two percent this year. Without the drought SA would have had about zero growth.

He said growth could be accelerated by greater investment if South Africa got its political act together.

SA 'will lag global upturn'

(49) CT 25/9/92

From SIMON WILLSON

WASHINGTON. — Economic recovery in SA would lag a global economic upturn by about eight months, Finance Minister Derek Keys said yesterday.

Speaking to reporters at the offices of the SA delegation to the annual meetings of the IMF and World Bank, Keys forecast that the SA economy would shrink about 2% this year.

"A recovery in the SA economy could be expected to begin about eight months after a recovery in the world economy. The lag represents SA's relatively large proportion of exports to GDP," Keys said.

The IMF's latest forecast for the world economy revises downwards the fund's predictions for global economic performance made in May this year.

The fund said world recovery would take place at only a moderate pace over the next 12 months.

Following global stagnation last year, when world output grew by only 0,1%, the fund is forecasting world growth of 1,1% this year and 3,1% next year. Its forecasts were qualified by warnings of downside risks to global economic performance arising from large budgetary imbalances in several key economies.

At the same news conference, Reserve Bank Governor Chris Stals said SA's economic performance would have been flat in 1992 — that is, zero growth in GDP — were it not for the effects of the drought.

Keys said his medium-term growth target for the economy was a 4% annual increase in real GDP. This would yield an annual increase of 1% in per capita GDP and would arrest the increase in unemployment.

Government's draft programme for structural adjustment of the economy, to be published in November, would not contain Draconian economic measures, Keys said. He hoped it would give signposts to indicate the direction of healthy development for several features of the economy.

"One of the more important things to be done in making concrete policy is then to convert that (the signposts) into programmes which are practical and in which people will have confidence and which will not be threatened.

"We would not like to produce something which is theoretically optimal but in practice likely only to cause trouble," Keys said.

He said he had an accommodative relationship with the ANC over economic policy formulation.

"I try to find the aspects in their policy with which I agree and to emphasise my agreement with those aspects, and I try not to make too much of a fuss about the bits that I don't like too much and which I hope will go away — such as nationalisation."

SA wanted to see a successful conclusion to the current Uruguay Round of trade liberalisation talks organised by GATT, Keys said.

"The advantage to SA of the Uruguay Round proposals are a greater access to world markets for our exporters on a scale which we would find practically impossible to negotiate on a bilateral basis.

"The multilateral nature of GATT is, in itself, a tremendous advantage for a small country such as ours."

NP urges debate on new economy

49 CT 25/9/92

From ANTHONY JOHNSON

DURBAN. — The time had passed when the government could unilaterally restructure the economy, deputy Finance Minister Mr Theo Alant said yesterday.

He told the National Party's Natal congress that by November the government wanted to table a discussion document on the restructuring of the economy.

"We want to start a national debate on the direction in which we want to go."

He hoped the ANC and Cosatu would be able to make inputs before next year's Budget was finalised.

The deputy minister also revealed that a report into the inordinately sharp increase in food prices could be completed soon.

He said food prices had gone up markedly after the introduction of VAT, but "we don't know why".

He rejected calls for a price freeze "because nowhere in the world has this worked ... it only leads to a black market".

He cautioned that the restructuring was "not going to bring miracles overnight" and that a rapid growth in the economy should not be expected in the first year.

Meanwhile, the battle lines have been drawn for the country's first non-racial election and the National Party had the biggest "war chest" available in its history, NP provincial deputy chairman Mr Danie Schutte told the congress.

He said the party's finances had never been in a healthier state.

Natal leader Mr George Bartlett opened the congress at a beachfront hotel with an appeal to delegates to "roll up your sleeves and get the election machine running".

"We have only 12 months to mobilise our forces for the democratic election." He disclosed that the NP intended to restructure the party to include the whole of the Natal/KwaZulu region.

Mr Bartlett spent much of his speech blasting the ANC and SACP. He appealled to Mr Nelson Mandela: "If you are a true African nationalist who wants nothing more than to build the nation, shed the yoke of communism."

Mr Jac Rabie, chairman of the Minister's Council in the House of Representatives, told delegates: "I don't for a moment think that the ANC will win the election." He said he was enrolling ANC members to the NP and predicted a "massive breakaway" of ANC supporters to the NP.

Threats to journalists slated

DURBAN. — The National Party in Natal yesterday reacted with "abhorrence" to reports that journalists had faced death threats from people trying to force the media to toe the ANC/SACP line.

A statement issued by the provincial Head Committee at the NP's Natal congress yesterday said the "freedom of the press is a precious ingredient of true democracy" and slammed the making of threats against journalists.

MP for Klip River Mr Jacko Maree said the ANC and its allies were manipulating the media. There were also attempts to woo the press by ministers who argued that both the National Party and the media wanted democracy and as such journalists should oppose the SACP, the antithesis of democracy, he said.

Natal NP leader Mr George Bartlett said: "The freedom of the press is at stake at present." In a reference to the first non-racial election, he said the NP and the press "are in the same campaign now — working for a truly democratic South Africa".

Some delegates urged the media not to play into the hands of the ANC by vilifying the police.

Economic policy decisions for new SA on hold

(49)

B DAY 25/9/92.

SIMON WILLSON

WASHINGTON — A throwaway line on the last day of this year's International Monetary Fund (IMF) and World Bank annual meetings has neatly encapsulated the way the multilateral lending organisations are looking at SA.

A questioner from the floor of the World Bank's final function at the meetings asked bank president Lewis Preston whether this year's meetings had been any different because of the absence of socialists following the collapse of the command economies.

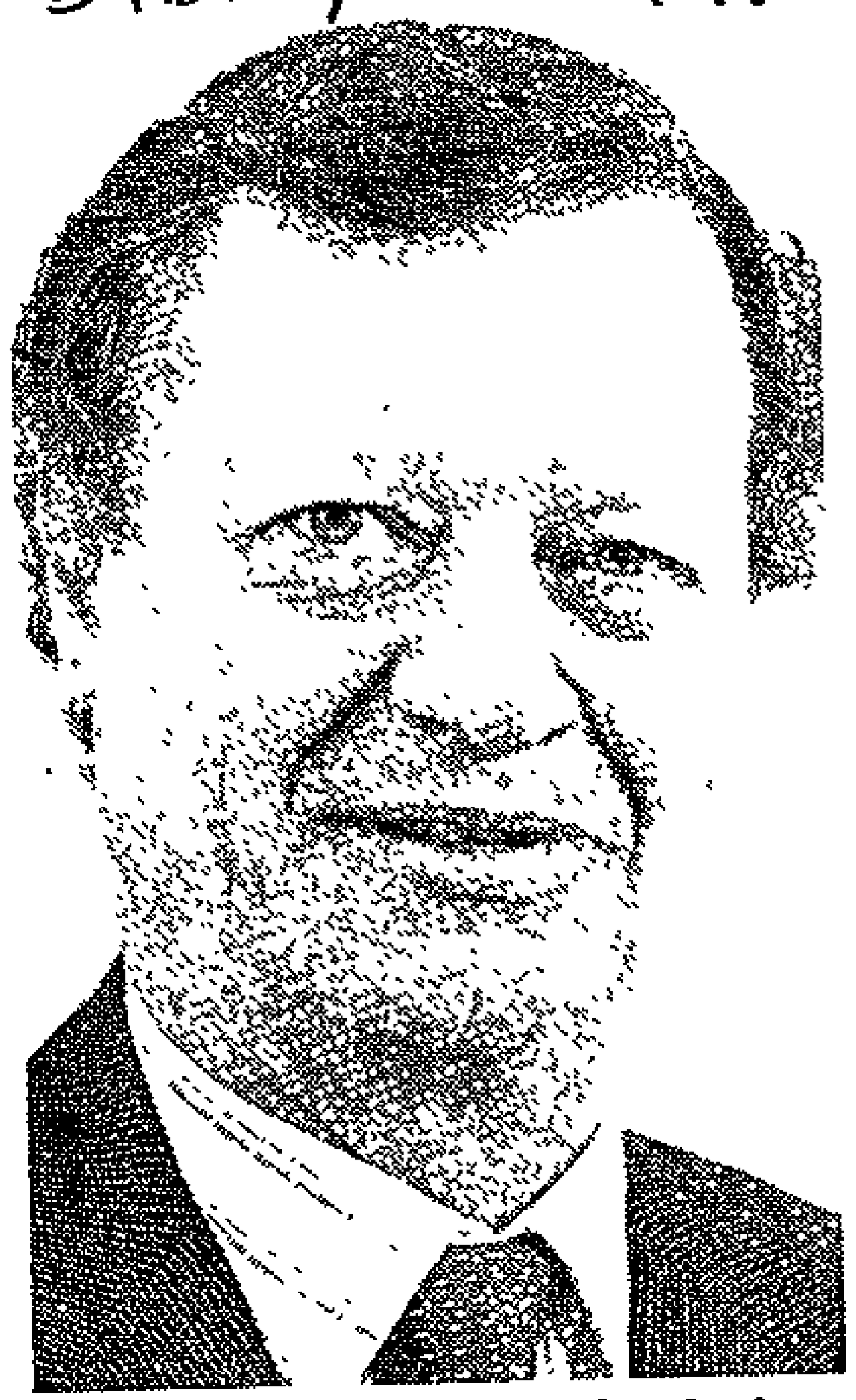
"There are still some socialists here," Preston replied. "There are still even some communists around. But they are talking in very low voices, and they are mostly South Africans."

Preston's one-liner was a compact summary of the difficult position in which the SA delegation to the IMF summit has found itself. Outgoing elected officials in the US are referred to as lame ducks. While describing representatives of the De Klerk government as lame ducks may be an oversimplification in view of the NP's belief it can win a nonracial election, the SA delegation at the IMF has done much to encourage outsiders to view the executive structure in Pretoria as a caretaker administration.

Finance Minister Derek Keys, making his debut at the IMF summit as a Cabinet Minister, stressed he had little absolute, executive power to act or take decisions in the name of the new SA. In the delegation's briefings and news conferences, Keys constantly referred to SA's opposition movements and extra-parliamentary parties.

At times, Keys's disclaimers to executive authority crossed the border between modesty and self-deprecation. In view of his appointed portfolio in an elected cabinet, Keys's own vulnerability to a change in government is probably greater than that of the other two senior members of the delegation, Finance director-general Gerhard Croeser and Reserve Bank governor Chris Stals. But the general reluctance to assume sole responsibility for economic decision-making characterised the whole delegation at the summit.

It was what assembled delegates wanted to hear, of course, and it went down well. The internally circulated daily report of proceedings at the summit and its many fringe meetings carried many references to the identity and compatibility of economic priorities for SA expressed by both government and ANC representatives. Photographs of Keys and ANC economics department director Trevor Manuel, side by side and beaming while sharing a conference platform, presented a favourably unified image of a domestic political process previously famous at IMF gatherings only for its hopeless and seemingly endless antagonism.



KEYS . . . disclaiming real authority

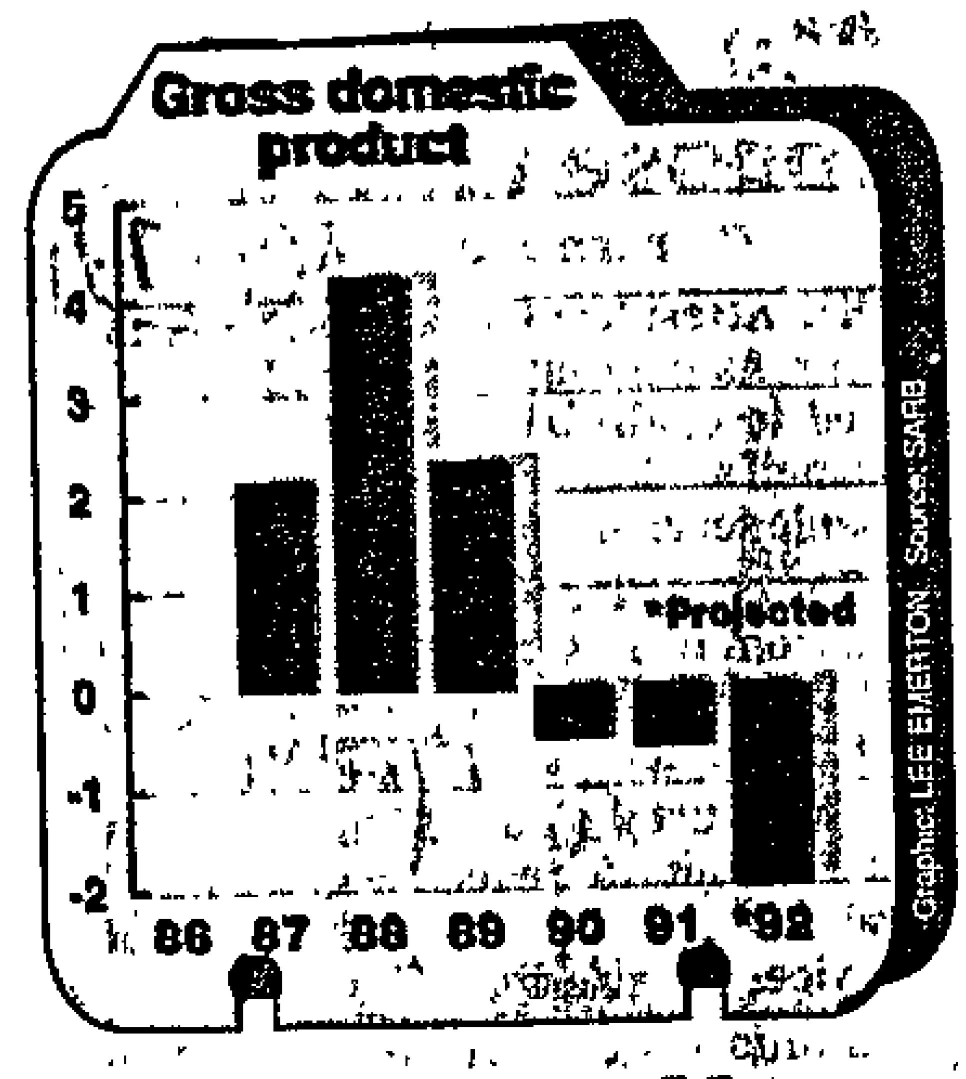
But the price of such wide-ranging consultation was continuously quoted by Keys and others in formal presentations on SA's economic prospects. A structural adjustment programme for the economy could not be implemented unilaterally, however urgent the need for it became. The adjustment proposals, which Keys insisted on codifying as a "normative integrated economic model", would be published in November for circulation, consultation and reaction rather than for immediate application to the embattled economy.

The SA delegation's decision on which of the IMF's voting constituencies it should join was that there would be no decision. Why? Because it was a decision that should properly be left to an authoritative interim government.

The SA delegation's strategy — as, realistically, it had to be — was to hedge and put on hold the considerable weight of expectations that SA was about to match or beat the radical structural adjustments that are working such relative economic wonders in comparable countries such as Argentina and Mexico. All progress on economic policy evolution was subsumed to prior progress in the constitutional negotiations which, in turn, was made dependent on ending the civil unrest.

In so openly confessing that the political reform process effectively hamstrung SA's economic policymaking for the time being, the SA delegation was only acting out a syndrome that the IMF's own analysts had warned of earlier in the pre-summit build-up. In a briefing on the sub-Saharan African economies, IMF and World Bank technical staff wryly commented that the political reforms being enacted in many parts of the sub-continent were actively retarding many countries' moves towards radical economic reform. Democratic changes of government, for so long a rarity in the countries north of the Limpopo, were preventing a smooth decision-making process all over the region.

Keys's tacit admission that SA had now joined its geographical neighbours in this respect, as well as in an increasing numbers of others, merely reinforced the persuasive general image of SA at the 1992 summit: that the country is rejoining the mainstream of nations, with all that such a move implies.



Drought's effect underestimated

GRETA STEYN

THE Reserve Bank expects the drought to have a worse effect on balance of payments than its initial projection of R1,2bn.

The Bank's economics department could not confirm yesterday that it had placed a figure of R2bn on direct and indirect effects of the drought on foreign exchange earnings. But a spokesman said the bad wheat crop, not in its original forecast assumptions, could have a big impact.

The Wheat Board has announced SA will begin importing wheat from next month which will continue to affect the BoP next year, along with maize imports which are expected to continue until April next year.

The maize crop has turned out better than expected and will to some extent offset wheat's negative contribution.

SA's GDP will also continue to be dampened by agriculture next year.

The collapse in agriculture affects economic activity through a multiplier effect on other sectors. The Bank estimates the direct negative effect on GDP for the current year at -1% and the indirect spillover into other sectors at -0,8%.

Economists also warned against expecting too much progress on the inflation front when rains eventually arrived. After-effects of the drought are expected to put upward pressure on meat prices as farmers will reduce the supply of meat when they can feed their animals. 25/9/92

SA could apply for drought-related IMF aid, even though its current account is in surplus, as long as it can prove that the drought will affect its BoP.

'Economy to shrink 2% this year'

SA will trail world upturn, predicts Keys

BDay 25/9/92

49

SIMON WILLSON

WASHINGTON — Economic recovery in SA would lag a global economic upturn by about eight months, Finance Minister Derek Keys said yesterday.

Speaking to reporters at the offices of the SA delegation to the annual meetings of the IMF and World Bank, Keys forecast that the SA economy would shrink about 2% this year.

"A recovery in the SA economy could be expected to begin about eight months after a recovery in the world economy The lag represents SA's relatively large proportion of exports to GDP," Keys said.

The IMF's latest forecast for the world economy revises downwards the fund's predictions for global economic performance made in May this year.

The fund said world recovery would take place at only a moderate pace over the next 12 months.

Following global stagnation last year, when world output grew by only 0,1%, the fund is forecasting world growth of 1,1% this year and 3,1% next year. Its forecasts were qualified by warnings of downside risks to global economic performance arising from large budgetary imbalances in several key economies.

At the same news conference, Reserve Bank Governor Chris Stals said SA's economic performance would have been flat in 1992 — that is, zero growth in GDP — were it not for the effects of the drought.

Keys said his medium-term growth target for the economy was a 4% annual increase in real GDP. This would yield an annual increase of 1% in per capita GDP and would arrest the increase in unemployment.

Government's draft programme for structural adjustment of the economy, to be published in November, would not contain Draconian economic measures, Keys said. He hoped it would give signposts to indicate the direction of healthy development for several features of the economy.

"One of the more important things to be done in making concrete policy is then to convert that (the signposts) into programmes which are practical and in which people will have confidence and which will not be threatened.

"We would not like to produce something which is theoretically optimal but in practice likely only to cause trouble," Keys said.

He said he had an accommodative relationship with the ANC over economic policy formulation.

"I try to find the aspects in their policy with which I agree and to emphasise my agreement with those aspects, and I try not to make too much of a fuss about the bits that I don't like too much and which I hope will go away — such as nationalisation."

SA wanted to see a successful conclusion to the current Uruguay Round of trade liberalisation talks organised by GATT, Keys said.

"The advantage to SA of the Uruguay Round proposals are a greater access to world markets for our exporters on a scale which we would find practically impossible to negotiate on a bilateral basis.

"The multilateral nature of GATT is, in itself, a tremendous advantage for a small country such as ours."

See Page 10

Keys breathes life into economic forum plans

Weekly Mail Reporter W\Mail 25/9 - 1/10/92

THERE'S still life in the National Economic Forum (NEF), despite the government's deferment of its decision on participation. A flurry of activity is expected in the next few days following Finance Minister Derek Keys' return from the International Monetary Fund conference in Washington. Keys has indicated that on his return he will "urgently" seek meetings with the Congress of South African Trade Unions, whose proposed PAYE boycott sparked the government delay on the NEF. (47)

Meetings between Keys and business representatives are also scheduled. Only after these will the cabinet make its decision.

Keys' press secretary, Lesley Lambert, stressed that the deferment of the decision has not affected the functioning of the government's team, which was still available for NEF meetings.

The signs are that the NEF will be back on track once Keys and Cosatu iron out their differences over the PAYE issue. A possible solution being mooted is that Cosatu will continue paying lip service to its PAYE boycott, while urging Keys to press the cabinet into a swift transition to interim rule. Once a transitional government was in place, the boycott would be dropped.

There is considerable scepticism, even among unionists, about Cosatu's capacity to wage a campaign. Without the co-operation of big business — which is adamant it will not break the law — the boycott would be stillborn. Cosatu would have to lead the way by withholding PAYE, exposing both it and its affiliates to prosecution.

Keys laments lack of aid 49

FINANCE Minister Derek Keys bemoaned the lack of concrete aid from world aid agencies at the annual general meetings of the International Monetary Fund and World Bank in Washington this week.

Keys said he hoped it would be the last time South Africa would have to address the meetings as a "non-normal member", without access to aid. Weekly Mail 25/9 - 1/10/92

Keys criticised restrictive international trade regimes and the absence of substantial aid from industrial nations, saying this could cause developing countries to fail in their economic adjustments. 49

Western woes: No golden lining for SA

W/Mail 25/9 - 1/10/92 (49)

The Western world's economies are in a tight spot. **REG RUMNEY** *reports on what this means for South Africa*

SOUTH AFRICANS returning from visits to Europe and the Americas bring back with them tales of economic woe more visible than our own. They tell of shops boarded up in British high streets, and Canadian businessmen sharing inter-city car trips and hotel rooms.

Those whose memories stretch to previous world crises will ruefully note the difference. For some time now, trouble overseas has washed up on our shores too. South Africa's is an open economy, dependent on trade.

Gold used to be the haven metal investors made nervous by war or inflation fled to, enabling South Africa in previous decades to enjoy the prosperity of the undertaker in a plague. More recently it just hasn't performed its wonderful counter-cyclical trick as a store of value, being regarded as just another commodity like manganese or coffee.

However, during the currency crisis that sent sterling into a tailspin and the European Community reeling, gold did surge overnight towards $350. Compared to the $475 it reached as recently as 1987/88, that isn't a particularly glittering performance.

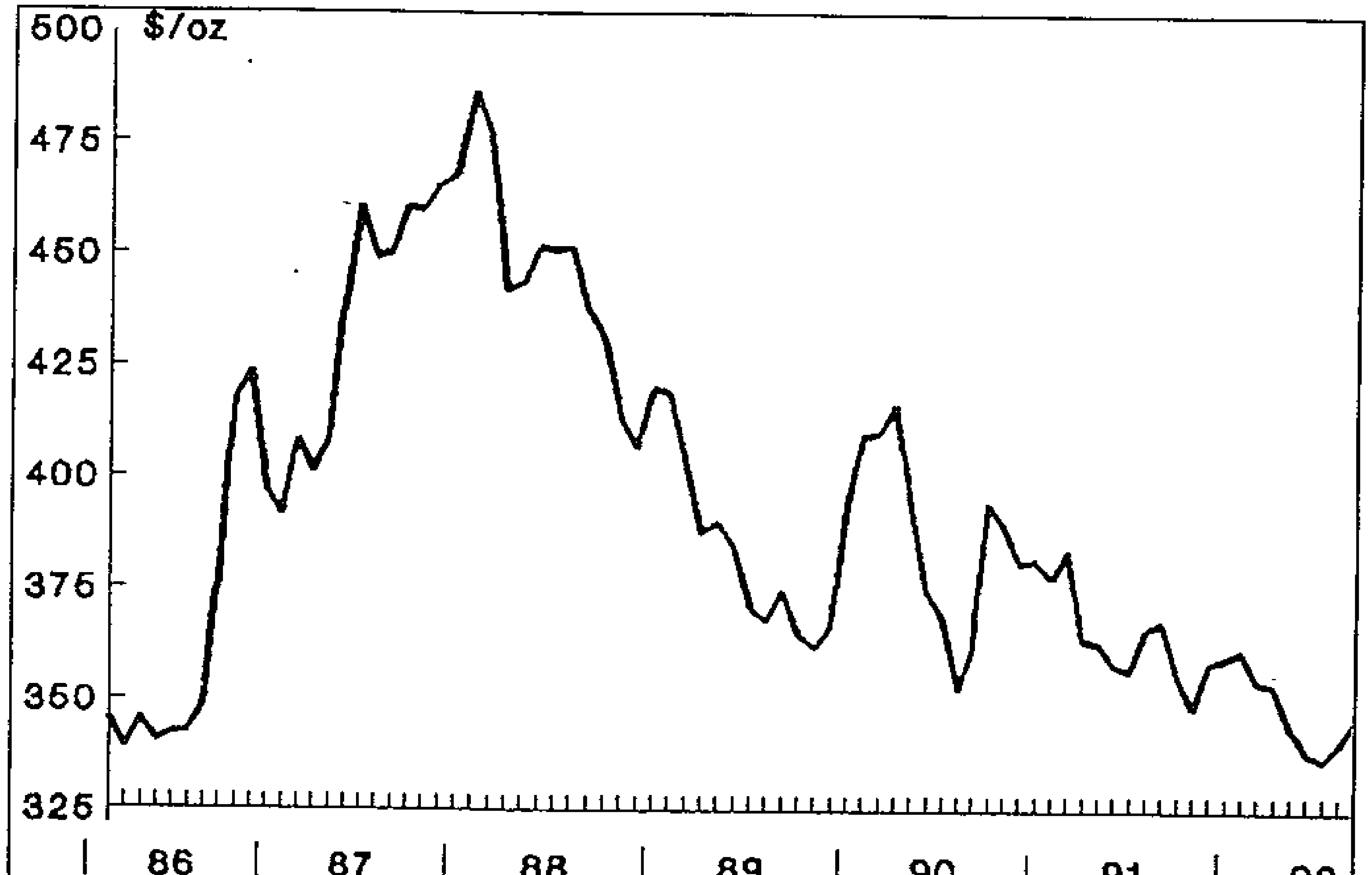
Gengold's Gary Maude finds it encouraging that gold was seen as an alternative to currencies for the first time in almost 12 years. "A whole generation of dealers are not familiar with the financial uses of gold."

That panic-driven spurt in gold holds out the hope the weakness in the world economy could still cause a flight into gold of the sort seen in the past.

The currency see-saw that arose from speculation against the pound is a reflection of deeper problems in the Western world economies.

As International Monetary Fund managing director Michel Camdessus pointed out in Washington this week, the root of the problem was the big difference in approach to monetary policy in the US and Germany.

The US has dropped interest rates to an historical low, dragging down the value of the dollar, in an attempt to resuscitate its economy. However, a consumer debt hangover in the US has made lowering interest rates to stimulate spending a bit like pushing on a string. Consumers just don't want to get into debt again.



Glitter gone ... Gold's dismal performance over the past six years

In Germany, inflation paranoia has prompted the central bank to keep interest rates high, despite the devastating effect this has had on the economies of EC partners like Britain, forced to match Germany's high rates in a vain attempt to defend the pound from devaluation.

Camdessus, as is to be expected from the head of an institution wedded to a conservative, monetarist approach, warned against easing monetary policy to restimulate economies in recession, urging instead cuts in budget deficits, and singling out the US and Germany.

The US budget deficit, at $295-billion for the first 11 months of fiscal 1992, and heading for more than $300-billion, brings the US accumulated public debt to $3,95-trillion, a figure usually associated with astrono[illegible]

into a renewed reign of runaway inflation or negative real interest rates, or should fear of currency chaos grip the world, gold could well benefit.

A phoenix-like return of gold would also deter the painful adjustment South Africa has to make from dependence on commodities for export earnings.

The more likely future is less dramatic. Western countries will struggle out of recession, painfully and unevenly.

Old Mutual economist Rian le Roux points out the ineffectiveness of US monetary policy — ie lowering interest rates is matched by the inflexibility of fiscal policy. Cutting government spending to make a meaningful dent in the overhanging debt seems too painful a political choice to make. But failing to cut the debt means each administration is saddled with huge debt repayments. The interest on the US national debt exceeds the amount spent on defence.

Le Roux reminds that the US is subject to "rolling recession" where one part of the economy flourishes while another languishes.

Sanlam chief economist Johan Louw is hopeful Germany will not stick stubbornly to high interest rates. Cutting them will give European countries a leg-up out of recession. And he sees US growth at around three percent next year. But big stocks in certain commodities and low investment means Louw foresees no boom in world commodity prices next year.

Generally, economists agree South Africa's recovery will take its cue from the tardy upturn in the world's major economies. One difference is that our recession has been longer and more gradual than those overseas. It has also differed in that none of our major producers has yet found demand dropping so steeply that prices have had to be reduced.

"Our poverty comes from not being capable of accommodating our growing population," notes Standard Bank chief economist Nico Czypionka. "We haven't done that badly with all the political complications around."

South African exports, he adds, have held up well in view of widespread recession.

Unlike in Western economies, the recession hasn't had a perceptible effect on investment in infrastructure. This is because we can still live off the over-investment undertaken during the gold boom of the early 1980s.

Czypionka remarks that the harbours and the power stations have all been built already. Drought has hit us hard this year. Czypionka says a normal agricultural season alone could see growth of 1,5 percent next year, compared to be buying.

Keys offers ANC an economic olive branch

ARG 26/9/92 (49)

■ From page 1

— could create the basis for very considerable convergence between present government and other parties — including the ANC — on the likely outcome of the future government's policies.

Mr Manuel responded that the economic model had to be seen in context of long-standing ANC calls for restructuring.

"An attempt to cut government spending sounds good. But who are you going to trim — doctors or teachers or policemen? And who will take the decisions? Top civil servants, who could shed those who don't agree with them?"

On issues raised at the IMF/World Bank, Mr Manuel said double-standards still clearly persisted between developed and developing countries.

"Take the budget deficit in the US. If the US was a developing country it would be forced to have a structural adjustment programme.

"But because they have the strongest voice in the fund they don't see the necessity for this."

On the question of possible World Bank loans to SA, Mr Manuel said the issue should be seen in perspective.

"The bank does not give grants but loans — and they have to be repaid."

SA's ability to borrow depends on political settlement

ARG 26/9/92

(49)

Strapped for cash

■ Institutions like the World Bank and the International Monetary Fund are maintaining the stand that there can be no lending until internal and external political consensus is reached in South Africa.

DAVID CANNING, Weekend Argus Foreign Service

WASHINGTON. — The continuing lack of political settlement caused South Africa to return from this week's IMF and World Bank meetings largely empty-handed.

Its decision to turn down an invitation to join the Swiss group, carrying with it a valuable deputy directorship, disappointed many in the local camp who felt a golden opportunity had been thrown away.

Minister of Finance Trade and Industry Mr Derek Keys also disclosed South Africa had not got around to applying for drought relief under a special aid fund.

But progress was made behind closed doors in discussions with World Bank and IMF teams on their research into the desired shape of the economy and on development priorities to be pursued.

The exercises "deepened and strengthened" ties which have been built up with the world bodies since Mr Nelson Mandela was released in 1990 and this will translate into practical aid as soon as an interim government is formed.

These institutions are maintaining the stand that there can be no lending until internal and external political consensus is reached.

South Africa's economic, development and banking teams held a series of meetings with their World Bank counterparts. Development priorities were discussed, with some South African speakers pressing the opinion that, in view of the critical need, sectoral rather than "macro" consensus should be sufficient to allow development projects to go ahead.

They argued it was quite possible to get broad political and community agreement on specific projects, even before broad political agreement was reached.

The World Bank and IMF, however, remained sensitive to the political pressures of their member countries on the issue.

On the macro-economic outlook, the IMF was reportedly concerned about the country's high fiscal deficit — likely to be more than twice the maximum guideline this year — but understood political constraints prevent the government from raising taxes.

Mr Keys told the world bodies, in his annual address that South Africa was committed towards establishing stability needed to support sustainable economic growth in the longer-term.

He also said, in view of its current needs, it was unfortunate that South Africa could not obtain "firmer and more substantive" commitments from the world bodies.

In relative terms South Africa remained a very minor issue at a meeting which saw a procession of leaders espouse the benefits of "opening up" their economies.

Even while currency markets were in a turmoil flowing from "unsound fiscal policies," the ministers promised to achieve better policy balances and greater coordination among themselves.

World Bank president Mr Lewis Preston said conditions were very difficult for developing countries, in view of slow world growth and the attitude of major nations towards renewal of GATT.

On one hand, the major nations continued to insist poorer countries should undertake expensive economic restructuring exercises; on the other, the major countries themselves were running budget deficits and protectionist policies. The poorer countries also faced reduced incomes from low commodity prices.

He said the foreign exchange turbulence was a reflection of an imbalance — over-emphasis on monetary policies with too little attention being given to fiscal disciplines.

There were bright spots. Though slow, the world economy should start to pick up next year. The debt crisis was over for many banks, although debt remained an enormous problems for some poor countries.

IMF managing director Mr Michel Camdessus admonished leading nations for their failure to work with the IMF to present disorder on currency markets.

Loss of confidence had resulted from inadequate fiscal policies, resulting in an over-burdening of monetary policy.

Resulting wide gaps in interest rates in Europe and North America had caused serious problems and allowed currency speculators to have a field day.

An avalanche of speculative capital last week forced the British and Italian governments to withdraw from the European exchange rate mechanism while, this week, the Spanish were forced to defend their currency.

ANC offered olive branch

(49)

ARG 26/9/92

The convergence of views between Trevor Manuel, the ANC's head of economics and Finance Minister Derek Keys surprised many observers at this week's IMF-World Bank meetings in Washington.

DAVID CANNING, Weekend Argus Foreign Service

WASHINGTON. — Trevor Manuel agrees with Finance Minister Derek Keys's statement in New York on Monday that their economic views are "converging".

Mr Keys held out an "olive branch" at an investment conference in this city by saying the government and ANC had to work together to pursue economic stability and growth.

He added there was such growing agreement that he could virtually have "exchanged texts" with the ANC's Tito Mboweni.

He praised ANC awareness of the need to temper extravagant hopes with sensible macro-economic constraints, and said he now detected "a healthy degree of pragmatism and realism".

However Mr Keys conceded he had been working hard to be "accommodative" in his views on ANC policy.

He tried to find the bits he liked, "and not to much of a fuss about the bits I don't like" in the hopes they would go away. He cited nationalisation as an example.

Mr Manuel responded, in an interview, that while some significant differences persisted, "consensus" was growing on issues like the need to achieve economic growth, attract investment, gain political stability and address socio-economic inequities.

However the ANC was committed to achieving stability and growth and supported markets.

Mr Manuel, 36 — described, perhaps prematurely, in a daily newspaper here as SA's "Shadow Minister of Finance," — says the degree of South African agreement over many economic issues surprised many people in New York and Washington.

"In broad terms, there is going to be agreement between the government and ANC on the causes of economic problems. But there are likely to remain differences on the manner in which these issues are treated," Mr Manuel said.

However, he praised the yardsticks by which Mr Keys was making decisions.

"I set a lot of store by the statement Mr Keys made on Monday — that he evaluates every decision he takes on the basis of whether a future democratic government will be comfortable with it.

"It has been reflected here at the IMF/World Bank in his holding back for another two years — until a democratic government is installed — the decision on which constituency SA should join."

The issue had been sensitive, Mr Manuel said, because both African constituencies at the IMF/World Bank were keen to have South Africa. "The quota which SA has is a marketable thing."

In a sense, it had been a pity for SA to lose this opportunity of joining the Swiss where it could have had an alternative directorship in the fund.

Unfortunately, this was not the only way the political impasse was affecting the economy, he said.

Other restrictions included continuation of US state and local sanctions and the restriction on World Bank/IMF lending to SA.

He said it was clear, from discussions in New York this week, that there were investors wanting to come into SA.

It was a pity they needed answers before democracy was in place. It was "with a lot of pain" that he had to support the stand that no lending should be made to SA until an interim government was in place.

The government needed to understand the need for a political agreement.

In his turn, Mr Keys said his proposed "economic model" — to be announced in November

Turn to page 3

STRAPPED FOR CASH — page 4
PARTYING IN HARD TIMES — page 4

SA economy heading for 'everlasting pain'

South 26/9-30/9/92

(1-9)

South Africa is well on the way to getting a controversial structural adjustment programme for the economy. **Lynda Loxton** looks at what the IMF and World Bank might expect of us:

FINANCE ministers from over the world met in Washington this week to consider the state of the world economy amid sharp reminders that all is not well

Firstly, the value of the pound dropped through the floor as Britain came perilously close to admitting defeat in its fight against recession

This caused chaos on world money and stock markets, and left the dream of a common European monetary system badly shaken

Secondly, the latest economic review of the International Monetary Fund (IMF) contains a bleak reminder that Africa is increasingly being marginalised and faces a long, difficult struggle to ensure sustained growth

Finance Minister Mr Derek Keys' warning that South Africa is rapidly heading down the same road, gave South Africa's squabbling leaders such a *skrik* that talks about talks were suddenly on again

To "fix" Africa's economic decline, the IMF and its sister organisation, the World Bank, have spent the last few years persuading African governments to adopt economic structural adjustment programmes (ESAPs). The results have been mixed, but are perhaps best summed up by one grim Zimbabwean witticism — "Everlasting Suffering And Pain"

From the way Keys has been talking lately, it seems South Africa is due for its own ESAP soon -- and because of the pain that it will cause, he would prefer that a political settlement is reached by the time such measures are implemented to keep the masses under control

Aware of this, Cosatu and others are condemning the government's "unilateral" restructuring of the economy and are pressing ahead with their plans for economic mass action

This has prompted the government to postpone a decision on whether to take part in any economic forum, which in turn has incensed Cosatu

Keys will probably return from the IMF meetings in Washington reinvigorated with ESAP fervour and a load of arguments why the programmes are needed — and we had all better *pasop*

Normally, ESAPs are undertaken with financial support from the IMF, which lays down strict conditions for giving this aid Although South Africa is unlikely to qualify for IMF aid until there is a political settlement, it is clear that the government is already taking steps to put economic policies in place that will appeal to the IMF, though not to Cosatu

The four main elements of ESAPs are positive real interest rates, broad-based taxes such as VAT, trade liberalisation and the controversial policy of privatisation

- Positive real interest rates mean that interest rates keep pace with inflation, even if this makes borrowing money expensive This is important because it encourages people to save The more people save, the more money is kept out of the system, which helps to keep inflation down

It also means that banks have more money to lend to businesses wanting to expand and create jobs and produce exports to earn the country more foreign exchange

- Broad-based taxes such as VAT are simpler to administer and should, if working properly, make it easier for the government to gather the revenue it needs for public works and social programmes The introduction of VAT should be followed by lower tax on individuals and companies

- Trade liberalisation aims to promote competitive exports and to open the local market to imports This removes the protection enjoyed by uncompetitive firms, threatening their existence and the jobs they provide But it also means that consumers may then be able to get certain (imported) things more cheaply even though devaluation plays an important role in trade liberalisation

That seems to be a contradiction But the theory is that even though a currency is devalued, lifting tariff and other restrictions to imports means that imports from countries that make things more competitively do work out cheaper

- Privatisation means loss-making state enterprises are forced to become leaner and more efficient and to compete with private firms in an open market This means job losses, but the services provided should also become cheaper if there is competition

It should also go hand in hand with the promotion of small businesses and the informal sector to create jobs for those who lose jobs in former parastatals or uncompetitive firms

These steps might seem "reasonable" and, if coupled with good government, could mean a healthy economy The problem is that they involve, as Zimbabwe has learned, pain of one kind or another

Ordinary people do not like economic pain for some vague, long-term benefit Their needs and wants are immediate

Unless the reasons for the pain are made clear to them, and they agree that it is necessary, they are not likely to accept that they have to endure that pain

No wonder Keys poured a bucket of cold water over the squabbling leaders - there is work ahead for all South Africans

Sout

World's 'terrible twins'

(49)

Sou|t 26/9-30/9/92.

WHY ARE the World Bank and the International Monetary Fund (IMF) so powerful — and so hated in developing countries?

They were formed at a gathering of finance ministers of the Allies after World War II. The ministers met at Bretton Woods in the United States to map out ways in which they could help with the reconstruction of war-battered Europe.

Millions of dollars were pumped into what came to be known as the Bretton Woods Institutions — the International Bank for Reconstruction and Development, later known as the World Bank, and the IMF — which did a very good job.

The World Bank helped fund development projects while the IMF acted as a sort of banker of last resort, providing loans on easy credit to help support imports of vital machinery and other goods to rebuild the European countries.

But once they had achieved their initial task, they cast their nets wider and soon became, literally, international financial policemen.

Any economy that was in trouble asked them for help — help they only received if they adopted certain economic policies. Because they were desperate, the countries involved often had no choice but to accept those policies.

Unfortunately, such policies did not always work. This was because they were badly implemented, or affected by political decisions, or plain wrong for the country concerned in the first place.

But there have been some successes. This, added to the fact that traditional aid from the developed to the developing countries has been drying up, has meant that developing countries have come to depend more and more on the Bretton Woods institutions.

SA throws keys away

S/Times (BUSS) 27/9/92. 49

By KEVIN DAVIE: Washington

SOUTH AFRICA lost out this week on possibly a once-off opportunity to maximise its position in the world's most powerful financial institution, the International Monetary Fund.

"It was like throwing away the keys to the bank vault," says one observer.

At stake were the alternate director positions in the new Swiss-led constituency at the IMF and World Bank. The Swiss now hold the executive director positions on both boards. SA stood to get the two alternate positions permanently.

Poland

The Swiss constituency, which includes Poland and former Soviet republics Azerbaidjan, Tadjikistan, Usbekistan and Kirghizia, has only a few members. But including SA, it would be about 14th in voting power.

The inability of the Government and the ANC to reach consensus led the Swiss to give the two alternate director positions to Poland, the second-largest country in the constituency in voting power.

Although the issue had not been settled, it was believed that SA stood to get these two positions because its voting quota at the IMF exceeds that of Poland. Discussions between the Swiss and SA began some months ago and continued this week as Wednesday's voting deadline approached.

The Swiss had in the meantime promised the alternate director positions to the Poles. This meant that even if SA had joined the Swiss constituency, it would have been without the positions of the two alternate directors.

SA is unable to vote at the IMF because it does not belong to a constituency. It has a permanent representative at the IMF. Joining the Swiss constituency would have meant the loss of this permanent representative.

SA can still join a constituency — the Swiss have indicated that they are keen for it to happen. But SA is unlikely to get the alternate director positions permanently.

Finance Minister Derek Keys says: "Our interests will be adequately represented until there is an interim government."

He says the discussions with the Swiss were conducted intermittently for about two or three months.

Reserve Bank Governor Chris Stals says SA had the potential to negotiate a good position, but the failure to do so was part of the frustrations it faces. He says the Swiss constituency was not the only possibility.

Dr Stals says a daunting question is whether SA should be part of one of the African groups in the IMF.

Delays

The ANC's Trevor Manuel says the issue should ideally stand over. SA's 1% voting quota is "fairly tradeable".

Mr Manuel says the ANC was not responsible for the failure to join a constituency this week: "There were delays from their side. There was awareness of the issue for nine months."

Mr Manuel blames the delayed political process: "We all expected that an interim government would already be in place."

A boost for the islands

By CHERILYN IRETON

S/Times (BUSS)

THE deal that put Sol Kerzner back in charge of Sun International has spilled over into the group's Indian Ocean island operations which are to be consolidated and expanded. 27/9/92

Hotels in the Comoros and Mauritius will now fall under the banner of World Leisure Holidays, Mr Kerzner's tour wholesaler. It previously specialised in holiday packages to the Le Galawa Beach Hotel in the Comoros.

The enlarged World Leisure Holidays now includes the three Sun Resorts Mauritius hotels of Le Saint Geran, Le Touessrok and La Pirogue. It has set a turnover target of R60-million.

Although the deal is essentially an in-house restructuring, it gives World Leisure Holidays a new partner, Island Blythe (Mauritius). This group was a shareholder in Sun Resorts Mauritius.

It has extensive interests in tour operations for the inbound traveller to Mauritius, Seychelles and the Comoros. It owns the Avis car-hire franchise on the three islands and serves about 100 000 tourists a year.

Bruce Hutchison, managing director of World Leisure Holidays, says the group now has an integrated travel operation which will enable marketing funds to be focused. It will stimulate expansion, particularly in the Seychelles.

Of the expected turnover of R60-million, about R6-million will go to retail agents in commission, R11,2-million to airlines and R37,5-million into the island economies.

SA seeks huge loan from IMF

(49) (150) S/Times (BUSS) 27/9/92.

KEVIN DAVIE

Business Times Editor reports from Washington

SOUTH AFRICA is soon to step out of the financial laager by applying for a multimillion-rand loan from the International Monetary Fund.

The loan will be in terms of a special IMF programme — the compensatory financing facility (CFF) — which in SA's case can be used to alleviate the effects of the drought on the battered economy. The ANC is said to support the application.

ANC economics director Trevor Manuel says it would be wrong to "refuse the issue", but adds that IMF lending is not cheap and must be used only "as a last resort"

A source says the application will be made within three months

Finance Minister Derek Keys says an application is a "possibility"

SA could draw up to about R2-billion from the CFF to finance grain imports Mr Keys says the amount has not been decided on

SA has not had access to IMF money since the early 1980s because the Gramm amendment obliges the US — the largest shareholder in the IMF — to vote against new loans to it.

But the US would be unlikely to block a drought-relief loan backed by the ANC The ANC has given its support for amendments to US state sanction laws where investment brings humanitarian benefits

Reserve Bank Governor Chris Stals welcomes a possible CFF loan "It is always useful to have more funds available"

Reason

Dr Stals stresses that IMF finance cannot be used in the domestic economy. The IMF gives foreign currency to the central bank to help pay for the import of maize.

He says a CFF loan will improve the foreign reserves and SA's creditworthiness. "It will be another illustration of a more normal situation of SA's position at the IMF and in the world markets.

"That's a reason to take the CFF if we can get it"

He estimates the total potential CFF loan to be about R2-billion

CFF loans are normally made without conditions. But it is believed that the IMF is dismayed at SA's growing budget deficit and the money may be made conditional on substantial reforms, such as cutting government spending

The effect of the drought was the central feature of Southern African presentations at the IMF-World Bank annual meetings this week.

IMF managing director Michel Camdessus says developing countries showed growth last year of 3,5% in spite of the worldwide downturn

He projects this growth to increase to 6% this year.

The IMF's World Economic Outlook adds that this is the strongest growth in more than a decade "The only regions where the outlook has deteriorated are Southern and Eastern Africa where a number of countries are suffering the severe effects of the drought and civil disturbances"

The terms of trade have worsened by 6,25%, this report says

Dr Stals says the drought has contributed 1,8% to shrinking the SA economy

He says the message from the World Bank and the IMF is that SA needs to restructure its economy

"The advice is that you need to do something about it at this stage"

Latest indications are that the budget deficit this year will be about 7% of GDP, says Dr Stals This is more than double the 3% guideline the IMF uses for prudent public finance management

"This is far too high, taking into account only 2% of government expenditure is capital expenditure"

Germany is running a similarly high budget deficit, but the money is used to fund capital investment in infrastructure in former East Germany

In SA's case the deficit is largely used to finance current expenditure, causing a net dissaving of 5% of GDP by government

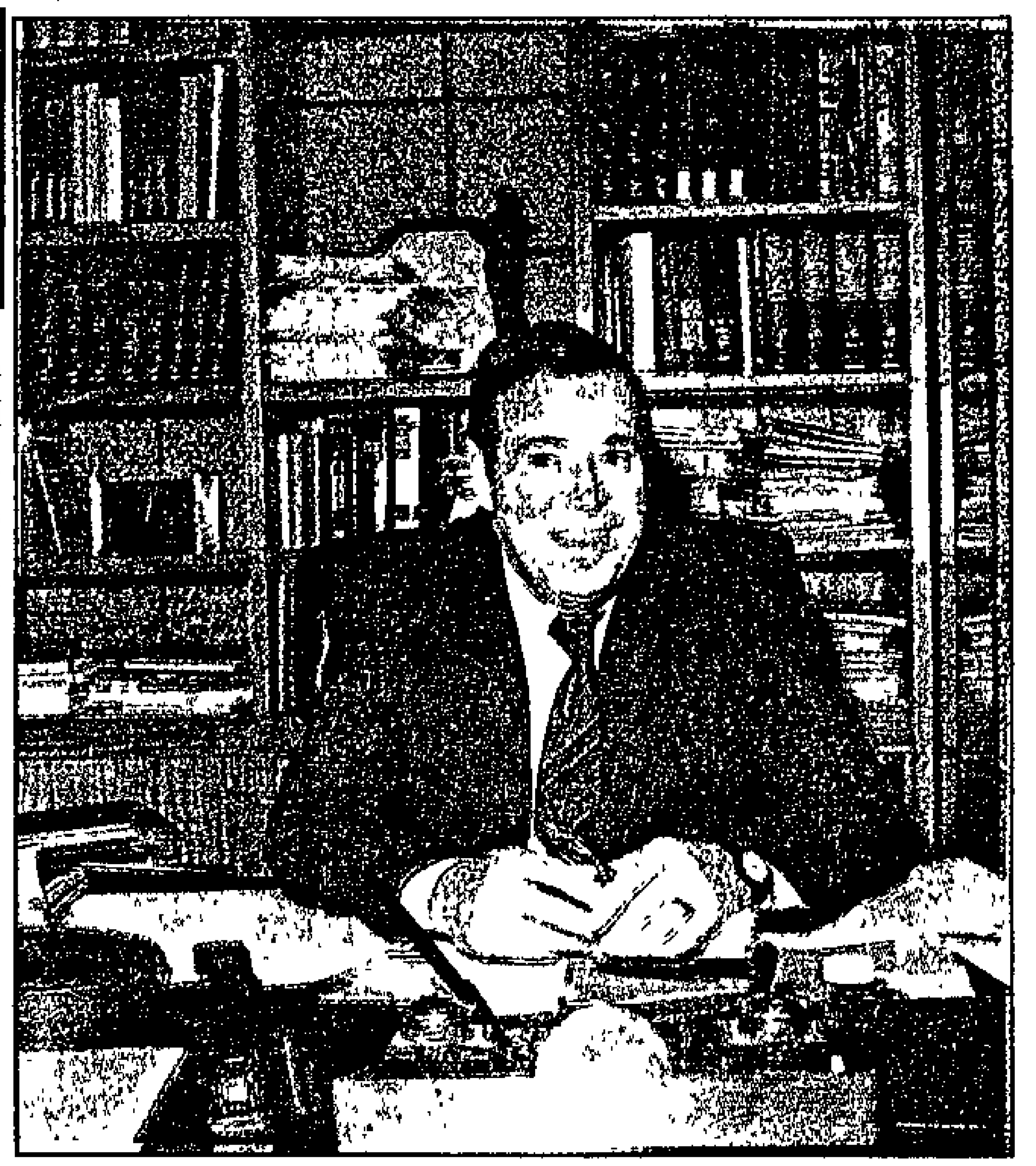
"Government is absorbing savings from the private sector to finance current expenditure," says Dr Stals

He says the European currency crisis which dominated the annual meetings is likely to delay economic recovery in SA

"Recovery in the industrial nations will be delayed by the turmoil in the markets. Prospects are less now than what they were three or four weeks ago."

Dr Stals says bankers and financiers are sympathetic to SA

"They are sorry we can't solve our problems. They would like to extend their business in SA, but they think the risk is too high"



CHRIS STALS SA heading for a budget deficit of 7% of GDP — more than double the IMF guideline

Export aid misses target

S/Times (BUSS) 27/9/92 (150)

By CIARAN RYAN

SOUTH Africa's R1,5-billion general export incentive scheme (GEIS) may be good for company profits, but is relatively useless for boosting exports, an analysis suggests

The cost of GEIS is equivalent to a 2% increase in VAT.

Delegates from the General Agreement on Tariffs and Trade (Gatt) who visited SA last week criticised GEIS and SA's high level of import protection

A Department of Trade and Industry spokesman says the Gatt delegation was nevertheless impressed "with our openness and honesty and the fact that we have no secret subsidies, as do so many other countries".

Booming

The assumption that manufactured exports are booming because of GEIS is challenged by Nedbank chief economist Edward Osborn

Exports of transport equipment shot up 32,3% between 1990 and 1991 to R1,52-billion and by 45% in the first eight months of 1992 over the same time last year Nedbank says 25% of these exports were containers

Vehicle parts and accessories — bolstered by rebates under Phase Six of the local content programme — accounted for a large but as yet unquantified part of the transport sector's export growth.

Vehicle assemblers are encouraged to export components which count for the local content target of 75%.

Because of Phase Six, vehicle manufacturers do not qualify for GEIS, prompting calls by the industry for inclusion in the scheme

Chemical exports were up 40,6% in the first eight months of this year to R2,6-billion Mr Osborn says most of the increase is attributable to the mining and primary beneficiation of titanium oxide by Richards Bay Minerals which commissioned a smelter in 1991

A large proportion of steel exports are classified category 3 under GEIS. Domestic users of steel complain that Iscor is cross-subsidising its exports because of its two-tier pricing system The system forces SA users to pay up to 50% more than the international steel price

The maximum level of assistance under GEIS is 19,5% for fully manufactured products under Category 4 Materials-intensive Category 3 products receive up to 6,5%, primary manufactured products under Category 2 receive 2,5% and Category 1 primary products nothing

Unwrought copper, lead, aluminium, zinc and tin are often counted in official statistics as manufactured exports, although nearly all base metals are subjected to only primary beneficiation and do not qualify for GEIS

GEIS will cost up to R2-billion a year until 1997 when SA will probably be required to comply with Gatt's anti-subsidy code

"GEIS boosts the profits of some exporters," says Bert Pienaar, director-general of export promotion at DTI "Higher profits may lead to the expansion of manufacturing capacity, product development and use of advanced technology This is happening"

University of Cape Town economist and economic advisor to the ANC Alan Hirsch says "Many companies are exporting only because they receive GEIS payments It is questionable whether the benefits warrant the cost

Strong

"However, export stimulation for a short time is justifiable The rationale is that by subsidising exports you learn more about the international markets and efficiency improves to the point where you can export without government support"

Mr Osborn says "We are burdening the Exchequer with all sorts of expenses which we should do only if there are worthwhile benefits

"In current economic circumstances many companies with underused manufacturing capacity will turn to exports, not because of GEIS, but to maintain production They will invest in the domestic market when conditions improve

"GEIS will not be sufficiently strong to overcome the high cost of labour and capital to encourage new investment specifically for export production — particularly because GEIS is to be phased out"

SA in danger of joining the drop-out countries

C|Press 27/9/92 (49)

SA is in danger of remaining stuck in the group of Third World countries in which indus trialisation has "stalled", warned Wits Sociology profesoı Eddie Webster at a seminar hosted by the *SA Labour Bulletin* in Johannesburg last weekend.

General secretaries of the three major trade union federations – Jay Naidoo of Cosatu, Cunningham Ngcukana of Nactu and Danhauser van de Merwe of Fedsal – took part in the seminar on "The Future Role of the Trade Unions in SA".

Webster said the Third World no longer existed and that such countries were now clearly divided.

There were two major industrialised groups: the "late industrialisers" or Four Tigers, Hong Kong, South Korea, Singapore and Taiwan; and the "newer industrialising countries" including Malaysia, and Indonesia.

If SA were to avoid falling out of the third group, where "industrialisation has stalled" and down into the fourth group that has simply "dropped out", the trade union movement had a strategic role to play in conjunction with business and a future government.

At this "watershed period" in our history, he said, "strategic unionism" is essential to achieve growth and wealth creation together with equitable distribution. This requires the trade unions to go beyond narrow collective bargaining.

They have to enter labour market intitutions and national tripartite bodies with management and government to take on broader macro-economic issues – such as full employment – and goals and policies outside of the traditional industrial relations arena, such as educational reconstruction.

The trade unionists stressed the need to strengthen internal democracy, and membership participation and control within their organisations.

There was a lively debate, however, on the best approaches to achieve the kind of in-depth economic research and training that is essential to enable the unions to implement what *SA Labour Bulletin* editor Karl Von Holdt called a "labour-driven transition".

While all present agreed on the urgent need for "capacity development" within the trade unions, the participants differed over the need for the unions to hire specialist consultants or to develop their own in-house capacities. Nactu's Cunningham Ngcukana focused on the latter as the means to empower trade unionists themselves.

Cosatu general secretary Jay Naidoo accepted the need to "harness" also the skills of intellectuals outside the trade unions to such internal research and training programmes.

But he stressed that such a strategy fundamentally demanded trade union unity and co-operation within SA that is "not conditional or tactical", a closer alliance with the civics which at present was "too diffuse", and essential international trade union co-operation and support.

Van de Merwe said that trade unions "should endeavour to separate themselves from party politics". – *SA Labour Bulletin.*

Business sector optimistic

STAR 28/9/92

(49)

Staff Reporters

Organised business yesterday expressed the hope that the resumption of constitutional negotiations would have a positive impact on South Africa's embattled economy — particularly if the ANC were to rethink its mass action campaign.

South African Chamber of Business (Sacob) president Hennie Viljoen and Afrikaanse Handelsinstituut president Attie du Plessis were reacting to the successful summit between President de Klerk and ANC leader Nelson Mandela at the World Trade Centre outside Kempton Park on Saturday.

Mr Viljoen said the renewed commitment of the two leaders to reconciliation and negotiation was an important recognition of the deep concern expressed by the business community at the rising human and economic costs of the political logjam and violence that had persisted since the breakdown of Codesa 2.

Sacob urged the parties involved in the negotiations to bear in mind the "lessons of Codesa 2", as another serious setback would cause further and possibly irreversible damage to the economy and to investment.

Mr du Plessis said the summit — and particularly the ANC's promised rethink on mass action — would hopefully hasten the successful launch of a national economic forum. such a forum could play a key role in generating economic growth and job creation, which in turn would halt the socio-economic deterioration which had been fuelling political violence over the last two years.

He said the installation of a government of national unity on which agreement was reached during the weekend summit, could exert a positive influence on the economic and business climate if such a government:

- Displayed an adequate regard for the interests and concerns of all substantial minorities.
- Made effective provision for the "regional character of our country".
- Acted effectively to visibly reduce crime and violence.
- Implemented sound economic policies which addressed the country's socio-economic inequities while simultaneously limiting the direct involvement of government.

R1,9bn outflow as investors ditch SA

BDAY 28/9/92 (49)

GRETA STEYN

SA HAD suffered a R1,9bn net capital outflow in the second quarter of this year because of political uncertainty and social unrest, the Reserve Bank said in its latest Quarterly Bulletin.

The figures suggested that foreign creditors who had committed short-term capital to SA had scrambled to pull their money out in the period from April to June. The large capital outflow had consisted almost entirely of short-term capital, the Bulletin said. Long-term capital outflows shrank as SA managed to refinance foreign debt on international capital markets.

The Bank said: "This fairly large outflow of short-term funds is likely to have occurred mainly towards the end of the second quarter and could be ascribed to renewed political uncertainty and social unrest. Preliminary indications are that this outflow of short-term capital changed to an inflow again in July."

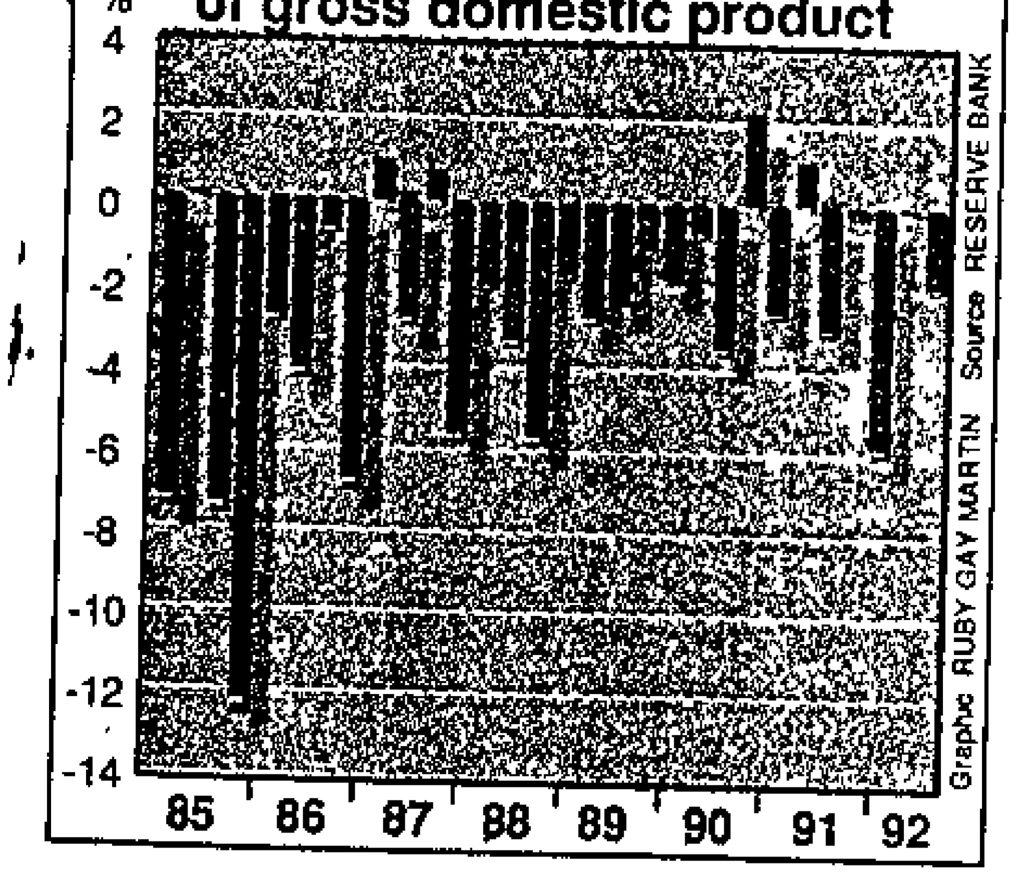
However, bankers said the money market had provided indications that the situation had started worsening again in the run-up to the Bisho massacre. They ascribed the surprisingly large money market shortage to foreign exchange outflows.

SA had a history of vulnerability to creditors' unwillingness to tie up capital for longer periods. In 1991, short-term outflows were R3,3bn — the eighth successive year of a drain. In the first three months of the year, it seemed the situation had turned around with a small net inflow of short-term funds.

On overall economic activity, the Bank noted "uncertainty arising from political developments and internal unrest in the country created a climate that was not conducive to domestic economic growth".

Although the depth of the recession

Capital movements as percentage of gross domestic product



☐ To Page 2

Unrest

BIDAY 28/9/92 (49)

☐ From Page 1

mainly reflected the collapse in agriculture, other sectors' output had also fallen in the first half of the year.

However, a rise in export volumes provided some relief. The Bank said the rise in export volumes reflected a "very strong" export performance by manufactured goods (particularly chemical products, machinery and electrical equipment, and transport equipment). This had offset the decline in net gold exports

"The rise in export volume prevented domestic production from declining further and enabled the country to maintain a surplus on the current account of the balance of payments (BoP) required for the repayment of foreign debt," the Bank said

Exports were growing in their contribution to SA's GDP. From only 13% in 1983, the proportion of real exports to real GDP had risen to 24% in the first half of 1992.

The strong export performance and fall in the volume of imports produced an impressive surplus on the current account of the BoP This had offset the outflows on the capital account, and SA had still experienced a small increase in forex reserves.

● See Page 3

IMF unhappy with SA fiscal, budget policy

(49) (186) STAR 28/9/92.

By David Canning

WASHINGTON — While the IMF and World Bank have little problem with South Africa's current monetary policy, they are not as satisfied with trends in Budget and fiscal policy, says Reserve Bank governor Dr Chris Stals.

Interviewed on Friday in Washington where the world bodies have been holding their annual meetings, Dr Stals said the Budget deficit — a possible six percent this year — had been discussed.

"We explained that hopefully this is temporary and that the Minister (of Finance) is very determined to do something about it in his next Budget."

Dr Stals said prospects were not bad for some marginal declines in South African interest rates as the rate of inflation eased over the next few months.

"However, the prospects for achieving real low levels for interest rates will depend on getting down to low levels of inflation."

Dr Chris Stals . . . apply the necessary restraint

Underlying inflationary pressures had declined substantially and this was a "wonderful opportunity to get inflation down as the economy is still in recession, money supply is under control and we have stable exchange rates".

He appealed to people "who make prices and set salaries" to apply the necessary restraint.

Dr Stals said chances were that world inflation rates would increase in coming months, making it easier for South Africa — with a falling inflation rate — to close the gap with its trading partners.

"In the UK, the new policies probably will produce higher inflation.

"In the US, much will depend on the outcome of the election. A Clinton government could follow a more inflationary policy.

"This is not good for the world, but could make our targets a little easier — to bring our rates more in line with those in the rest of the world."

World inflation had remained a fundamental problem for the International Monetary Fund this year, he said.

He had detected no change in the investment climate as it applied to SA. "There is not much investment taking place. But then, South Africans are not making investments themselves."

The pressures on European foreign exchange markets over the past two weeks had very little overspill implication for SA.

"Our policy of maintaining a relatively stable average weighted value for the rand against a basket of currencies meant we had to adjust our rates against individual currencies.

"But this has remained relatively stable. There has been little effect on foreign exchange reserves.'

Europe would probably delay the process of economic integration, thereby affecting the programme for monetary unification.

"We most probably will now see a different course followed. Some countries will follow fairly rigid exchange rates among themselves. The other countries will, for time being, have a more flexible approach.

"At this stage the idea of a single monetary system has been postponed," he said.

Bank warns about erosion of capex

BDAY 28/9/92. (49)

GRETA STEYN

THE Reserve Bank warns in its latest Quarterly Bulletin that the low level of capital spending has "serious implications for future economic growth".

Fixed investment spending slumped 19% in real terms between its peak at the end of 1989 and the second quarter of this year.

The Bank expresses concern that the capital spending still taking place is mainly on replacement of existing capital equipment rather than on additions to the productive capacity of the economy.

Taking account of depreciation, net domestic investment has fallen to a low of only 1% of GDP compared with averages of 14,5% in the 1970s and 8% in the 1980s.

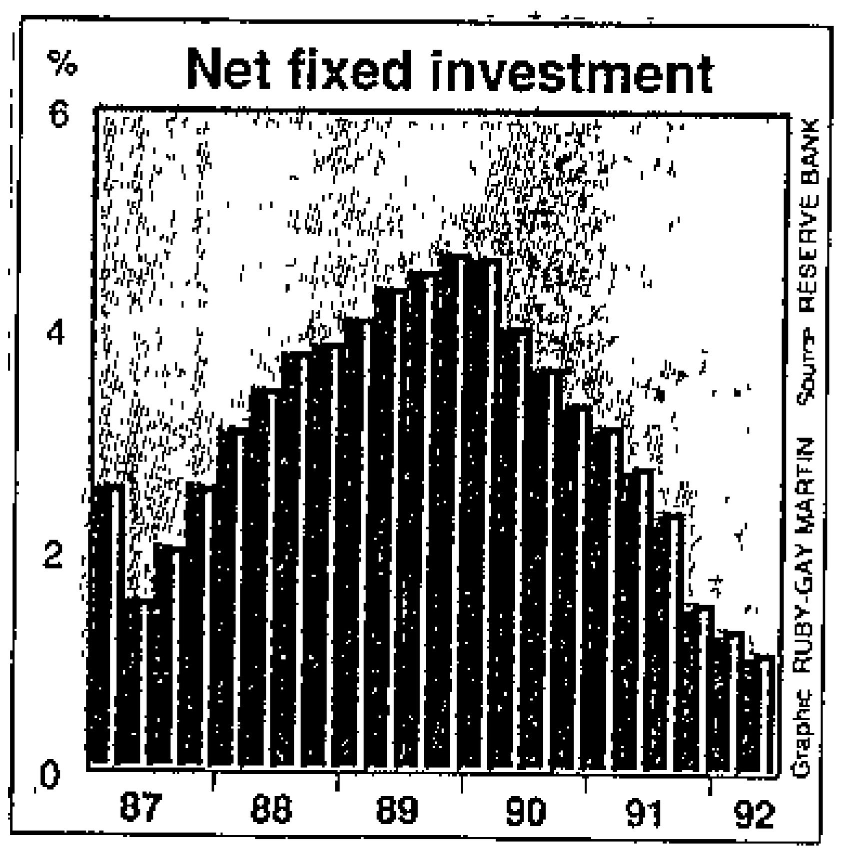
The slump in fixed investment spending was a major contributor to the fall in overall spending in the economy. But consumers, battered by shrinking disposable incomes and growing unemployment, also continued to cut back on consumption.

Their appetite for spending was further depressed by a heavy debt burden — a hangover from the 1980s spending sprees. Real spending on durable goods fell 8% in the second quarter (annualised) from the previous period. The only positive contribution to spending came from government consumption.

In the private sector, capital spending fell in virtually every area of the economy in the second quarter of this year. The largest falls were in the manufacturing sector and agriculture. The mining sector was an exception, recording an increase. Overall, real fixed investment in the private sector fell 2% (at a seasonally adjusted annualised rate).

The public sector also saw a decline in capital spending, and was the largest contributor to the slump since the 1989 peak.

The Reserve Bank says the collapse in public investment during the past three years reflects cutbacks in infrastructural development and the existing surplus capacity of public utilities. By contrast, government consumption spending has been growing, rising by a further 2,5% in the second quarter (annualised).



Keys came not to bury the ANC, but to promote it

B|Day 29/9/92 (49)

SIMON BARBER in Washington

BY ANY standard, Finance Minister Derek Keys's performance at last week's IMF and World Bank annual meetings was extraordinary. The impression he left, and clearly intended to leave, was that he had come to plead not on behalf of his own government, but of the next one.

The task he had set himself was to persuade the international financial and investment community that notwithstanding the terrifying things it had said in the past — and continued to say, albeit more intermittently — the ANC would manage SA's economy soundly and with respect for market principles.

It was a sell at times made easier, at times undercut, by ANC economic planning department head Trevor Manuel.

He was unable to contain the occasional threat to renegotiate foreign debt entered into by the regime and while it may be true, as Assistant Secretary of State for Africa Herman Cohen put it, that "the Freedom Charter has been abolished", there were moments when he made his listeners wonder whether it had perhaps not simply been temporarily whitewashed.

Yet, by and large, he redeemed still vivid memories of last October's Notre Dame investment conference.

Much the same audience that had left that event in despair, emerged from last week's National Foreign Trade Council gathering at the Plaza in New York, if not enthused, at least relieved that certain home truths had penetrated.

And while there was unhappiness that Manuel did not renounce the concept of a labour code for US companies administered and enforced by sanctions-wielding state and local governments, there was at least a charitable willingness to concede that his hands were tied and that, in all likelihood, when the political dust of transition settled the ANC would reconsider.

Much of that charity must be attributed to Keys.

His case and the existence of what he called "a healthy degree of pragmatism and realism" on the part of the ANC (if not of Cosatu and other parts of the alliance still embarked on "economic civil war") was considerably stronger than Manuel's own.

Keys prefaced his upbeat remarks about the ANC's getting of wisdom with a phrase that spoke volumes: "At the risk of embarrassing Trevor Manuel and any other ANC representatives here . . . ." His meaning was clear: Manuel and Co (his colleague, Tito Mboweni, could not make it for want, apparently, of airfare) were really much more au fait with economic realities, and much less ideological, than they dared, for constituency reasons, admit in public.

After all — and this was a point Keys stressed — it was they who carried the grim economic news to ANC president Nelson Mandela which persuaded him to return to the negotiating table.

What Keys did not say was that it was he who had given them the message, though many of his listeners instantly grasped the point.

They understood that the Finance Minister had already moved some distance down the road of bringing the ANC into the running of the economy, as apprentices perhaps, but hands-on ones.

In a very tangible sense, the "next" government Keys had come to speak for was already forming under his tutelage.

☐ KEYS

This goes some way to explaining why certain things did not occur at the IMF/World Bank meeting.

On the face of it, SA had a great opportunity last week to become a "normal" member of the fund and the Bank.

It could have joined a shareholder constituency to regain the formal voice on the fund's board of directors it lost a decade ago. Indeed, had it gone in with the Swiss, it might even have had an alternate director in fund headquarters right now instead of a lonely observer in the suburbs.

With only a little more difficulty, it could have obtained a commodity financing facility to underwrite its reserves against the drain of drought-necessitated food imports.

Thus might natural disaster have turned to useful account to drive a stake through the heart of the Gramm Amendment and help improve the country's international credit rating.

To some it may seem tragic the moment was not seized.

In his address to the meeting, Keys himself called it "unfortunate". Yet, both he and Reserve Bank Governor Chris Stals had clearly concluded that as enticing as the prizes looked, to grab them would have endangered the altogether more important project of ensuring the soundness of the economy's future management.

Perhaps, with a little more finesse and less indecision, the prizes would have been had.

There are indications that some in the ANC were willing to give at least tacit approval on the understanding that they could harrumph in public.

Yet on the whole, it probably made sense to wait.

"Our present position is tolerable," said Stals. "It is not necessary to force the issue." The process now under way is delicate in the extreme.

The apprentices not only have to be wooed, persuaded and convinced; they have to be protected from those who are only too ready to denounce them as sellouts.

Quite soon, as Manuel himself admits, they are going to have to take some extremely unpopular decisions with regard to reducing government consumption for the sake of long-term growth.

In every sense, they need all the help they can get.

Because the next government is going to have a hard row to hoe in terms of disappointing popular expectations, it may not be unreasonable for the present authorities to defer, if only for a brief period, what rewards the outside world has to offer so that their successors may take the credit for achieving them.

The politics and symbolism matter because, assuming Manuel is serious about forswearing the Mont Fleur scenarios' Icarus spend-and-crash option in favour of the discipline and steady growth of the Flamingo route, in the near to medium term there is not going be much else to dish out.

There is, of course, one rather serious flaw in all this: the inherent assumption that the ANC will form the next government, and the concomitant decision to work exclusively with, through and on its officials.

The words "other black decision-makers" occasionally leaked from Keys's lips, but entirely without conviction.

From time to time, a few brave souls — including, interestingly enough, the head of the African Development Bank — were heard to murmur "what about Inkatha?" They were politely ignored, as though they had belched in church.

The feeling, on the government's part at least, seemed to be that one cannot have everything.

Reserve Bank tougher on fiscal policy analysis

BIDay 29/9/92 (49)

GRETA STEYN

THE Reserve Bank has adopted a stricter approach to fiscal policy analysis that paints a worse picture than before.

The Bank, in its latest Quarterly Bulletin, now includes government's off-budget debt and spending in its statistics. The move means government's debt as a percentage of GDP has been revised upwards from 37,4% in the first quarter of this year to 41,5%. The debt burden rose further in the June quarter (to 45,6%).

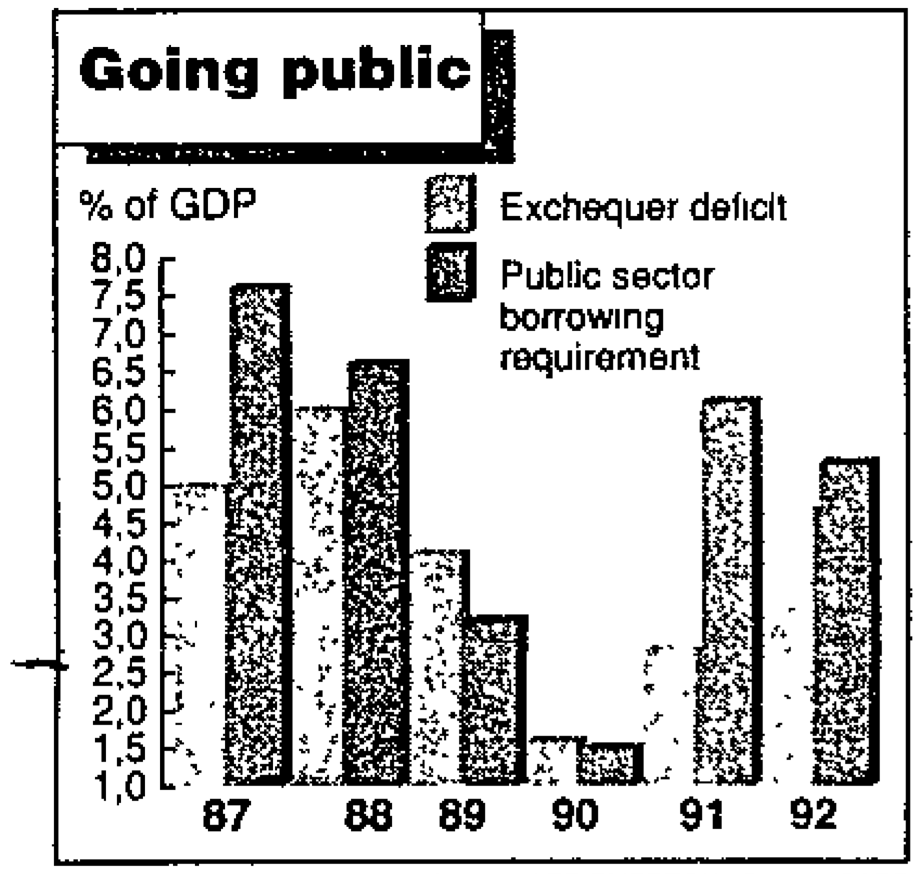
The revision was made to include government's debt to the Reserve Bank for forward cover losses. The Bank provides forward cover to the market, and losses incurred when currencies move against SA is debt owed by government to the Bank.

According to the Bulletin, this debt rose to R12,5bn at the end of June from R10,4bn in January. Government in August repaid R3,8bn of this debt, using a substantial amount of the borrowings raised in a receptive capital market.

Some economists have argued that the debt is a book entry and should be written off. Nedbank chief economist Edward Osborne, concerned about mounting debt and interest payments, argues that the burden is bad enough without it.

The Reserve Bank, however, maintains the debt should be repaid to offset the money creation that occurs when the country incurs forward cover losses.

The Bank's pressure on government to repay the debt means more capital market borrowing. If the debt had been written off, the R3,8bn paid in August could have been used to finance part of this year's deficit. Instead, government will have to borrow that amount and more to finance the increase in the deficit.



Graphic LEE EMERTON Source SARB

By including the figure in the official government debt statistics, the Bank is giving a strong signal that it will not be talked into forgetting about the debt. It also means that these are the official figures the IMF will use to measure SA's fiscal performance.

Another addition to the debt tables is central government's contingent liabilities in the form of guarantees of other public sector borrowers (including the TBVC states). The guarantees have remained relatively constant — the figure stands at R21,2bn compared with R22bn in 1985. The Bank does not include the guarantees in the total government debt, but treats it as a footnote. There are, however, economists who argue that the TBVC debt will eventually have to be included. It could amount to as much as half of the guarantees.

Another move by the Bank is to emphasise the public sector borrowing requirement, instead of looking only at the central government deficit. It has included almost 100 extra-budgetary institutions (ranging from the National Parks Board and the CSIR to the TBVC countries), provincial administrations and local authorities in the analysis. The Bank has adopted this approach to provide a better idea of the public sector's claim to resources.

The overall public sector borrowing requirement has generally been higher than the central government deficit, although this was not the case in the second quarter of this year. Extra-budgetary institutions had a small surplus that offset the central government deficit. Although extra-budgetary institutions have had deficits in previous years, the overall picture suggests the sector as a whole is not a drain on resources. But one has to bear in mind that the sector lumps together everything from Wits University to the Ciskei government.

The lack of further detail on "extra-budgetary institutions" is a pity and will hopefully be rectified. The Bank should clearly reflect the TBVC borrowing requirement.

A factor that has restrained the increase in the public sector borrowing requirement is the major rationalisation at public enterprises such as Transnet and Telkom. Their borrowing requirement turned around from a deficit of R1,2bn in the first quarter of the previous fiscal year to a small surplus (R700m) a year later.

Although local authorities borrowed less (R600m compared with R900m), the three tiers of government had a deficit of 8% of GDP in the first three months of this fiscal year.

The Bank's focus on the public sector borrowing requirement and government debt is an effort to ensure the true extent of the public sector's claims on the economy is known. As the debate about the role of the state and the private sector in a mixed economy continues, the Bank is playing a vital role in describing the present situation.

LETTERS

Extra debt will push up spending

Concern over govt's soaring interest bill

BDAY 29/9/92

(49)

GRETA STEYN

MASSIVE sales of government stock in the capital and money markets have caused concern that government's interest bill could add billions to total spending this fiscal year.

Exchequer figures show that after only five months government has already borrowed more than it budgeted for the full fiscal year.

Nedbank chief economist Edward Osborn calculates government raised net loans on the capital market of R13,4bn in the five months — compared with a Budget estimate of R12,9bn for the full year.

On the money market, a surprisingly large number of Treasury bills (TBs) were sold (R7,1bn), bringing the total amount of borrowing to more than R20bn.

Osborn said the huge investments in TBs showed there was a limit to which institutions were prepared to lend long-term to government. It was evidence of the uncertainty in the markets.

He added the unusually large sales of TBs could form part of the Reserve Bank's monetary policy strategy of draining liquidity from the money market. He said the strategy did not make sense in the light of government's huge interest bill. Interest rates on TBs are at present 11,30% for six months or 12,15% for three months.

Predicting a R30bn deficit for this fiscal year, he speculated the extra borrowing could add another R4bn to spending.

Osborn saw a "public debt trap of extreme viciousness". He described the situation as explosive, given the combination of endemic inflation, pressure on the Exchequer, a weak revenue situation, high interest costs and the need to maintain real interest rates.

Calculations by Econometrix done for Irish & Menell Rosenberg show that a 7% deficit will make the interest payable on public debt the largest expenditure item in the Budget. "Unless this trend is reversed soon, the government of the new SA of the mid-1990s stands to inherit an interest bill it cannot meet out of prevailing cash flows," the Econometrix economists said.

They added that they would be reluctant to become overly bullish on the capital market even with the prospect of a sharp short-term fall in inflation.

Senekal, Mouton & Kitshoff economist Louis Geldenhuys noted the capital market was still bullish despite the huge supply of stock. "In the short-term, government will not have a problem financing its deficit but problems will start once the upswing begins."

The Exchequer figures show government raised R5,3bn from the capital market to finance loan redemptions, bringing gross borrowing on the market to R18,7bn, compared with a budgeted R18,1bn.

See Page 6

Economic forum talks

PETER DELMAR

FINANCE Minister Derek Keys's top priority was to reopen talks on the stalled national economic forum after his return from the IMF summit yesterday, a spokesman said.

Keys is expected to meet Cosatu leaders to discuss the impasse surrounding the forum within the next week. B/DAY

Top business leaders said yesterday they had new optimism that progress would be made on getting the forum going after the weekend's agreement between government and the ANC to resume negotiations. 29/9/92

Government announced earlier this month that it was deferring its decision on taking part in the forum because of Cosatu's commitment to mass action and its plans to organise a boycott of PAYE.

The forum, which was to have been launched earlier this month, was effectively put on hold while Keys was attending the IMF meeting. However, a spokesman for Keys said the issue was receiving his urgent attention.

49

A Cosatu spokesman said the labour federation was awaiting an approach from Keys. Its stance on the PAYE boycott remained unchanged by the weekend's breakthrough between the ANC and government.

Leading business sources said they believed there was new hope for the forum now that government and the ANC were "talking the same political language".

● See Page 6

SA offers 'excellent investment potential'

STAR 29/9/92.

By David Canning (49)

NEW YORK — A post-sanctions South Africa should offer global fund managers and investors with above-average potential for economic development and investment performance.

This is the view of Michael Brown, economic consultant to Frankel Max Pollak Vinderine, who spoke at a seminar of potential investors here last week.

He challenged a misconception that SA is resource-based or, even worse, a one-commodity economy.

He told a National Foreign Trade Council Foundation conference on South Africa the economy was, in fact, well diversified. Manufacturing and construction made the biggest contributions to total economic output.

However, the level of value added was fairly low and there had been little improvement in the past decade.

He attributed this to lack of access to new markets, resulting from sanctions. Sanctions made investment in costly new processing plants too risky.

However, the post-sanctions era would appear to offer a substantial opportunity for raising the treatment rate of raw material products, with beneficial forward and backward linkage effects.

The key issue for potential investors was that higher levels of upstream processing should significantly improve the total output potential of the economy, as well as the rate of return to the providers of capital.

The growth threshold of the economy could be raised by access to international and regional markets. Despite sanctions, SA remained one of the world's 25 top trading nations. In the past few years, manufacturing export volumes had improved by an average 12 percent a year.

More gloom and doom forecast for SA's punch-drunk economy

(49)

ARG 30/9/92

JOHANNESBURG. — South Africa may be sliding into long-term economic decline despite hopes for a political settlement between the government and the ANC and the prospect for lower interest rates later in the year.

Hurt by the worst drought this century and declining world prices for gold and platinum, the South African economy is unlikely to respond to any changes in the government's monetary and fiscal policies, according to South African economists.

Only the success of negotiations on creating a representative government in South Africa could provide the long-term stability needed for economic reforms, economists say. But the road to political stability is strewn with numerous pitfalls.

The country's economic future is "really in the hands of the gods and the politicians", says Azar Jamine, director of the local economics research group Econometrix.

South Africa is expected to report its fourth straight yearly drop in gross domestic product (GDP) in 1992, partly as a result of the drought. Inflation has averaged 15 percent this year and unemployment is more than 42 percent, its highest level since World War 2.

The government is hindered in implementing effective fiscal policies because there's a strong possibility a future government would reverse them. In addition, any changes spark strikes and protests that the government is restructuring the economy without a majority mandate.

"A government in the position of my government is not able to take the kind of forthright action which is required to tackle important matters," said South African Finance Minister Derek Keys at the latest IMF meeting in Washington.

Even expectations that the Reserve Bank will cut interest rates sometime next month aren't expected to restore any significant growth because the political uncertainty has dampened the incentive to invest.

And economists say that the interest rate weapon is insufficient to tackle the economy's problems.

"Most people know the Reserve Bank can't bring about growth and fight inflation at the same time when they only have interest rates to work with," says Peter Perkins, economist at mining house Johannesburg Consolidated Investments Ltd.

Most economists expect the bank rate, the rate the Reserve Bank rediscounts treasury bills to banks, to be cut one percentage point to 14 percent sometime in October.

They say the Reserve Bank won't cut rates until the year-on-year growth in the country's consumer price index (CPI) falls below 14 percent, allowing the Reserve Bank to maintain a real interest rate differential.

The latest CPI figure available showed a 14,6 percent year-on-year increase in July, but the September figure, due for release in late October, is expected to fall below 14 percent because of the unusual rise in prices in September 1991 ahead of the implementation of VAT.

Mr Perkins expects CPI growth to reach 12,5 percent by the end of 1992. As a result, he expects the Reserve Bank to bring interest rates down to 13 percent by the end of the year.

However, bullish inflation expectations could be ruined by continued drought and political strife.

A continuation of the drought into 1993 would fuel food prices, increase imports and aggravate unemployment. "If it lasts another year, it would be a total disaster," comments Dr Jamine at Econometrix.

Production in the agriculture sector fell 28 percent in the second quarter of 1992 and the drought is expected to cause a R1,5 billion loss in output and cost 80 000 jobs. The maize harvest this year is expected to total only about one-quarter of last year's crop.

Overall, South Africa's GDP is expected to shrink by 1,5 percent in 1992 after falling 0,5 prcent in both 1991 and 1990.

But the recession goes wider than simply a lack of rain. In the first half of 1992 decreases were registered in most economic sectors, including a 2,8 percent fall in manufacturing, a 4,4 percent fall in construction and a 2,6 percent fall in wholesale and retail trade.

The Reserve Bank attributes the deepening of the recession to declines in consumer and investment confidence caused by political and social unrest.

Real gross domestic fixed capital formation has been falling steadily over the four years of recession. In the second quarter of 1992 it stood 19 percent below peak levels in the fourth quarter of 1989.

"If South Africa doesn't reach a negotiated settlement in the next year, investment expenditure will carry on falling," says Mr Perkins.

The country had an outflow of R1,9 billion in capital in the second quarter of 1992, most of which coincided with periods of violence. — Sapa-AP.

Long-term decline in offing, say economists

STAR 30/9/92.

By Nancy Keates (49)

South Africa may be sliding into long-term economic decline, despite hopes for a political settlement and the prospect of lower interest rates later in the year.

Hurt by the worst drought this century and declining world prices for gold and platinum, the economy is unlikely to respond to any changes in monetary and fiscal policy, economists say.

Only the success of negotiations on creating a representative government could provide the long-term stability needed for economic reform, they say. But the road to political stability is strewn with pitfalls.

Hopes were raised when President FW de Klerk and ANC President Nelson Mandela agreed to resume multilateral talks.

But the news was dampened when Mangosuthu Buthelezi, leader of the Inkatha Freedom Party, denounced the planned summit.

In response, the financial rand weakened to close at R4,08 to the dollar on Monday, down from Friday's R4,05.

The economic future is "really in the hands of the gods and the politicians," says Azar Jamine, director of economics research group Econometrix.

The Government is hindered in implementing effective fiscal policy because there's a strong possibility a future government would reverse it.

Changes spark strikes and protests that the Government is restructuring the economy without a majority mandate.

"A government in the position of my government is not able to take the kind of forthright action required to tackle important matters," Finance Minister Derek Keys told the IMF meeting in Washington last week.

Even expectations that the Reserve Bank will cut interest rates next month won't restore any significant growth because the political uncertainty has dampened the incentive to invest.

And economists say that the interest rate weapon is insufficient to tackle the economy's problems.

"Most people know the Reserve Bank can't bring about growth and fight inflation at the same time when it only has interest rates to work with," says Peter Perkins, an economist at JCI.

Most economists expect the Bank rate to be cut one percentage point to 14 percent next month.

They say the Reserve Bank won't cut rates until the year-on-year growth in the consumer price index (CPI) falls below 14 percent, allowing the Reserve Bank to maintain a real interest rate differential.

Mr Perkins expects CPI growth to reach 12,5 percent by the end of 1992. As a result, he expects the Reserve Bank to bring interest rates down to 13 percent by the end of the year.

However, bullish inflation expectations could be ruined by continued drought and political strife.

A continuation of the drought into 1993 would fuel food prices, increase imports and aggravate unemployment. "If it lasts another year, it would be a total disaster," says Mr Jamine of Econometrix.

Production in the agricultural sector fell 28 percent in the second quarter of 1992 and the drought is expected to cause a R1,5 billion loss in output and cost 80 000 jobs.

The maize harvest this year is expected to total only about one-quarter of last year's crop.

But the recession goes wider than simply a lack of rain. In the first half of 1992, decreases were registered in most sectors, including a 2,8 percent fall in manufacturing, a 4,4 percent fall in construction and a 2,6 percent fall in wholesale and retail trade.

"If South Africa doesn't reach a negotiated settlement in the next year, investment expenditure will carry on falling," says Mr Perkins.

SA had an outflow of R1,9 billion in capital in the second quarter of 1992, most of which coincided with periods of violence.

Economists say the political volatility is far from over. Negotiations without Inkatha could lead to more violence because the group would see no other outlet for its political rivalry, they say.

The goodwill between Mr de Klerk and Mr Mandela could be easily shattered if the ANC goes ahead with its threat to march on more homelands to demand the resignation of what it calls puppet rulers. — Sapa-AP.

whole page except adverts.

the economy works

STAR 1/10/92 (49)

MEANS OF EXCHANGE

Transferring

- In Southern Africa, we have comparatively recent experience of the use of cattle as means of exchange — persisting even today in some areas in the payment of lobola.
- In the northern hemisphere, Egyptian records date the use of cattle — and, indeed, "cattle banks" — to as far back as 3900 BC. There, and in other parts of the hemisphere, however, gold and silver coins became the norm.
- The coins suffered the disadvantage that they were subject to clipping and filing, and always had to be weighed and tested. The people of Carthage in North Africa are thought to have been the first to use pieces of leather as a substitute, followed by the Chinese around 100 BC. The latter were the inventors of paper around 100 AD and by the 7th Century AD, paper money was circulating widely in China.
- In Europe the first banknotes were issued by the Swedish Stockholm Bank in 1661 — less than 10 years after Van Riebeeck landed at the Cape
- Paper money's disadvantage was that (eventually) it was too easily printed and therefore subject to the loss of value we know as inflation
- Disastrous inflation stopped the use of paper money in China for centuries and the expression "not worth a Continental" dates from inflation of the "Continental currency" in the young United States in 1781
- In one country after another, a national currency came to be issued by a central institution — a forerunner of the Bank of England being established as early as 1694

Safeguarding money

- Engraved and baked clay tablets recording receipts and contracts in Babylonia around 2500 BC show that elementary banking dates back to those times.
- In Roman times, Cicero wrote to Atticus in Athens asking for a "letter of credit" for his son, who was to travel there. In a far-flung empire, it was not always convenient to carry bulky coin wherever one went!
- The first real modern bank is reckoned to be the Bank of Barcelona in Spain, which opened its doors in 1401 and accepted deposits, discounted traders' bills of exchange, and exchanged money. It could guarantee repayment of all deposits through the backing of city funds
- The actual term "bank" originates from Italy in the late 18th century when financiers set up benches — banchi — in marketplaces. An operator whose activities failed had his bench broken and the Italian word for broken, rotto, led to word "bankrupt" in English

The wisdom of Von Hayek on the essence of economies

STAR 1/10/92 (49)

This very short "history" of modern economies enables us to appreciate the full wisdom of these words of Friedrich von Hayek. They come from notes which he prepared for a lecture in Houston in 1985 and were published in the 1988 autumn issue of the International Journal on the Unity of the Sciences:

"Economics has from its very origins been concerned with the problem of how a social order comes into existence — through a process of variation, winnowing and sifting — which far surpasses our vision or our capacity to design. Adam Smith was one of the first to perceive that we have found — or stumbled on — methods of ordering human economic co-operation that exceed the limits of our knowledge.

"We are led — for example, by the pricing system in market exchange — to do things by circumstances of which we are largely unaware and which produce results we do not intend.

"In much of our economic activity, we do not know the needs which we satisfy, nor the sources of the things which we get. All of us serve people whom we do not know, and even of whose existence we are ignorant; and we constantly live on the services of other people of whom we know nothing.

"All this is possible because we stand in an enormous framework of institutions and traditions — economic, legal and moral — into which we fit ourselves.

"The contribution of modern economics consists essentially in explaining how such an order — what I call an extended order — came into being, and how it constitutes an information gathering process, able to call up and to utilise, widely dispersed information that no central planning agency could possess, let alone control."

Where to find more about

Material in this survey on the early origins of economic activity has been drawn from "The Common Sense of Wealth Creation" by Marc Swanepoel, published by the Free Market Foundation, Box 52713, 2132 Saxonwold. Illustrations by Mark Wiggett of Johannesburg. Material on the origins of money and banking has been drawn from "Paper Money" by Yasha Beresiner (Stein & Day, New York) and "Collecting Paper Money and Bonds" by Narbeth, Hendy and Stocker (Cassell, London).

focus on Economics

This is an edited version of an address given by **Tito Mboweni** of the ANC's Department of Economic Planning at a conference in London.

Sowetan 1/10/92

49

THE problems we face in South Africa are vast and there are no quick and easy solutions.

Indeed, the problems are deep and yet the resources at our disposal are limited. We need to restructure the economy within the boundaries of our limited resources so as to achieve and maintain macro economic stability.

In our view, some of the major components of a restructuring programme in South Africa are the following (not in order of importance):

● The rationalisation and restructuring of the existing public sector corporations. This may entail in certain instances the reduction in the size of the public sector in ways which enhance efficiency, advance affirmative action while ensuring the protection of consumers and the fights of workers;

Private sector

● The deconcentration of the private sector. In our view, the concentrated nature of the private sector has not been conducive to the development of a prosperous economy.

● Restructuring the national budget will have to begin by the bridging of the welfare gap between white and black. In this respect equity is our primary concern.

Our objective is to redirect budget expenditures away from unproductive current expenditure and concentrate more resources into socio-economic development (infrastructure, housing, health, social welfare and education).

Current expenditure on the military will need to be radically revised downwards, thus freeing funds to be spent on social investment.

● Measures to encourage savings and investment. Macro economic instability, elements of the tax system, inflation, the management of interest rates, government current expenditure, income distribution and unemployment are all very important variables in influencing the levels of gross domestic savings.

Domestic savings

The decline in the ratio of gross domestic savings to GDP (18 percent in 1991) has to be reversed as should the trend towards less investment of domestic savings.

In 1991 for example only two percent of gross domestic savings was used for net investment as compared with an average of 51 percent from 1980-84 and 24 percent between 1985 and 1989.

● Industrial restructuring should be aimed at turning the character of South Africa's manufacturing sector towards efficiently meeting domestic demand (particularly basic needs) and simultaneously becoming internationally competitive.

❝ Current expenditure on the military will need to be radically revised downwards, thus freeing funds to be spent on social investment ❞

But in order to achieve this in the medium to long term, a number of factors will have to be attended to. Some of these are: higher levels of R&D investment, technical skills development, productivity improvement, the removal of bottlenecks and distortions in the tax system and an overall cost reduction plan.

● Trade policy. Here the emphasis should be on an appropriate tariff and exchange rate regime and export promotion strategies.

● Human resources development. In this context, the education system in South Africa requires major restructuring.

In addition skills training (particularly scientific and trade oriented and programmes to upgrade existing personnel will be crucial.

● Science and technology development. This is important, given the importance which science and technology (S&T) is assuming in the global economy.

South Africa requires a highly indigenous and appropriate technological base which will amongst other things be founded on: access to S&T education at all levels and the selective application of new technologies (especially in the areas of micro-electronics, information technology, biotechnology, new materials and medical technologies).

● Minerals and energy utilisation. The most important aspect of restructuring in mining is the need to integrate the mining industry more forcefully with other sectors of the economy by encouraging mineral beneficiation and the creation of a world class mining and minerals processing capital goods sector.

In terms of energy and the environment, national electrification is by far the most glaring requirement whose economic and other benefits we do not need to over emphasise;

● The informal sector. The informal sector has developed as a response to the exclusiveness of the apartheid economic model. Nevertheless, it seems to us that there are certain critical aspects of the informal sector which may be a basis to further the mobilisation of savings and development of capital.

The current activities and plans of some informal sector organisations (for example stokvels or informal savings clubs) provide some clues (not solutions) to some of the areas of possible growth which should form part of our restructuring programme if sufficient support is given to them.

● Black economic empowerment.

For us black economic empowerment is important for primarily three reasons. The development of a black entrepreneur class is a critical component of the deracialisation of business and society in South Africa.

Black entrepreneurs

The entry of black entrepreneurs into the formal economy will utilise hitherto unutilized entrepreneur energy which was wasted during apartheid.

The development of a black managerial class is one of the fundamental elements of an affirmative action programme which should be undertaken within the context of justice and utilisation of human resources on a wider scale in nonracial terms.

● Land redistribution. The existing racial land policies which were based on the 1913 and 1936 Land Acts and which resulted in the existing unequal land distribution have to be changed.

This could be done among other things through a representative land claims court which would make the necessary adjudications with regard to competing claims to land.

However land redistribution should be cognisant of the need to achieve higher levels of food production.

Private consumption 'to fall for first time since '85'

B/DAY 1/10/92 (49)

MADDEN COLE

IT SEEMS certain that private consumption expenditure will decline in real terms this year, for the first time since 1985, and only slight growth is expected next year, says the latest Standard Bank Economic Review.

Further falls in fixed investment are seen for this year and the next, and the review believes the only sizeable contribution to growth in domestic demand levels will come from government consumption spending.

The economy should grow by 2% next year, but the turnaround in the growth rate from an expected 1% contraction this year will be largely technical. The 1% contraction in GDP this year was blamed mainly on drought and the tardy recovery in industrialised economies.

The expected growth would reflect "a stabilisation rather than a fundamental improvement in economic conditions".

The economy is expected to remain "essentially fragile" next year, with a recovery more likely to gain momentum in 1994. This will depend on political progress and implementation of "a credible economic reform programme" to restore consumer and investor confidence. The review said a return to a near normal agricultural season and harvests after this year's devastating drought would be the key to the projected turnaround.

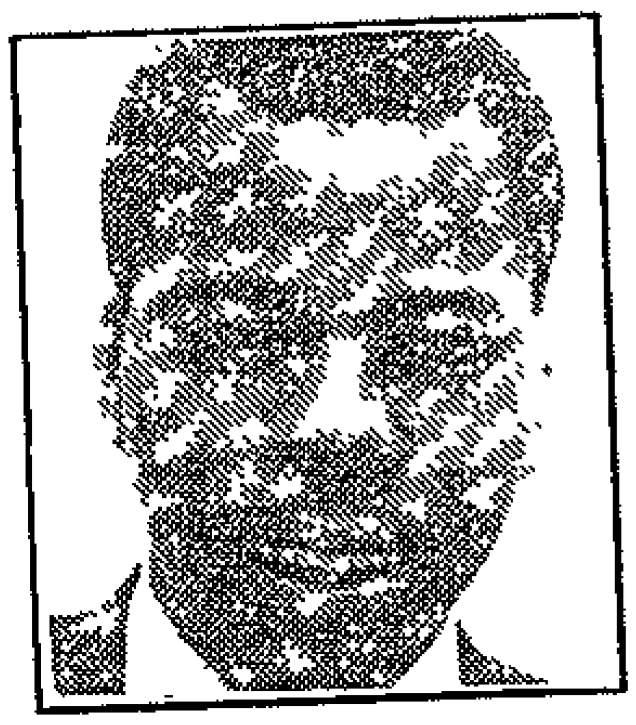
A continuing decline in investment is seen and, given present economic and political trends, the review believes it will be premature to project a quick turnaround in gross domestic fixed investment which recorded a 1,5% decline in 1990 and 8,5% in 1991.

The review explains investment is being held back by low confidence levels and weak domestic demand, resulting in idle production capacity. Gross domestic fixed investment is expected to record a third consecutive year of decline, but only limited decline next year. The disinvestment trend has now reached serious proportions, and the review notes gross domestic fixed investment has recorded positive growth in only two of the past 10 years.

As a ratio of GDP, it is expected to fall below 17% this year and the next. This compares with 27% in the early '80s. However, private investment spending is expected to stabilise, and even increase slightly next year, but there are only a few major planned capital expenditure projects, and no sharp increase in capex is foreseen. Overall investment is being held back mainly by the sharp drop in public sector investment spending — expected to continue in 1993.

The reduction in public sector investment in recent years is seen as the "flipside" of rising government expenditure on social services, increasing the move from capital to current spending. The review points out that general government consumption expenditure has increased by an average annual rate of 3,7% in real terms over the past three years, compared with a substantial decline of 5,6% in gross fixed investment of public authorities.

Real gross fixed investment of general government alone decreased by an average rate of 10,4% a year for the past three years.



Thabo Says

Investment advice on Fixed Deposits

Sowetan 1/10/92. (49)

I HAVE previously mentioned that the South African economy is an integral part of the world economy.

Hence, the decline in interest rates and the recession experienced by our country's major trading partners such as Japan, Germany, the US and the UK, have an impact on our economy.

Admittedly, our economy has been in recession for more than three years, meaning, there has not been any real growth and we have high levels of unemployment and inflation.

For the investor at the short-end of the market, this is not good news at all. Short-term interest rates have dropped by an average of 3 percent over the past eight months, with inflation coming down only one percent.

Although the capital market investments (investments in gilts) is following the money market trend, such investments still outperform inflation and investors enjoy capital appreciation as rates come off.

In the light of what I have said, let us look at what banks and building societies offer to short-term investors.

FIXED DEPOSITS AND NOTICE ACCOUNTS

In your financial planning, you'll be expected to meet your short-term obligations, therefore you cannot tie up all your investments over a long period.

A *Fixed Deposit* (FD) is a lump sum of money that you can invest for a fixed period of time, from 6 to 36 months at a fixed rate of interest. You have a choice, depending on your income needs, as to when you receive your interest. Interest on a Fixed Deposit is paid out monthly, quarterly, half-yearly or at the end of the term of your investment.

It happens at times, that an investor gets into financial difficulty and needs to withdraw his capital before it reaches maturity. This is not allowed, except under circumstances which can only be approved by the bank. In a situation where you cannot withdraw your capital before maturity, you can pledge your FD as security to borrow money which may not exceed the value of your FD.

The only advantage of a FD is that your guarantee on your capital is invested at the rate of interest offered when you took out your investment.

On the other hand, *Notice Accounts* (32, 64 and 88 days) do not have stipulated fixed periods, but are only payable after you have given notice for withdrawal, depending on your particular notice contract. Unlike in a fixed deposit, interest rates on Notice Accounts fluctuate depending on the ruling rate at the given time

BUSINESS Proposed national economic forum welcomed

'Beware elite economic cartels'

URGENT NEEDS

Sowetan 1/10/92.

Ways sought to break economic deadlock:

(49)

By Joshua Raboroko

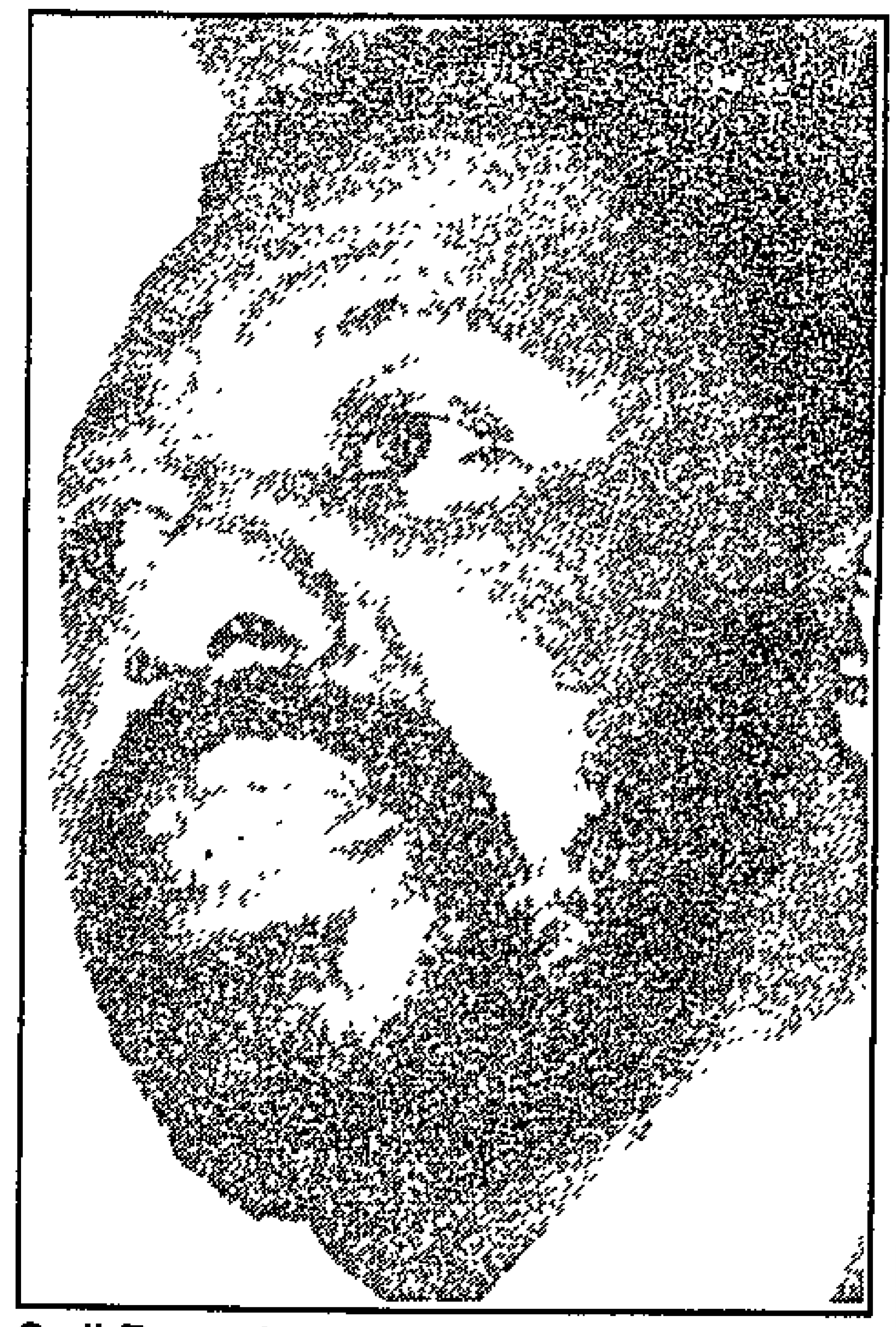
SOUTH Africans have been warned to beware of a national economic forum which could become a cartel of economic elites.

Southern Life assistant general manager of legal and tax services Mr Martin Sweet was commenting prior to an economic and tax conference, *Blueprint for Prosperity*, to be held at the Johannesburg Sun on October 8, where ideas will be exchanged between organised business and labour and political parties.

He said the poor performance of the South African economy was cause for great concern.

"The proposed creation of the National Economic Forum is a very welcome and positive step. I hope it will lead to greater co-operation and a serious across-the-board commitment to economic growth, the elimination of poverty and an improvement in the quality of life for all South Africans but we must beware of it becoming a cartel of economic elites."

Khehla Mthembu



Cyril Ramaphosa

Speakers at the forum will include the ANC's Mr Cyril Ramaphosa, PAC's Mr Sipho Shabalala, IFP's Dr Frank Mdlalose, Democratic Party's Dr Zac de Beer, Nafcoc's Mr Archie Nkonyene, Fabcos' Mr Gaby Magomola, Afsure's Mr Kehla Mthembu, Business Challenge's Mr Phil Khumalo and Cosatu's Mr Jay Naidoo.

Sweet said "Mr Mandela and others have called on big business to find ways of breaking the present economic deadlock. The response of Southern Life was to back a forum for debate where key players in the political, economic and business environment could exchange ideas."

He added: "Economic issues need to be addressed urgently We cannot wait for the political reform process to run its course. A sound economic performance before, during and after any such political transition is the cornerstone of any stable democracy "

He said political liberation must be underpinned by economic stability if "we are to prosper and make foreign investment more than just a pipe dream".

Economy in terrible state - expert (49)

Sowetan & Radio Metro

*Talk***back**

with Tim Modise

Sowetan 1/10/92

By Mokgadi Pela

THE economy has become so bad that the incomes of two spouses cannot match the pay packet of a single individual in the 60s, according to a financial expert.

Speaking on the *Tribute* magazine slot on the Talkback Show last night, Mr Martin Sweet said the inflation rate today stood at 15,2 percent and that South Africa was experiencing negative growth.

Business Challenge representative Mr Phil Khumalo blamed the Government for the poor state of education, health and housing

"Black people were not prepared for this era Big business should have created an environment where black people occupied very senior positions within companies," Khumalo said.

He said whites had better chances of getting jobs as they had better skills than blacks.

Sweet said the effect of the country's high population growth must be viewed against the negative growth in the economy

Sweet said more than 200000 jobs were lost between 1990 and 1991.

As a result, 40 percent of the labour force was unemployed.

He said South Africa's average standard of living was lower than 10 years ago.

"The ability to produce goods is being stifled by the shortage of foreign capital"

Sowetan 1/10/92

Deon Jordaan

"I believe we must help people to fish and make them independent. The issues are also do we want a market economy or other types of economy."

Martin Sweet

"The way out of the trap would be overseas countries to invest in South Africa. Another way out would be for foreign countries to invest in projects in the country."

Martin Jordaan

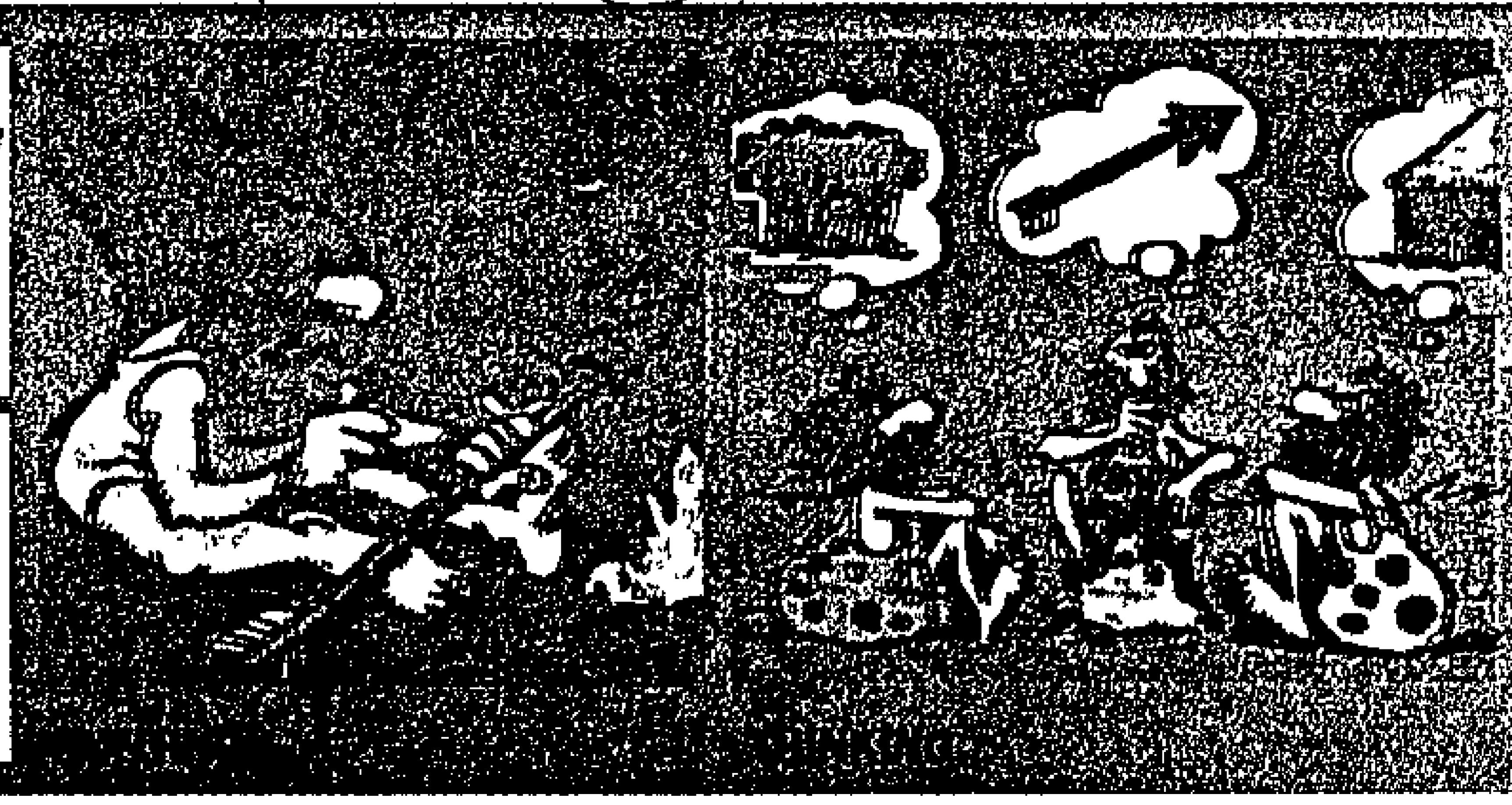
"Nobody wants to invest in a country where people are killing each other. There is progress in the Pacific rim countries like Singapore because those people are not slaughtering each other."

Martin Sweet

STAR 1/10/92 (49).

ECONOMY

"The economy" is a phrase everybody has heard at least a thousand times ... yet not many know where the concept comes from, nor how it affects us. The Star takes a breezy look at the word, and how it fits into history.



The wealthgiver: how

STAR 1/10/92 . (49)

ECONOMY? WHERE IT ALL BEGAN

1

People talk a great deal about the economy of a country, but few know what that really means Scottish philosopher Adam Smith — first to attempt a definition — said that many people all trying to increase their own wealth through business, brought wealth to a nation

That process of wealth creation — the economy — took place by accident, as has been emphasised in our century by the German economist-philosopher Friedrich von Hayek. It does so as free people set about making a living by satisfying the needs of other people

In most cases, providers of goods (suppliers) will not even know the people they are serving (consumers) And, of course, we are all both suppliers and consumers.

It all amounts to millions of transactions a day, as people do their work and buy food, clothing and shelter.

2

Property rights

For millions of years, humans lived in small groups of 20 or 30 people, surrounded by enemies bigger, faster and stronger than themselves

Simple weapons were their only defence and were often ineffective, so that survival was difficult and the groups remained small

It seems likely that certain individuals began to place greater faith in weapons they had made themselves rather than those made by others, and insisted on exclusive use of their own weapons.

Ownership of weapons, and in due course other articles, set a new pattern for development, since people felt entitled to adapt and use their weapons in different ways — and even devise new weapons.

So began entrepreneurship, or an individual's use of his own property and skill to his own advantage — and also that of others who cared to benefit from any more advanced practices he thought of

Groups were now able to defend themselves much more effectively and grew larger

3

Different knowledge, spread around

In the small hunting groups of long ago, everybody had roughly the same knowledge — the leader knew how to direct everybody because he knew what everybody else knew about hunting

Development of property rights, together with a gradual switch from hunting to crops and the breeding of domestic animals for food, meant still wider diversification of knowledge in a community — no one person could now know what everybody else knew

People became both enterprising and careful with their own property, so that there was continuous discovery and testing of new knowledge — the whole group benefiting from successful experiments and not suffering from individual mistakes

If people had ownership of different tools, land suitable for different crops and different knowledge, it was natural that exchange of different products and produce began to take place

Products which lent themselves to exchange were those which could be cut up into smaller pieces if needed be. An alternative was to use a third, easily divisible, item as the means of exchange Cattle, seashells, beads, iron, salt, gold and silver were all tried, and in the long run the last two were retained as most suitable

(49) CT 1/10/92

'Time to make our own tea'

By AUDREY D'ANGELO
Business Editor

SA manufacturers must not wait for an upturn in the world economy to stimulate demand for exports but must go out and sell aggressively now, says David Hall, director of the University of Cape Town Graduate School of Business (GSB).

"Waiting for a recovery in the US economy to pull the rest of the world out of trouble is like sitting in bed waiting for someone else to bring tea when you are thirsty, instead of getting up and making it yourself," he pointed out yesterday.

"Let's get up and make our own tea."

Hall, who has resigned after two years as director of the GSB, said he was very optimistic about the future of SA. But it would take a lot of work, and a lot of new thinking, to succeed.

"The human potential in SA is enormous and untapped. That is both a problem and an opportunity."

Hall said developing the potential of the SA workforce was a question of management, not of money.

"You can always find the money. It is a question of people being willing to work.

"That has not been the history of all sections of the population in SA. But what matters now is what you are going to do about it.

"You really need to develop a collaboration and a co-operative effort that will provide fair rewards for all.

"You cannot do that by fiat from the government or any political organisation."

Every job, at every level, would have to be managed effectively. "Even the chap who brings the tea. That can be done skilfully and pleasantly, or it can be done disastrously."

Discussing fears that SA might become a Third World country, Hall said: "In a sense, SA is Third World but it has an element that is advanced.

"Some parts of SA business are really of first rank. There are unusual and original things being done.

"But one doesn't know how good SA business really is until it goes out to meet the competition. Exchange controls should vanish and tariff protection should drop."

Then SA business would show its worth in real, and not artificial, conditions.

FM 2/10/92 (49)

FM
ECONOMIC OUTLOOK 2/10/92

Out of synch

(49)

As the recession deepens, the only component of gross domestic expenditure (GDE) that is rising is government consumption. Figures published in the latest Reserve Bank *Quarterly Bulletin* show an increase of 2,5% in the second quarter (compared with 4% and 3% in the two previous quarters). These are seasonally adjusted and annualised figures, as are all other quarterly changes below.

This highlights one of the economy's major structural flaws. The recent Reserve Bank *Annual Report* recorded that current expenditure of general government rose from 20,5% of GDP in fiscal 1980/1981 to 32% and 33% in the past two fiscal years.

In the second quarter, the *Bulletin* records: "Real expenditure on intermediate goods and services by general government continued to rise sharply, but the rate of increase in real remuneration of government employees fell back from an annualised rate of 4,5% in the first quarter of 1991 to about 0,5% in the second quarter."

Private consumption expenditure fell 3% (-3,4%, -3,7%). Spending on durable consumer goods fell 8% (-10,5%, -15%). The *Bulletin* points out: "This decline occurred despite a decrease in finance charges on households' credit transactions and the recent amendments to the Credit Agreements Act, specifically introduced to support the depressed automobile industry."

Outlays on nondurable goods and services contracted at an accelerated rate of 3,5% (1,5%). But, surprisingly, real expenditure on semi-durable goods rose 0,5% in the first and second quarters. The *Bulletin* comments: "This was probably related to more aggressive marketing by the clothing and footwear trade and to the availability of less expensive imported goods."

Gross domestic fixed investment fell 4,2% (-6,5%, -8,5%). As a result of the continuing reduction in fixed investment "real gross fixed capital formation declined by almost 19% from a high in the fourth quarter of 1989 until the second quarter of 1992."

Inventories, which rose in the first quarter by R1,2bn in constant 1985 terms, fell by R999m in the second. The residual item was negative for the 14th consecutive quarter — by R1,4bn in constant 1985 rands. This entry reconciles the difference between output and expenditure figures collected for national accounts purposes. An analysis of output figures appeared when they were published by the Central Statistical Service (*Economy* August 21).

The combined effect of these changes was a fall in GDE of 6,5%.

To this must be added earnings on the current account (trade and services) to obtain a figure for value added in the economy (GDP).

Exports declined 0,9% and imports fell 13,1%. The import performance represented a huge swing from the previous quarter when imports rose 40,1%. Largely as a result of this, the seasonally adjusted and annualised surplus on the current account of the balance of payments, "which had weakened from a quarterly average amount of R11bn in the second half of 1991 to R4,5bn in the first quarter, rose to R6bn in the second."

The sum total of these changes was to reduce GDP by 2,6% in the quarter.

The *Bulletin* predicts that real GDP will again decline in 1992 — by about 1,5%. A turn in the cycle depends on a normal summer rainfall, international economic revival and domestic political developments. ■

KEYS AND STALS TO ADDRESS *FM* CONFERENCE

49

FM 2/10/92

With the local economic and political arena in turmoil, investors in SA are, at best, nervous. To guide business leaders in these volatile conditions, the *FM* has invited top SA and international experts to speak at this year's *FM* investment conference, "Investing in 1993," at the Carlton Hotel in Johannesburg on October 29-30.

On the first day, Reserve Bank Governor Chris Stals will offer his views on "Financial stability in a subdued economy." He will expand on his 1992 annual speech, where he stated that he will continue to fight inflation by keeping tight control of interest rates and managing the rand's exchange rate. He added he is not prepared to compromise the rand to ease the position of exporters or the economy in general.

Born in 1935 in Germiston, Stals's tertiary eduction culminated in a doctorate in commerce from the University of Pretoria. He joined the Reserve Bank in 1955, moving to Finance as director-general about 30 years later and returning as Governor in 1989.

Spending priorities

He will be followed after lunch by Derek Keys, Minister of Finance and also of Trade & Industry, who will speak on "The economy & public spending priorities." Keys inherited the portfolio of Finance Minister on the resignation of Barend du Plessis — a position in which none of his predecessors had succeeded in reducing government spending or curbing inflation. For this reason, Keys' plan to cut government consumption by 3% and increase productivity by 2% in the next fiscal year has been applauded.

Born in 1931 and schooled at Johannesburg's King Edward VII, Keys is a University of the Witwatersrand commerce graduate and qualified CA. After nine years with the IDC he was a self-employed financial and management consultant for 21 years. Keys' time as a consultant guided his approach as executive chairman of Gencor, SA's second-largest mining house, from 1986-1991.

Listening to the views of these and other top local and international speakers on the domestic and world economies is a must for all investors and potential investors. For more information call Brigitte Petty on (011) 497-2135 or Cindy Beatty on (011) 497-2134; or write to PO Box 260022, Excom 2023.

FINANCIAL MARKETS (49)

Riding the bull

FM 2/10/92

A downward correction of capital market rates followed publication of money supply figures (see P34) last Friday afternoon. The Eskom 11% E168 closed at 13,825% on Monday from 14,03% on Friday, reaching a low of 13,78% on Tuesday. The RSA 12% R150 fell from 14,06% to 13,855% and closed at 13,85% on Tuesday.

Jürgen Kögl of brokers J Solms & Co, says the correction in gilt rates came at a good time: "Rates came down strongly in early and mid-August, when the R150 and the E168 briefly fell below 14%. However they stayed above that level in late August and for most of September in the wake of the Bisho massacre, uncertainty in capital markets in Europe and as local indicators moved sideways to slightly higher. This allowed the market to blow off some heat."

Kögl expects short-term rates to follow in the near future.

Meanwhile the Reserve Bank has entered into repurchase agreements to the value of R500m to alleviate the growing money market shortage. These were issued at an average rate of 15,6%. Applications of R1,1bn were received.

First National Bank group treasurer Ken Russell says the repurchase agreements should prevent the shortage reaching the R5,5bn-R6bn mark. "Had the Bank not acted, the banks would have had to push up call rates significantly. This would have meant

continue →

FM 2/10/92

short-term rates entirely out of kilter with the long end of the market," he says.

The Bank's head of treasury, Andre Kock, says liquidity will increase from the beginning of October, as government spending comes through. "We would regard an expected shortage above R5bn as too high and this prompted the use of the repurchase agreements." ■

MONEY SUPPLY (49)

Comfort zone

FM 2/10/92

After a brief period above the guideline range for growth of 7%-10%, M3 growth headed back into the comfort zone in August, according to Reserve Bank statistics. Year-on-year growth in M3, the broad monetary aggregate, was a provisional 8,72%. M3, measured from the base of the current guideline year (mid-November 1991) and annualised, grew a provisional 8,73%. This follows growth of 0,46% in the month (-0,46% seasonally adjusted).

Revised figures for July show that M3 over 12 months grew 10,11% from an originally estimated 9,85%. Annualised and seasonally adjusted M3 growth was 10,52% from 10,16%.

Of the other monetary aggregates·

☐ M1A grew 12,17% in the 12 months to July to R36,1bn, (1,39% in the month);

FM 2/10/92 (49)

☐ M1 10,25% to R63,8bn (-0,23%); and

☐ M2 13,66% to R167,9bn (1,91%).

Figures on credit extension (which together with inflows of foreign funds is the counterpart of monetary growth) showed:

☐ Domestic private credit extension grew 10,09% in the 12 months to July to R200,3bn. In the month it grew 1,45%, only the second time this year that it has risen above the 1% mark (February 1,06%);

☐ Overall private sector lending is still weak with meaningful growth only in mortgage advances, up 17,09% over 12 months to R76,9bn (1,33% in the month) and leasing finance, up 22,73% to R14,3bn (0,79%).

But, says Standard Bank group economist Nico Czypionka, the growth in these subcategories is misleading: "Some people are shifting to mortgages as a source of finance because this is cheaper than other forms."

"The growth in leasing finance is partly the result of special financing schemes to boost flagging vehicle sales";

☐ Other loans and advances 0,26% down to R71,6bn (-0,65% in the month); and

☐ A net negative figure for claims on the government sector of R1,5bn (the first negative figure since October 1990). This puts total domestic credit extension growth at only 8,26% to R198,8bn (0,07% in the month).

Rand Merchant Bank economist Rudolf Gouws says the stage may now be set for a cut in the Bank rate, to reflect the weakness in credit demand and the fall in the underlying inflation rate.

"But we should be warned against using lower rates to kick-start the economy. Only an upturn in the world economy and an improvement in the domestic political situation can do that." ■

Bank rolls over repurchase deal to aid market

BDay 2/10/92

HILARY GUSH

IN A BID to relieve the money market of tight liquidity the Reserve Bank yesterday rolled over the special repurchase deal announced to banks on Tuesday.

The Bank's Corporation for Public Deposits offered to buy back gilts and semi-gilts to a maximum value of R500m for a five-day period to put some liquidity back into the cash-strapped market.

The shortage, the extent to which the Bank — at a price — finances the money market, rose to R4,76bn on Wednesday from Tuesday's R3,586bn. Similar lows were last recorded in early July.

Offers totalling R700m were received by the corporation, with R500m of these being accepted at an average rate of 15,31%.

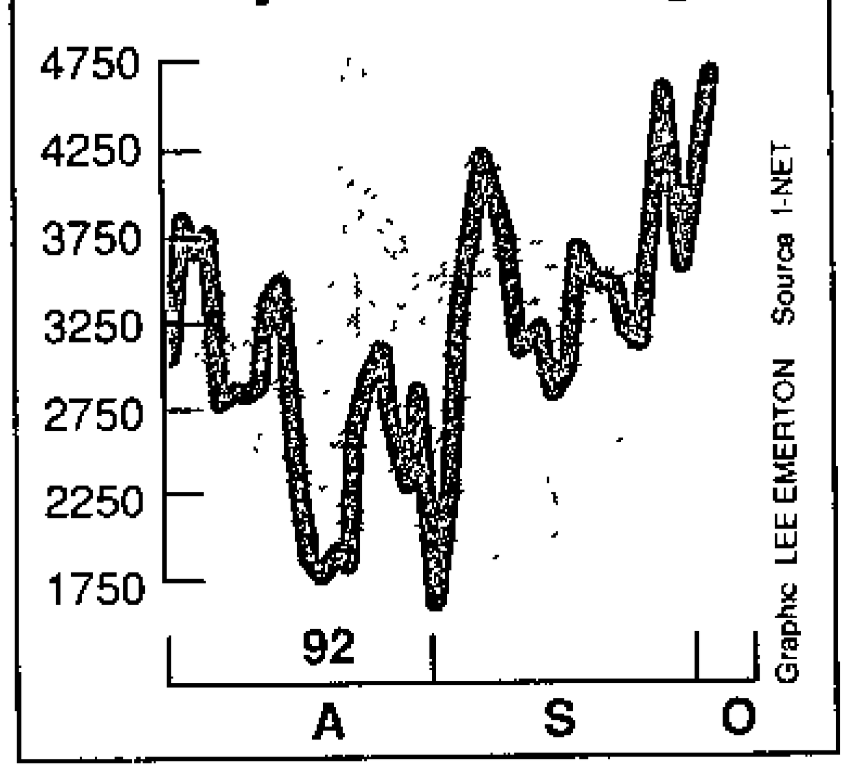
Had the Reserve Bank not actively intervened in the money market last month, Bank GM Andre Kock said the shortage could have reached the R5,5bn many analysts had predicted.

He did not expect a speedy return to greater market liquidity, even though the shortage was traditionally lower at the beginning of the month as government spending filtered into the market. 49

Kock said the shortage would probably fall gradually over the month, but a level "much below R4bn" was unlikely.

In spite of government spending in the homelands, dealers did not expect the shortage to fall before Monday, as cash — in the form of tax receipts — continued to leave the system.

Money market shortage



'Get children to think this way'

STAR 2/10/92 · 1 (49)

EDUCATION is the key to developing a viable small-business sector and a prosperous South African economy.

This is the view of Trust Bank and Volkskas head office general manager business services Dr Willie Conradie.

"There is a strong need to educate South Africa's youth about the benefits of the free market system. But this in itself is not sufficient. They must be encouraged to participate in the free market as entrepreneurs.

"The education in this country, from the schools through to media input, is orientated towards encouraging children to obtain a good education so that they will be able to work for someone else.

"This orientation is wrong. Children need to be stimulated to prepare themselves to set up their own businesses later in their careers.

"It is interesting to note that people who set up businesses after gaining experience in a particular sector as an employee, have a 70 percent greater chance of success, provided their business relates to their previous experience," says Dr Conradie.

South Africa's future peace and prosperity rests on its ability to develop an economically active society and generate employment.

"The best system for creating such activity is the free market. This means that people must not only believe in the need for the free market system but they should also become involved as entrepreneurs in the system.

"Only the free market creates wealth. The less the Government interferes in business the more wealth is created. A government's measure of success should be the extent to which it keeps its hands off.

"Central to the free-market system is small business. A community where there is a large number of independent business operators, each in competition with the others, exemplifies the free-market system. We must not retain this emphasis on only large companies with their tendency towards bureaucracy.

"Both large and small business, operating as partners in the economy, are essential," says Dr Conradie.

People need to be given the right role models to encourage them towards a belief and a willingness to participate in the free market.

He suggests that people should be told of small business owners who have made it, from the major successes such as the person who started off in a small business and now heads a major corporation, through to the welder and the corner cafe owner.

"I believe South Africa is going to follow the free-market system, though I am concerned that the current turmoil in this country will delay the process," says Dr Conradie.

Hope for SA amid doom and gloom

STAR 2/10/92.

(49)

Departing Israeli Ambassador Zvi Gov-Ari expresses optimism about South Africa's future in an interview with PATRICK LAURENCE.

ISRAELI Ambassador Zvi Gov-Ari leaves South Africa at the end of the month, having watched the country pass through the euphoria generated by the release of ANC leader Nelson Mandela in February 1990 and the agonised despair caused by the terrible bloodletting in the townships.

But Mr Gov-Ari, a man with a ready smile, remains hopeful that South Africa will survive the ordeals of transition and become a fully fledged nonracial democracy.

His optimism stems, in part, from contacts he has made with a wide spectrum of South Africans and the impression of resilient resourcefulness they have made on him.

One image remains indelibly with him: of South Africans of all colours singing at a recent choir festival in a harmony of co-operation, emphasising, for him, a reconciliation between diversity and unity.

But Mr Gov-Ari, a man in his early fifties who was born in Iraq, is not a romanticist: he knows that the road ahead is tough but he believes it can be traversed.

While the outside world can help by offering encouragement, South Africans ultimately have to make the journey themselves, he says, recalling that Israel lifted sanctions on South Africa during his ambassadorship.

Mr Gov-Ari, ever the diplomat, is loath to prescribe to South Africans how they should tackle the challenge of forging a durable settlement. He does, however, make two general observations.

South Africans of all political persuasions must work together to prevent any further deterioration in the economy.

With South Africa now poised to experience its third successive year of economic contraction, the difficult task of political transformation has been compounded greatly.

South Africa cannot afford further economic decline, Mr Gov-Ari warns sombrely before making his second observation. For the political settlement to be durable it must be as comprehensive as possible, he states, adding that there is a need to balance the demands for an early settlement against the danger of making errors by moving too quickly.

Mr Gov-Ari has had to face charges that Israel gave military training to Inkatha Freedom Party members. He denies them flatly, insisting that Israel has not given military training to any of South Africa's competing political organisations.

It has, however, trained scores of South Africans of all political hues for the enormous task of reconstruction which lies ahead in agriculture, education, health and so on.

The ANC has been decidedly cool to Israel, having chosen to identify with Yasser Arafat's PLO as a fraternal organisation and to compare Zionism with apartheid as a "form of racism".

ANC president Nelson Mandela, who has visited several Arab countries, including Libya and Iran, but not Israel, is on record as saying of Mr Arafat: "Like us, he is fighting against a unique form of colonialism and we wish him success in his struggle."

Mr Arafat agrees. He says of the ANC: "We are in the same trench, struggling against the same enemy."

Mr Gov-Ari disagrees vehemently with the equation of Zionism with apartheid and has invited Mr Mandela to Israel to assess the situation for himself at first hand (thus matching an invitation from Mr Arafat to the ANC leader to visit "occupied Palestine").

Mr Gov-Ari, reflecting on the ANC's cool attitude to Israel, asks: "Who is behind it and what are their motives?" He declines to answer his own question.

He does, however, insist that there is no comparison between the ANC and PLO: the ANC, he argues, is seeking to transform South Africa from a racial oligarchy to a nonracial democracy, while Mr Arafat's PLO is involved in a "murderous struggle to destroy the Jewish state".

Mr Gov-Ari recalls a brush with tough-minded anti-Israel militants in Cape Town who, he says, were calling for his head. A student of philosophy with a belief in the power of rational argument, Mr Gov-Ari wanted to engage his detractors in dialogue. "The security people wouldn't allow me to," he says.

He leaves South Africa and the diplomatic corps to go into business. A married man with five children, Mr Gov-Ari still hankers to concentrate on one of his first loves: philosophy in general, and Aristotle in particular. □

Tariff reductions no panacea for our economic ills

B|DM 2/10/92 **TREVOR BELL** (49)

SINCE the mid-'80s, SA has been in the process of liberalising its foreign trade, increasing the incentive to export as opposed to encouraging production for the domestic market. Owing to the devaluation of the rand, the virtually complete dismantling of import controls on manufactured goods, and increased export subsidies, trade liberalisation in SA was far advanced by the end of the '80s.

There has thus been a substantial reduction in "anti-exports bias". Strong pressures for further trade liberalisation, through comprehensive, non-selective reductions in levels of tariff protection are now coming from various sources, including international agencies.

We may not be able to resist these pressures altogether. In terms of the current Uruguay Round of trade negotiations, we are evidently already committed to something like a one-third, across-the-board reduction in tariffs, spread over a number of years. Insofar as we have any control over the matter, however, we should be aware that comprehensive tariff reductions are no panacea for our economic problems, and indeed involve serious risks.

The trade liberalisation which has taken place so far was necessitated by a series of adverse foreign exchange shocks between 1980 and 1985 — most notably a drastic decline in our exports (especially of gold), and the foreign debt crisis of August 1985. In the absence of renewed foreign capital inflows, recovery of the forex-starved SA economy required a dramatic increase in exports.

In view of the persistently poor export performance of the mining industry since 1985, exports of manufactured goods were especially needed, both to pay for essential imported intermediate goods — materials used in domestic production — and capital goods, and to service the foreign debt.

Growth of exports thus was essential for economic recovery. In spite of trade liberalisation, the growth of SA's total exports since the mid-'80s has been disappointingly slow. This is a major reason for the woes of the economy. Some who advocate reductions apparently believe they will generate vital export growth. Though the aim is laudable, the result is by no means certain. Tariff protection cannot reasonably be blamed for slow export growth.

The basic obstacles to faster export growth have been the very poor export performance of the mining industry (especially gold), and of our major, traditional, natural resource-based manufacturing exporters (notably the basic metals and chemicals industries). Both of these obstacles have been related to external conditions, beyond our control, and not to our trade policies.

Furthermore, there has been a substantial improvement in the growth of manufactured exports excluding basic metals and chemicals. The performance of the metal products group of industries (fabricated metal products, machinery, electrical machinery, automotive products, and other transportation equipment) has been especially remarkable.

The fundamental reasons for this have been devaluation, domestic recession and trends in the growth and structure of world trade. Comprehensive tariff reductions have clearly played no part in this favourable trend. And given the dominance of other determinants of export growth, it is unlikely that comprehensive tariff reductions will have a significant beneficial effect on exports. Indeed, international evidence shows that comprehensive tariff reductions are not necessary for successful trade liberalisation and accelerated export growth. A crucial part of the case for such reductions is thus highly questionable.

Another conventionally emphasised benefit of tariff reductions is that they will result in a more rational allocation of resources. Resources would then no longer be used to produce goods that could be imported more cheaply

However, in SA's crisis conditions characterised by severe recession and macroeconomic instability, and consequent doubts about the sustainability of import liberalisation, these resource-allocation benefits are likely to be small or even negative.

AVERAGE ANNUAL RATES OF GROWTH OF SA's MANUFACTURED EXPORTS 1970-1990 (%)

	1970/80	1980/85	1985/90
(a) TOTAL MANUFACTURED EXPORTS			
Constant Rands.. .	8,7	1,0	5,8
Current US Dollars	20,7	−7,9	12,3
Constant US Dollars	10,4	−10,3	9,5
(b) MANUFACTURED EXPORTS EXCLUDING CHEMICALS AND BASIC METALS			
Constant Rands	4 7	−0,7	10,4
Current US Dollars	16,0	−9,1	18 1
Constant US Dollars	6,1	−11,3	15,0
(c) METAL PRODUCTS GROUP OF INDUSTRIES			
Constant Rands	3,9	−6,0	19,6
Current US Dollars	13,9	−9,3	31,2
Constant US Dollars	4 2	−11,8	20,1

Greater production efficiency and faster productivity growth are also hailed as advantages of tariff reductions. Evidence from abroad for such benefits is inconclusive, to say the least. In short, the positive effects of comprehensive tariff reductions are very uncertain and could be negligible.

By contrast, in current economic conditions comprehensive tariff reductions involve three major disadvantages. Essentially, they conflict with the important objective of macroeconomic stabilisation.

Firstly, their immediate impact will be an increase in imports and a consequent worsening of an already fragile balance of payments. Our foreign exchange constraint will be intensified, reinforcing the depreciation of the currency. This will entail further adverse effects on real incomes and the burden of the foreign debt, and make for higher interest rates.

Secondly, by lowering customs revenues, tariff reductions will aggravate our already desperate fiscal problems.

Thirdly, there will be a direct adverse impact on output and employment in import-competing industries, struggling even now to survive the recession.

In short, comprehensive tariff reductions are not a necessary condition for economic recovery, rather they conflict with it. Their implementation involves serious risks That there are risks is recognised by all the major institutions, domestic and foreign, advocating them They apparently believe, however, that phasing the measures in over a period of five or six years would overcome the problem.

The trouble is that an improvement in our overall economic performance is essential before we can contemplate comprehensive tariff reductions. The economic situation in SA in still worsening, and its future is clouded in uncertainty We do not know that our overall economic circumstances will have improved enough in a few years' time to make adherence to an automatically applicable tariff-reducing formula and a fixed timetable — as have been proposed — economically and politically feasible, and we should not pretend that we do know

It is possible that in the longer term further import liberalisation will be good for the economy. What we require, however, is a more piecemeal approach, involving further import liberalisation on a selective basis, in the light of proper analysis of its effects. Such selective implementation should be undertaken as and when the balance of payments, the fiscal situation, and the state of domestic business permit — as has been done in most other instances of successful trade liberalisation, including Korea.

In view of the obvious disadvantages of comprehensive tariff reductions, the onus is on those advocating them to show that, in our case, their benefits are likely to be substantial enough to outweigh the costs. To my knowledge, this has not been done by any institution or individual, either here or abroad. Instead, so far we have only doctrinaire assertions of the virtues of further import liberalisation, inviting us in effect to take a leap in the dark.

☐ **Bell is economics professor at Rhodes University.**

Hopes rise for gradual economic recovery

(49)

BDay 2/10/92

LINDA ENSOR

CAPE TOWN — Prospects for a gradual international economic upswing in 1993 have improved, strengthening hopes of a domestic recovery next year, says Board of Executors senior portfolio manager Rob Lee in the latest Investment Outlook.

While international economic conditions would remain weak for the next few months, there had been positive developments: the $87bn fiscal stimulation package in Japan and currency realignments in Europe, which had partially broken the Bundesbank's stranglehold.

The German economy appeared to be slowing down very sharply and the US recovery remained, at best, sluggish.

Improved international prospects would provide SA exporters with stronger markets and moderately rising commodity prices next year, which would contribute to domestic economic growth, Lee said.

Also, there were indications that the drought might be broken and the financial foundations for recovery were being built. He said dramatic progress in political negotiations and agreement on a viable economic restructuring programme were prerequisites for strong economic recovery.

Little or no improvement in the domestic economy in the coming months was foreseen, and Lee predicted disappointing company results for the rest of the year.

Dividend and earnings yields were still at historically low levels and there was concern that the JSE had medium-term downside. Falling short-term interest rates would provide some support, but the US stock market's vulnerability could have ripple effects on the SA and other markets.

Significant falls in the consumer price inflation rate were expected in the next few months and Lee was confident that Bank rate would be cut again in the near future, with another cut possible before year-end or in the first quarter of 1993.

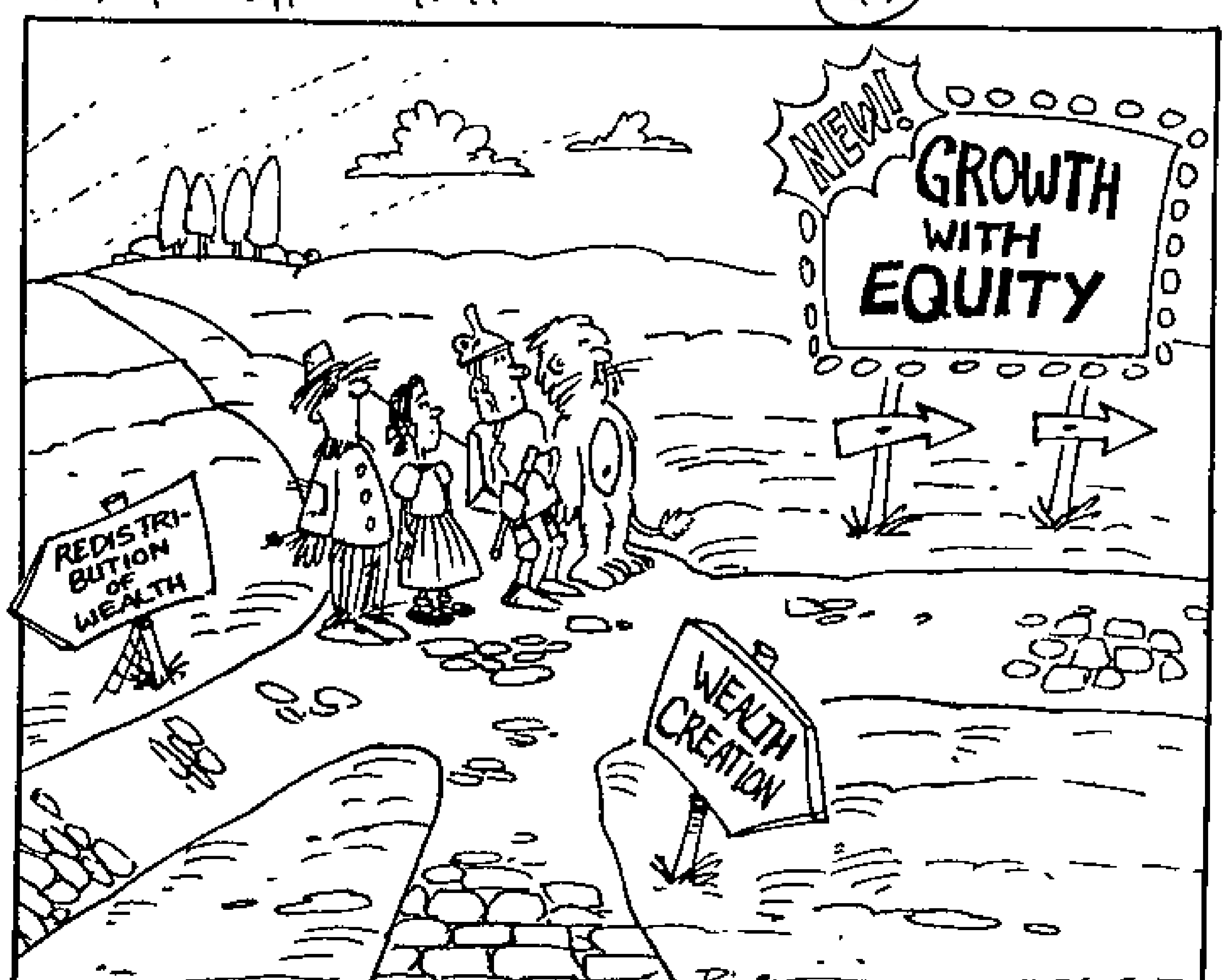
Recent falls in capital market rates had been fuelled by expectations of an imminent Bank rate cut, better inflation figures, the extremely weak domestic economy and satisfactory money supply figures. This confirmed that the primary trend in capital market rates was still down.

BUSINESS

Third path to achieve equity in SA

W/Mail 2/10 – 8/10/92 (49)

'Growth with equity' sounds snappy and seems appealing. It glosses over conflicts of vested interests, but is a starting point, reports **REG RUMNEY**



ECONOMIC growth, social equity and democracy can be compatible in South Africa and are indeed interdependent, suggests a group of middle-of-the-road Stellenbosch economists.

In an occasional paper on economic policy put out by the Stellenbosch Economic Project, professors Servaas van der Berg, Colin McCarthy, Ben Smit and Sampie Terreblanche add to the lexicon of South African economic slogans, suggesting "growth with equity", as a future economic policy is not only possible but advisable.

Their focus is the familiar theme of balancing the demand of redressing apartheid's wrongs through redistribution and ensuring economic growth to achieve prosperity and make this sustainable.

The paper's contention is that an emphasis on investment in human capital and the targeting of the disadvantaged will stimulate growth as well as enhance equity

Another measure, the authors believe, which will serve the demands of both equity and growth is the removal of discriminatory access to resources

"The market mechanism can function optimally only if access to capital, land and jobs is not constrained by discriminatory measures An important issue in this regard is the concentrated nature of ownership in the business sector; the question that needs to be addressed is whether market and ownership structures in South Africa form obstacles in access to resources "

However, the authors do not explore further whether South Africa's concentration of ownership is actually a problem or what to do about.

They go on to point out social security and transfer systems need to be equalised. Because of the high unemployment rate (an estimated 40 percent of the workforce is not employed in the formal sector) a case can be made for special employment programmes.

"But above all, equity will require that linkages be developed between the process of political empowerment and social equity, that is, equity must exist in the channels of communication or expression that give rise to the allocation and use of resources "

Much of what is argued is not, on the surface, particularly contentious. Few observers seriously doubt sustained high growth rates, well above the 2,3 percent population growth rate, are necessary to tackle poverty and unemployment.

Except for the far left, the need for macro-economic stability, including a stable currency, increased access to foreign markets, growing productivity, increased investment, an enhanced saving performance and an inflow of foreign capital will be broadly acceptable.

It remains to be seen how a future government will deal with the need for labour productivity or institute an entrepreneurial, market economy as a way of ensuring efficiency and competitiveness

Many whites realise that some form of redistribution is on the way. The debate has been over how it can and should be done The authors plump for restructuring of government spending rather than raising taxes, though this does imply trade-offs between growth and equity

Van der Berg rejects substantial increases in tax, along with nationalisation as a means of state intervention to achieve equity. Consensus is that a better route is spending more on social programmes and redirecting spending towards the poor.

The present inequalities in social spending mean blacks get some R11-billion less in social services than their population share warrants "If these inequalities in expenditure are eliminated during the next decade the total effect on black secondary incomes could indeed be enormous.

"Admittedly there would be white opposition to reducing expenditures for their benefit, but racial discrimination in social expenditures is clearly unjust and cannot continue in a democratic dispensation."

Surely the implication of such redirection of social spending is equivalent to an increase in taxes for whites?

Other hints of some of the conflicts any future government will face in shaping its economic policy show through the optimistic gloss of the paper

South Africa, it is argued needs a competitive market economy, integrated into the world economy. This in turn requires a lowering of tariff barriers and other protection. The General Agreement on Trade and Tariffs almost certainly will require a lowering of present tariff barriers

It is noted that caution will have to be exercised in lowering these barriers, because of the high levels of unemployment in our society.

More likely there will be strong union and labour resistance to such change Recently one local television manufacturer threatened to close down local production of TV sets completely because of the reduction of protection against cheap imports, implying that jobs would be lost as a result

Nonetheless, the paper is an attempt to find a third way through the "growth through redistribution", "redistribution through growth" debate and bring us closer to the practical issues

Van der Berg, for instance, notes reshaped social spending should.

●Contribute, as far as possible, to providing long-term assets and raising the long-term growth potential of the economy

●Be visibly just to achieve the legitimacy of a new political dispensation

●Go only on programmes where there is a demonstrable capacity to absorb it productively.

'Education isn't top priority'

W/Mail 2/10 – 8/10/92

ANY future increase in social spending as a means of redistribution should not focus on education, despite the skills shortage and the legacy of apartheid education, argues Professor Servaas van der Bergh.

Van der Berg contends in an appendix to the Stellenbosch Economic Project's occasional paper that it takes a long time before the benefits of education are felt. Also, there may be capacity constraints on expanding education at the required rate (such as shortages of teachers and a deficient educational administration).

"Until these problems have been overcome, it may pay better dividends to increase expenditure on housing, special employment programmes, and perhaps nutritional interventions (for example special feeding programmes), if the administration of this appears feasible.

"Expansion of the pension system may have beneficial short-term impacts in that it is one of the few programmes that reaches the rural poor, but against this should be noted that such expenditure is mainly consumption."

BUSINESS BAROMETER

Inflation down slightly in August

INFLATION, as measured by the Consumer Price Index, slowed to 14,3 percent year on year in August This is down slightly from July's 14,6 percent Food price inflation came off its July high of 30,4 percent year on year, but was still high at 28,5 percent W/Mail 2/10 – 8/10/92

A breakdown of food price inflation at larger chain stores and at smaller food outlets, supplied for the first time by the Central Statistical Services, showed the supermarkets only did marginally better at keeping prices in check The breakdown, over three months, showed food price inflation since at May chain stores was 5 percent, against 6,3 percent at smaller stores

Standard sees modest growth in 1993

AFTER three years of decline a tentative upturn in the economy can be expected next year, says the economics division of Standard Bank But the 2 percent growth in the real, ie adjusted for inflation, gross domestic product will merely take the economy back to where it was in 1989 (49)

The key to the projected turnaround is a normal harvest next year, along with a moderate build-up in inventory levels once companies expect better business conditions domestically and in the world W/Mail 2/10 – 8/10/92

Back to the Rubicon

BUSINESS conditions and confidence are on a level comparable to the trough of the previous recession in the third quarter of 1985, after PW Botha's famous Rubicon speech, according to the Stellenbosch Bureau for Economic Research

The BER reports in its survey of the manufacturing sector that general business conditions deteriorated considerably in the third quarter of this year, and expectations for the next 12 months became negative W/Mail 2/10 – 8/10/92.

'Education isn't top priority'

W/Mail 2/10 – 8/10/92

ANY future increase in social spending as a means of redistribution should not focus on education, despite the skills shortage and the legacy of apartheid education, argues Professor Servaas van der Bergh.

Van der Berg contends in an appendix to the Stellenbosch Economic Project's occasional paper that it takes a long time before the benefits of education are felt. Also, there may be capacity constraints on expanding education at the required rate (such as shortages of teachers and a deficient educational administration).

"Until these problems have been overcome, it may pay better dividends to increase expenditure on housing, special employment programmes, and perhaps nutritional interventions (for example special feeding programmes), if the administration of this appears feasible.

(49)

"Expansion of the pension system may have beneficial short-term impacts in that it is one of the few programmes that reaches the rural poor, but against this should be noted that such expenditure is mainly consumption."

P1

Economic euphoria is pie in the sky

W/Mail 2/10 – 8/10/92

(49)

The ANC doesn't mention nationalisation any more. But to assume the ANC and government are now of one mind on economic policy is wishful thinking, reports

REG RUMNEY

THE African National Congress and the government are no closer in their thinking on economic issues than they were six months ago.

That events like ANC president Nelson Mandela's talk of going back into negotiations because of the state of the economy represent some kind of sea-change in the ANC's viewpoint is wishful thinking.

Also, an impression has been given by media reports that ANC representative Trevor Manuel and Finance Minister Derek Keys did an impressive double act at the International Monetary Fund meeting in Washington, designed to soothe potential investors. It has even been reported that the ANC would not oppose an IMF loan for drought relief.

Manuel, it is understood, has learnt a lesson or two about what to say and what to avoid saying at such conferences. He now understands that it is better to present an appearance of sweet reason in such international forums.

"If I understand the situation correctly, the ANC position on IMF assistance has not changed. The policy position is still that as long as there is no interim government, there should be no IMF assistance as part of a package of financial sanctions," says Tito Mboweni, of the ANC's Department of Economic Planning.

Manuel's position, as Mboweni understands it, was that the ANC could not oppose humanitarian aid.

The IMF, Mboweni reminds, is not a development agency but a Bretton Woods institution designed to assist members with recurrent balance-of-payments deficits — a situation not applicable in South Africa.

But some have argued that the drought has led to enormous hardship, with losses of up R3-billion, and that the IMF should arrange a special loan for this. "That's a smokescreen, a political manoeuvre to try to get access to the IMF. The hope is that the South African regime will see a kind of re-entry into the international financial system."

The South African government has no need of R3-billion from this source, says Mboweni. "The idea is to get the IMF stamp of approval and to outmanoeuvre the resistance movement by trying to fudge the question of financial sanctions."

Using IMF assistance beyond the level of the special drawing rights allowed each member, he points out, would mean subscribing to an IMF structural adjustment programme, which normally focuses on issues such as trade liberalisation and devaluation of the currency. This would tie the hands of a future government.

Similarly, Mboweni describes talk of a convergence of thinking as a political ploy, a blurring of divisions in anticipation of an election. That the ANC subscribes to ideas like having a market system or mixed economy is merely a sign it has come to terms with running a modern economy.

The structural adjustment proposed in government circles and the ANC's thinking about restructuring the economy is not the same, he says.

"Restructuring for us might mean a certain percentage of state spending would go on human resource development. We might want to spend more on scientifically based development, and a certain amount on research and development to boost our manufacturing competitiveness."

It is true, he says, the ANC has stressed the importance of macro-economic stability, a responsible fiscal and monetary policy. But he stresses the euphoria about a convergence of views is wrong: "There are many areas of tension."

He notes, for instance, that the government would like to privatise all public corporations. The ANC's stance is that public corporations would be rationalised but not privatised.

The government is emphasising its commitment to socio-economic development, but one has only to look at the government's record, he says, to see the divergence of thinking.

He believes Keys is trying to lessen areas of tension to promote debate in what the finance minister sees as a non-antagonistic way. Keys, he notes, differs from his predecessor, Barend du Plessis, in trying to smooth over differences of opinion. But those differences run deep.

NEVER FEAR: *Its role in our future revenue harvest likely to be small*

Wealth tax need not be frightening

STAR 3/10/92 (49)

THE very words 'wealth tax' make local investors twitch, but an expert argues they need not be that anxious, reports LEIGH HASSALL.

WEALTH taxes will have a role to play in future fiscal policy, and while there is some scope to increase these taxes, their role will remain a small one, says Marius van Blerck, chairman of the SA Fiscal Think Tank.

His comments are likely to soothe the frayed nerves of local investors, mainly white, who jump every time the words "wealth taxes" are used.

The term "wealth tax" generally includes the following categories:

Gifts, death

Annual net wealth tax, and capital transfer taxes such as gift tax and death tax. South Africa already has the latter two taxes.

Internationally, in the highly developed OECD countries, there is a trend away from wealth taxes because their collection has not proved to be cost-efficient.

Van Blerck cites the example where in 1965 property tax (which includes wealth tax and taxes on property transfers) in OECD countries averaged 2 percent of gross domestic product while this figure had dropped to 1,8 percent by 1985.

He says a similar trend has developed in South Africa. In 1975 property taxes at a general government level amounted to about 1,6 percent of GDP and by 1985 this had dropped to 1,3 percent.

Van Blerck notes that while South Africa is following the trend of reduced reliance on property taxes, South Africa levies less property tax than the OECD average. However, at a central government level, South Africa levies more property tax than the non-OECD countries.

Thus, as South Africa's economy continues to develop, there will be some capacity to increase the contribution of property taxes.

Does the decline in the importance of property taxes mean that they should be abandoned? The answer is no, says Van Blerck, because, with regard to the existing wealth taxes, there already exists an infrastructure to collect the tax. These taxes are then reasonably efficient as there is little extra collection cost.

However, this does not hold true with the introduction of new wealth taxes, particularly annual net-wealth taxes. Such taxes have been found to be inefficient in that they require excessive administration costs and generate disproportionately negative perceptions in relation to the revenue they subsequently generate.

Declining

Van Blerck notes that while property taxes are generally declining in importance, it is clear that the more highly developed economies are more successful in using these taxes as a source of revenue than their less developed counterparts.

Accordingly, as the South African economy becomes more developed it will be in a better position to extract property taxes.

SA tightens belt but Cabinet gravy train thunders on

(49)

ARG 3/10/92

WILLEM STEENKAMP
Weekend Argus Reporter

IN SPITE OF undertakings by the government to cut back on expenditure, the gravy train for Cabinet ministers still thunders on unchecked, with ministers taking more than 50 international visits since the beginning of the year.

If each minister was accompanied by only one aide — and in many instances the acompanying group borders on an entourage — the bill will reach more than R1 million on airline tickets alone.

The cost of staying in first-class overseas hotels may have run into many thousands of rands more.

There has been criticism that ministers should set an example and cut back on expenditure which is not absolutely neccesary.

Mr Ken Andrew, national chairman of the Democratic Party, said that at a time of financial stringency 53 international trips seemed to be an unnecessarily high number.

Just last month Finance Minister Mr Derek Keys said ministers and heads of departments would accept full responsibility for compiling their budgets within allocated guidelines and that departmental managers should commit themselves to maintaining budgetary discipline.

In a statement from the office of the State President, it was pointed out that trips taken by ministers and deputy ministers included both overseas and African destinations.

But besides official overseas trips, it was admitted in the statement, a minister and his wife also qualified for one free overseas trip a year. The spokesman emphasised that in these cases the minister and his wife were responsible for all costs other than the free return air tickets.

Ministers and deputy ministers can also make any number of official and private internal flights free. Their wives qualify for 24 private free internal flights a year.

Ministers and their wives normally fly business class, but the government spokesman said it would be ridiculous to expect anything else as "we are not a banana republic. Any executive of a big company flies business class and normally ministers work during these flights and need the extra space."

Another perk for ministers is that they may, under special circimstances, have an official car with a driver at the disposal of their parents or children.

One official driver who has driven many ministers and their families, told Weekend Argus that he had often driven "spoilt children" of a particular minister to various venues, and remained at their beck and call.

"I certainly did not feel that this was in my job description. I eventually put my foot down and told these children I did not work for them, but for the minister in question," said the driver who asked not to be named.

"But the worst situation and one which some of us hate, is having to drive arround the mother or wife of some minister who spend hours on shopping sprees and drinking tea while we have to cool our heels," said the driver.

Business confidence at new low

(49)

Recession now hits food sales

ARG 3/10/92

Food sales — normally immune to economic downturns — have dropped in the third quarter of this year showing how deep the present recession is biting.

ALIDE DASNOIS
Business staff

THE grinding recession is forcing South Africans to cut down on food. Food sales, normally immune to recession, dropped in the third quarter of this year, reports the Stellenbosch Bureau for Economic Research in its latest survey of the manufacturing industry.

Demand for food does not generally vary much with changes in income, and the fact that the food sector reported insufficient demand "reveals the severity of the current recession".

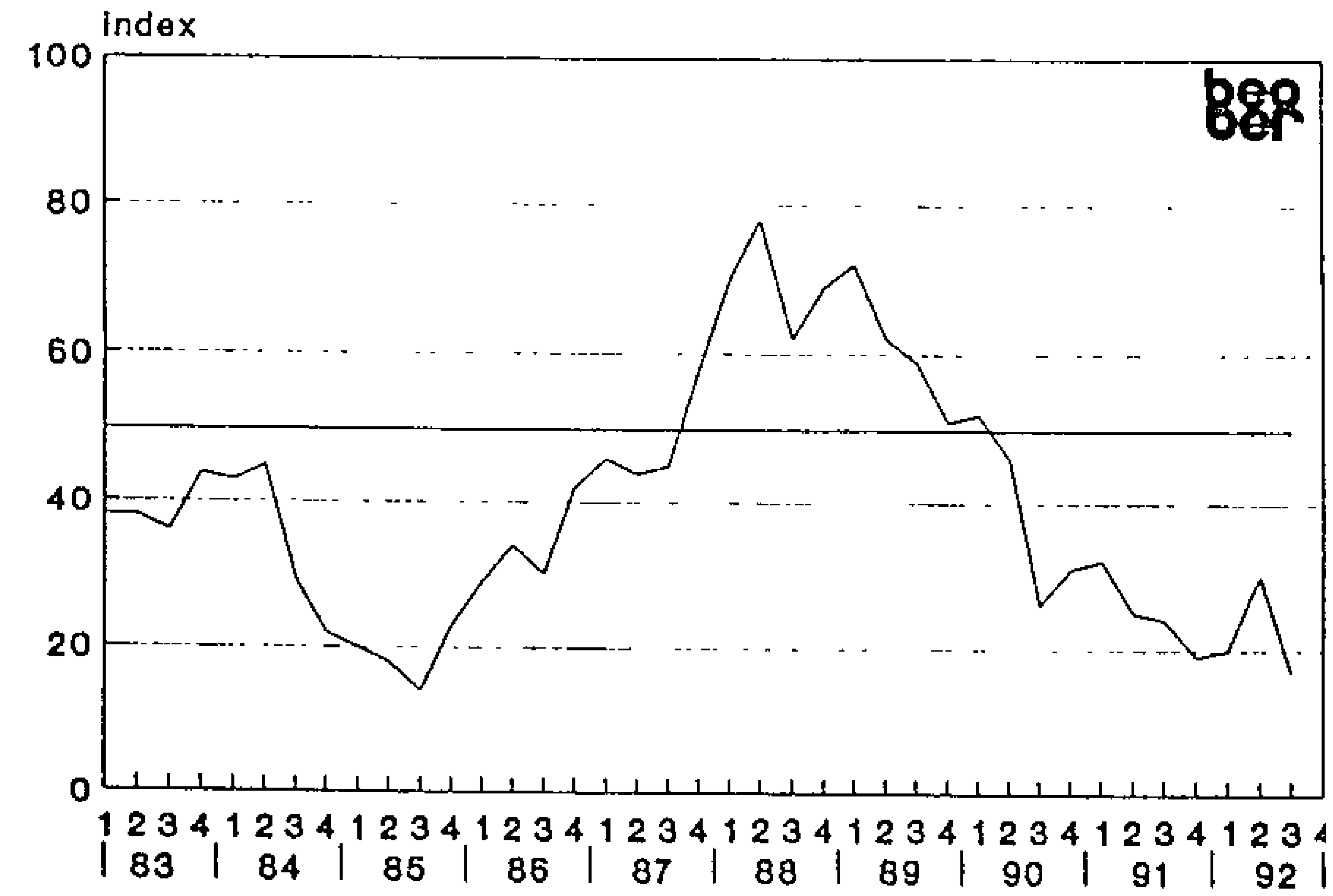
Apart from textiles, leather and machinery, all manufacturing sectors reported a drop in production in the third quarter, compared to a year ago. And in these three sectors, it was foreign rather than domestic demand which boosted sales.

Employment continued to drop: all sectors now employ fewer workers than they did a year ago, says the bureau, and the fourth quarter is not likely to be better.

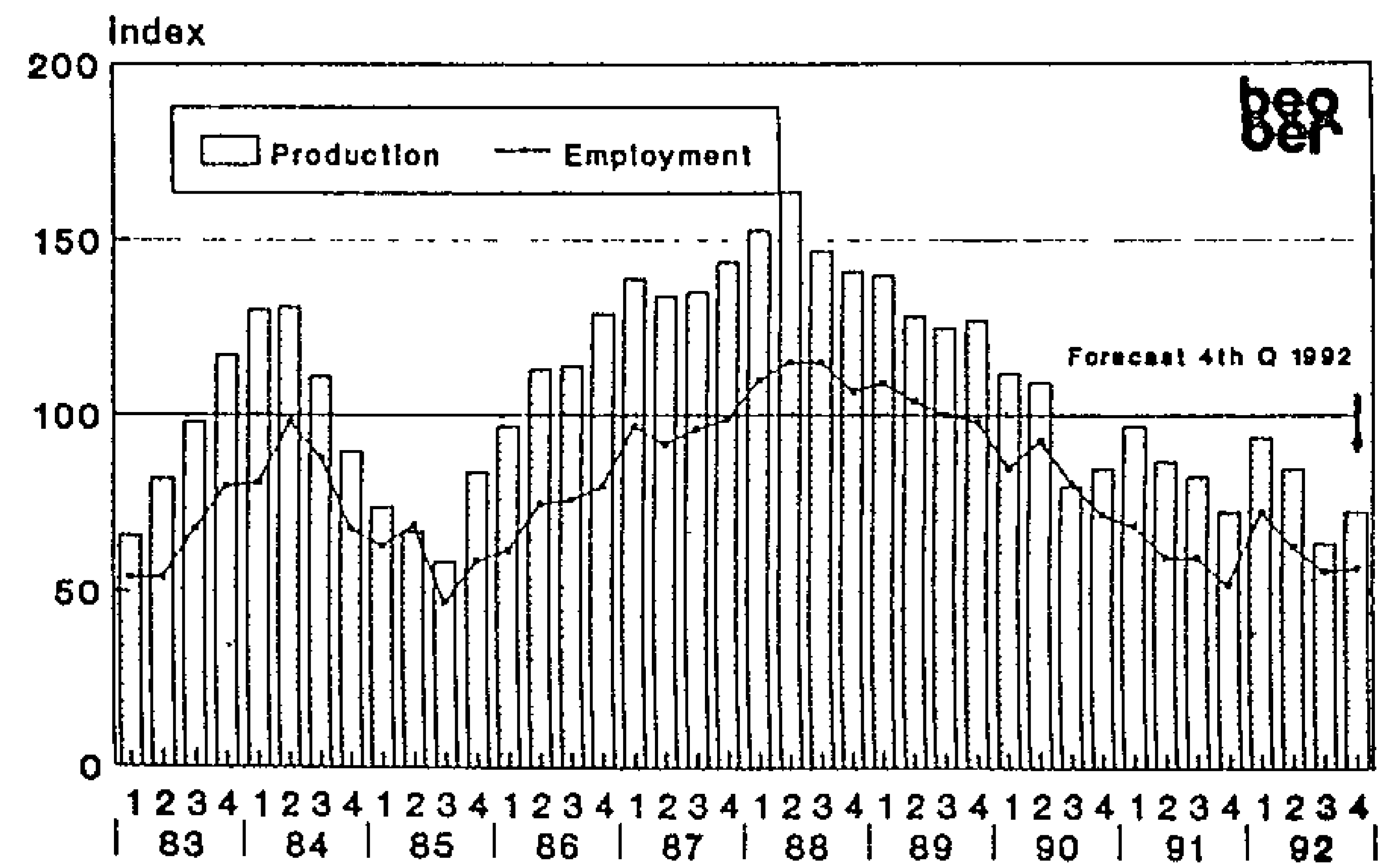
Business confidence is at a new low, it says. Stocks of finished goods are high, so that even when demand picks up it will be some time before the recovery filters through to employment and production.

In the bureau's previous survey, manufacturers expected fixed investment to increase over the next 12 months. But it seems that these plans have been put on hold: fewer companies than before are planning to invest over the next year, even to replace ageing machinery and equipment.

Companies surveyed reported that slack demand and the uncertain political climate were the most serious brakes on activity.



Business confidence in manufacturing in the third quarter of this year was at its lowest since P W Botha's "Rubicon" speech.



Employment in factories has decreased with decreasing production — and unemployment is likely to increase in the final quarter of 1992.

ta. Both are expected to ...

Southern spurred on by grim job market

South 3/10-7/10/92

SOUTH Africa's quickest route towards economic recovery and curbing the increase in unemployment is through the expansion of small business, says Southern Life's executive director, Mr Arie van der Zwan

Southern is sponsoring the Small Business Week for the third consecutive year.

Van der Zwan said that now more than ever, small business had a vital role to play in economic development. A recovery would help restore peace and increase productivity

"We cannot rely solely on foreign investment to create jobs It has been proven time and again that self-employment provides the main thrust to new job creation," he said

"Large-scale job creation is needed to combat crime and decrease instability But the outlook for job hunters is bleak, especially considering that fewer than seven percent of all new matriculants can expect to find jobs

"To make matters worse, these youngsters will have to compete with the growing number of jobless in lengthening unemployment queues over the past few years"

Van der Zwan said it was estimated that the formal business sector would have fewer than 40 000 jobs on offer as the recession slashed demand for labour

This painted a grim picture for job-seekers, he said

"For this reason in particular, we endorse the philosophy furthered during Small Business Week."

He said the Small Business Development Corporation had helped create more than 300 000 jobs since 1981 and remained a major force in helping small businesses

Borrowing to make up R30bn shortfall

Keys rejects tax increase

S| Times (B455) 4/10/92. (49)

THE Government has ruled out any increases in taxes — direct or indirect — before the next Budget.

Amid growing concern about the Government's cash crisis — tax collections are way below target — Finance Minister Derek Keys says taxpayers will not be called on to help solve the revenue problem through new taxes.

However, the fuel price is to be raised. Mineral and Energy Affairs Minister George Bartlett confirmed on Friday that fuel would cost more — but not because of a levy. Mr Bartlett says the Government is considering an increased price. He will not say how much more it may cost.

Wealth

Fuel prices will have to rise because the equalisation fund — or slate — is short of money.

Motorists have been underpaying about 14,5c/l for petrol since July, but a source says an increase like this is unlikely because it would add about a percentage point to the inflation rate.

A fuel-industry source says any increases this year are likely to be staggered to minimise the effect on inflation.

Mr Keys warned in an interview that a rise in VAT could be considered at the start of the next fiscal year.

Higher fuel taxes and the introduction of capital gains and wealth taxes were seen by economists as distinct possibilities because of the budget crisis.

Business Times Reporters

They estimate that revenue could undershoot expenditure by at least R30-billion, twice the budgeted deficit.

This shortfall — equivalent to about 8% of gross domestic product — is more than double the 3,5% guideline set by the International Monetary Fund.

Mr Keys is concerned about the way the economy is staggering under the weight of the recession.

"But now is not an occasion for an increase in taxes because the deficit is growing."

The Government will instead continue to borrow from the market to fund the shortfall.

"If we didn't borrow, the extra load would have to fall on you and me."

Mr Keys says a drop in interest rates, as and when it happens, will stimulate the economy. It could also help to revive confidence.

But Reserve Bank Governor Chris Stals doused hopes of an imminent cut in rates on Friday. He implied that a drop in rates would be considered only when inflation dropped below 14%. The August consumer price index was 14,3%.

Dr Stals says SA's economic collapse is cause for concern, "but we cannot solve that by creating more money".

The World Bank warns that a budget deficit of above 4% of GDP could lead to lower investment spending and hamper chances of a successful political transition.

An informal discussion paper by the World Bank says a deficit of 4% of GDP is manageable.

The paper was completed in May before revenue shortfalls led to projections of an 8% deficit.

But authors Brian Kahn, Abdel Senhadji and Michael Walton warn that the fiscal situation may already be worse than it seems.

"Sooner or later the Government will have to pay for losses or shortfalls of lower level of government and homeland administrations (as well as the underfinancing of the state pension fund)."

Money

They say a permanent increase in the deficit — above 4% — "is likely to be in direct conflict with an investment recovery (especially private investment required for growth)".

The authors say budget deficits must be financed from borrowing the excess savings of the private sector, by borrowing from abroad or by printing money.

Excessive domestic borrowing causes rising interest rates with negative implications for investment. Excessive foreign borrowing results in unsustainable current account deficits and printing money is inflationary.

SA could comfortably move from being a capital exporter to a moderate importer of money in the 1990s.

Third quarter a business disaster

S/Times [BUSS] 4/10/92 (49)

PETER CAMPBELL: The froth went out of beer sales in August — down by double-digit figures

Business Times Reporters

EARLY signals from business suggest that the third quarter was even worse than expected, consumer spending slowing further.

There are now fears that even a cut in interest rates will not be enough to revive consumer spending and stimulate economic growth.

The slowdown in sales reported by manufacturers and retailers for the three months to the end of September point to further falls in VAT and corporate tax collections, exacerbating the Government's revenue crisis.

Key indicators of how consumers spend their rand — from beer to household goods, cars and houses — point to a deepening of the recession. What little buying there was in the quarter was a result of cut-price marketing, sales of essential goods and people buying down.

Tourism

Adding to consumer gloom was the R60-billion drop in share market capitalisation.

Tourism remained subdued, the secondary effects of the drought continued to bite and political uncertainties reduced investor confidence.

Even SA's export growth slowed in the wake of sluggish world economic conditions. Exporters' confidence took a knock in the quarter.

Strikes increased rapidly after a slow start to the year.

This, together with mass action and the loss of consumer confidence, contributed to expectations of a 6,5% year-on-year fall in real retail sales.

Beer sales, a solid barometer of consumer spending, have slumped. SA Breweries is unable to give a breakdown of sales for the past quarter because it is preparing its interim results. Suppliers to the beer division say the position is serious.

Peter Campbell, deputy chairman of Nampak, which supplies cans to SA Breweries, says beer sales fell by "double-digit" figures in August.

Hennie Roos, managing director of Consol's glass division, says beer sales could be down by 0,2% to 0,3% on last year.

Another major indicator of consumer spending is the car market. In the quarter to September, sales of new cars are expected to reach 46 500. Light-commercial vehicle (LCV) sales are likely to be about 23 000.

In the same quarter last year, 49 477 cars and 24 244 LCVs were sold.

The Bureau for Economic Research (BER) report on manufacturing says general business conditions deteriorated considerably in the third quarter and were "worse than expected".

All sub-sectors reported lower domestic sales. Optimistic expectations for export sales and orders failed to materialise.

A BER survey of the building sector found that all, except for quantity surveyors, experienced a third quarter worse than the second.

The effects of poor SA and world economic conditions were felt in the equity market.

De Beers' spectacular decline was one of the biggest influences on the JSE overall index's 12% loss in the September quarter.

The diamond index shed more than 40% after De Beers said its dividend might be cut.

The all-gold index lost 17% to 902 points — dipping through a six-year low — even though gold was little changed above $340/oz.

Lag

The industrial index eased 7% and the financial one was little changed.

Insurance and transport both added 10%. Pharmaceutical and tobacco also gained. The Dow industrial index came off 2%.

Fund managers are bearish about the outlook for the JSE and expect company results to be disappointing in the coming months

With little hope held for a Christmas bonanza, retailers and manufacturers do not expect an improvement in trading conditions in the fourth quarter.

Most economists do not foresee much of a bottoming out of the economy in the quarter.

They believe an interest-rate cut would ease the pain in certain areas of the economy. But Old Mutual chief

● To Page 3

Disaster (49)

● From Page

economist David Mohr warns that there is usually a time lag before an improvement is felt in the economy. (180)

Given the general uncertainty in SA, there could be a longer time lag before the effects are felt. S/Times

Economists say tangible improvements in the poltical arena will also take time to filter through. The establishment of an interim government, for example, might be clouded with its own uncertainties, they say. (BUSS) 4/10/92

SA borrowing cannot solve cash problems

4/10/92 (49)

MONEY TALK

THE SA government is short of money and has been borrowing heavily on the capital and money markets to make good the shortfall.

While one should be grateful the country's money and capital markets are sufficiently developed to help finance government expenditure, it should never be forgotten that borrowed money demands interest payments and, eventually, repayment of the loans.

Some economists estimate the State has borrowed more than R13-billion in the first five months of the current financial year, compared with a budgeted R12 9-billion for the full year.

Pressures

Why are State finances being squeezed so badly?

Firstly, the country has been in recession for a long time and the economy is actually shrinking at present. People who are unemployed and companies showing losses cannot pay tax. The result is that government tax receipts are below target.

A good example is our important motor manufacturing industry. It is now estimated that only 177 000 new cars will be sold this year against more than 300 000 not so many years ago. The industry is operating far below capacity with the result that not only thousands of jobs have disappeared but millions of tax rands are being lost.

The motor industry is one of the most important tax generators in SA and its sorry state is indicative of the pressures in the economy.

At the same time, very heavy pressures are being exerted for more State expenditure to meet social needs in areas such as hospital services and housing.

Unrest and violence are also making ever greater demands on security services. Millions of rands that are being saved as a result of military cutbacks now have to be spent on more policemen and more equipment instead of being channelled into productive areas so that new jobs can be created.

Unfortunately, the State cannot continue to increase its borrowing indefinitely to make good the tax shortfalls. Nor is there any joy in raising taxes, because the country is already one of the most heavily taxed nations in the world.

Raising taxes will only bring short-term respite.

Experience world-wide has shown that over the long term, high taxes simply kill the goose that lays the golden egg.

It becomes counterproductive as people simply stop working and producing. In our case many more people are likely to emigrate to countries offering lower taxes and better opportunities.

Where does the answer lie?

Firstly, the State must trim expenditure. Secondly, we must get our economy going again.

So far there has been precious little indication that our broader leadership is really concerned about the ailing economy. However, the alarm bells will soon be ringing louder, as indicated by the latest Exchequer figures.

Politics upsets economic recovery

C/Press 4/10/92 (49)

WITH SA deeply in the throes of a recession, experts have painted a gloomy picture on the short and long-term economic recovery.

It is now that the small business industry must become self-sufficient and create jobs.

Findings of a survey released this week by the University of Stellenbosch Bureau for Economic Research has found that the sales volume of food, normally immune to recession, continued to drop – a motion which began in the last half quarter of 1991.

Expectations for (food) orders, sales and production are negative for the fourth quarter and beyond. The net balance reported for business expectations over the next 12 months changed from 36 to minus 24 in the food sector.

Apart from the textile sector which reported a more or less neutral outlook, expectations in all the sectors are that the domestic sales and orders will deteriorate further.

Recent political developments contributed to the deteriorating assessment of conditions in the manufacturing industry. The influence of the general political climate was judged as the second most serious constraint on business activities in the third quarter.

Political uncertainty increasingly hampers the economy, while the result of a current survey confirms a dangerous downward spiral as economic conditions in turn have a negative impact on the political situation.

However, the Small Business Development Corporation has arranged a one-day workshop for small business enterprises on "How to survive and prosper in difficult times."

The workshop which will be held in Johannesburg, will be addressed by, among others, SBDC managing director Ben Vosloo, Business Challenge MD Phil Khumalo, Peter Feinbaerg of Top Achiever and Jeff van Rooyen of the Wits Business School.

Axe to drop on social services

(49)

S/Times 4/10/92.

By MIKE ROBERTSON

CONFRONTED by a soaring debt burden, the government has been forced to slash spending on social services such as education, health and pensions.

"There will be fewer good works. We have more than we can afford," said Finance Minister Derek Keys in an interview with the Sunday Times.

The government is now studying plans submitted this week by all departments to effect massive cuts.

Growing concern at spiralling public debt has left Mr Keys no option but to embark on this controversial course of action.

Public debt is money that the government is forced to borrow because it spends more each year than it raises in taxes.

This year, the government budgeted on borrowing R15-billion, but because of the depressed state of the economy, that figure is expected to double.

As a result, interest payments, which have to be met before the government can spend a cent on anything else, have also rocketed.

For every rand the government expects to receive in taxes from individuals this year, 56 cents will be paid out in interest.

Borrow

Nedbank chief economist Edward Osborn said this week the government was falling into a debt trap.

Like other African and South American countries, South Africa was reaching a point where it was being forced to borrow more money simply to pay the interest on the debt it had accumulated.

The situation was explosive, said Mr Osborn, who has estimated that servicing the debt this year will cost R17,5-billion.

By next year, this will rise to R20,5-billion — more than the R19-billion spent by the government on education, the largest single allocation in this year's R100-billion Budget.

Mr Osborn said that if firm action was not taken to cut government spending, the budget deficit — the amount the government borrows to meet the shortfall between what it raises in taxes and duties and what it spends — would rise from R30-billion this year to R52-billion in five years' time and R179-billion by the year 2002.

Outraged

Democratic Party finance spokesman Ken Andrew accused the government of "mortgaging the country's future".

By its actions, it was ensuring that any future government would be hamstrung in its attempts to tackle the country's economic difficulties.

Mr Andrew said he was outraged that the borrowed money was being used to fund current expenditure — such as salaries — and not capital

☐ To Page 2

Axe set to drop on social services

(49)

S/Times 4/10/92.

☐ From Page 1

projects such as roads and houses, which would at least provide the country with assets for the future

The situation is made worse by the fact that the government has also been guaranteeing loans raised by the independent homelands and self-governing territories

The government will assume responsibility for these debts, which are not being redeemed by the homelands, when the territories are re-incorporated.

On March 31 the homelands had debts totalling R8,78-billion. But at a Cabinet meeting in July, the government decided to guarantee additional overdraft facilities totalling R2,5-billion for the Transkei, Ciskei and Venda.

The yearly interest bill on this debt would amount to an additional R1,7-billion at current rates

Mr Keys said he was worried about the government's growing debt burden, but was not panicking.

To eliminate the growing deficit, he could either raise taxes or cut government spending He ruled out the former in the short term, but said a rise in VAT was indicated in next year's Budget.

The government had opted now for spending cuts.

It had set up a programme aimed at reducing its consumption expenditure — money spent on civil servants' salaries and associated expenses — from its present 21 percent of gross domestic product (the total value of all goods produced by the nation) to 16 percent within five years

Aim

South Africa's GDP is estimated this year at R317-billion, while the government's consumption expenditure is expected to total R65-billion

If the proposed cuts were to be effected this year, the government would spend R14,3-billion less on salaries and associated expenditure — in effect, major job cuts.

But because the programme is being phased in over five years, the aim this year is to cut government spending by three percent in real terms and civil service numbers by five percent.

All government departments had to submit detailed plans on how they were going to achieve these cuts to State Expenditure Minister Ami Venter by this week.

A spokesman for Mr Venter said the plans had been received and were being studied

Trade not aid the key to economic upliftment

S/Times (BUSS) 4/10/92. (49)

By JÜRGEN W MÖLLEMANN
Federal Minister of Economics, Bonn

WHEN I visited South Africa last February — for the first time in 18 years — I was fascinated by the possibilities that have recently emerged for the country.

A land richly blessed by nature, with a first-class infrastructure of transport routes, ports, and energy systems, now has the opportunity to escape from the blind alley of apartheid and can shape its future in a positive manner by peaceful transition to a democratic system, embracing all parts of the population.

I naturally also saw the contrasts that still exist and that put the black majority on the minus side of the economic and social ledger.

Without the construction of more schools and training facilities, without social programmes, the country will not be able to move forward; those who have thus far been disadvantaged must be able to feel the progress, to see that a new start is being made.

Upswing

With our experience in the Federal Republic's new states, we Germans can attest to the fact that it is of pre-eminent importance for economic growth and for meeting the needs of the population, that business and industry invest and create jobs.

This is missing in South Africa. In my opinion, it has been absent too long.

Not only foreign companies, but even SA's own business sector are showing reserve in the light of the uncertainties connected with political transformation.

Without investment, however, there can be no upswing. Nor does the State have the funds to finance infrastructure, housing construction and other social programmes.

The political forces in SA are therefore faced with the task of putting the uncertainties of the transitional period to an end as soon as possible for the sake of the population and of laying the roadbed for a predictable path into the future.

If the difficult undertaking of placing SA's market economy (a system that benefits all) on the track of growth succeeds, Southern Africa will also have the hope of climbing out of the continued slump.

At any rate, the neighbours would not only have the example of SA success but they would have the opportunity to intensify the regional trade in goods and services, in particular with a South Africa relatively strong in terms of capital and buying power and with industrial experience.

The region as a whole, including the states beyond SA's borders, would become an interesting economic partner for Europe.

On the basis of the standards it has already achieved, SA would doubtlessly be the development pole from which and with which Europe would have considerably better operational possibilities for fighting poverty throughout Southern Africa.

Against the background of decades of Western development assistance in Africa that has shown relatively meagre results, "trade, not aid" continues to be the principle showing the greatest promise.

I am certain and will work hard to ensure that as soon as a legitimised transitional government is in office, the European Community will extend its hand, offering a regional partnership similar to the partnerships already established with other economic regions in Asia and Central America.

The South African Development Community, supplemented by a new South Africa — and perhaps by additional responsibilities after unification with the Preferential Trade Area — could serve as the southern bridgehead.

Such a framework would have the priority task of promoting the private foreign investment that is so urgently needed in Southern Africa.

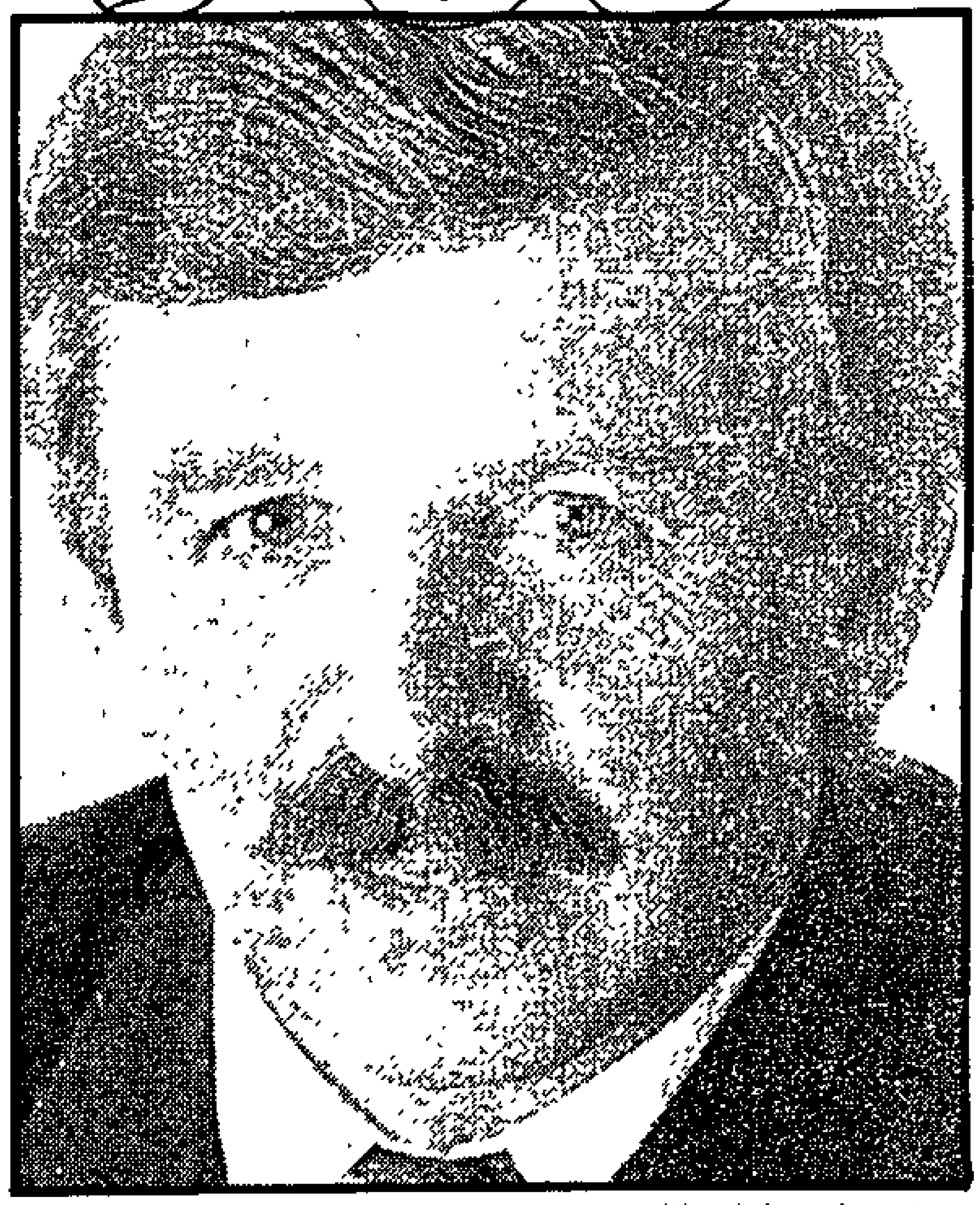
Lively

SA boasts an important position as world trading partner. This role must be sustained and developed. Germany is a good customer: in 1991 it imported goods worth Dm3,2-billion, 10% more than in 1990.

With the goal of further increasing exports to Germany — for years a surplus item in bilateral trade with a level of Dm1,5-billion in 1991 — the Federal Ministry of Economics held export promotion seminars for small businessmen, particularly black entrepreneurs, this past September in Johannesburg, Durban, and Cape Town.

The lively participation at these seminars allows us to hope that they will generate business.

In general, it is to be expected that SA, as dictated by circumstances, will try to boost its export of finished goods and will rely less on the export of commodities that have previously accounted for a substantial portion of German purchases.


JÜRGEN W MÖLLEMANN: No upswing without investment

We know, for example, that some companies producing high-grade steel are taking steps to expand capacitiy considerably and to manufacture car parts for export, in particular catalytic converters.

As it moves into the finished goods sector, however, SA will see itself increasingly confronted with the demand to play according to the same rules as its international competitors.

It must therefore lower the high levies on imports and eliminate export assistance. This is ultimately in line with the country's own interests, for behind the high walls of protection, industries lose the ability to compete.

In addition, assistance is expensive.

The strong German-SA trade relationship is supported by a large number of German companies that have invested in SA.

More than 300 companies — besides nearly all of the well-known large firms, also a number of small and medium businesses — have become involved in the SA market. These and other companies are willing to expand their stakes in the country — or to invest for the first time if peace comes to SA and if the country practises an economic policy pointing to the future and containing the basic lines of the market economy.

Parallels in two nations

S/Times/BUSS7
4/10/92.

By CIARAN RYAN

THERE are some arresting parallels between the political transformation of Germany and that of SA, says former German Ambassador to SA Immo Stabreit.

"Both countries were divided to uphold a despised political system and both are now forced to confront the social and financial costs of reunification.

"The cost of absorbing 15-million former East Germans in a united Germany is blamed for retarding economic growth and contributing to Germany's high interest rates and the recent financial crisis in Europe.

"In SA's case, political transformation is impeded by three years of falling economic growth and escalating violence. For this reason, the major challenge facing SA is job creation," says Dr Stabreit, who left SA last month to assume his new post as Ambassador to Washington after 5½ years in SA.

(49)

"Violence is a consequence of several factors, but the most important of these is the lack of employment opportunities.

"Political violence could be stopped relatively easily. Criminal violence is not so easy to bring under control.

Education

"Many South Africans grew up under a system which used violence to uphold a certain political system. Their response was to reject the institutions which represented the State, from the schools through to the courts of law. Unfortunately, many of these people who rejected education and training are today unemployable.

"They will have to be assimilated in the community and the State will incur the costs."

The major challenge for Germany is redevelopment of the east where unemployment is more than double the former West Germany's 6%. Most of the east's traditional markets in the former Soviet Union collapsed along with the Iron Curtain.

Dr Stabreit says: "SA is rich in leadership qualities. The problem is that people have been pitted against one another. If they could pull together, SA would be unstoppable.

"But it would be naive to think that SA's problems will be solved overnight."

Dr Stabreit arrived here in the dying years of apartheid to witness the birth of the new SA. Germany's relations with SA ranged from being cordial to decidedly frosty — particularly under the reign of former President PW Botha.

He is succeeded as ambassador by Dr Hans-Christian Ueberschaer.

BLUEPRINT FOR PROSPERITY CONFERENCE

STAR 5/10/92

A search for solutions to South Africa's economic and tax problems

49

By Magnus Heystek

The shocking news from the Reserve Bank that Gross Domestic Fixed Investment — basically an investment in future job creation — has dropped to less than one percent of Gross Domestic Product should, hopefully, focus the mind of politicians on what is happening to the economy.

Without large-scale investments now, the capacity of the economy to provide jobs is severely diminished.

As it is, the economy is absorbing virtually no new entrants into the labour market.

That is why it is now necessary to bring home the point that South Africa needs a vibrant and growing economy.

Most political parties are in agreement as far as economic objectives are concerned. How to get there is a different matter.

This is what the Blueprint for Prosperity Conference is all about. The conference takes place on October 8 at the Johannesburg Sun and will discuss the various economic and fiscal strategies needed to secure a higher growth rate.

This is the first time such a conference has been held in South Africa and has already been dubbed as an "economic Codesa".

For scenario planners at large companies, the conference is vital.

It will provide in one day all the economic and fiscal policies advocated by major political and business groupings in SA.

Questions to be thrashed out include: What kind of tax changes will an ANC government introduce?

Could SA have a plethora of new taxes, including wealth taxes and even a redistribution of wealth?

How will this affect your business?.

Speakers include Dr Zac de Beer (leader of the Democratic Party), Cyril Ramaphosa (secretary-general, African National Congress), Dr Stef Naudé (director-general, Department of Trade and Industry), Khehla Mtembu (managing director, Afsure), Professor Michael Katz (chairman, Tax Advisory Committee), Archie Nkonyene (president Nafcoc), Professor Sipho Shabalala (Department of Business Management, University of the Transkei), Professor Dennis Davis (Professor of Law, Centre for Applied Legal Studies, University of the Witwatersrand), Dr Frank Mdlalose (national chairman, Inkatha Freedom Party) and Yayandra Naidoo (negotiations co-ordinator, Cosatu).

● **Bookings for this convention can be made through Cordev Marketing, telephone (011)-483-3214/5. The fee is R250 per person.**

The ticklish public service juggling act

STAR 5/10/92. [redacted] [redacted] (49)

A South Africa in transition will have to keep in mind the political and economic consequences of restructuring the public service, writes MIKE SILUMA.

POLITICAL and economic pressures have again placed the South African public service under scrutiny, resulting in heightened insecurity among many public servants.

Government plans to merge the three "own affairs" departments catering for Indians, coloureds and whites — as well as talk of affirmative action under a new government — have given rise to fears of widespread job losses in the public service, especially among whites.

The general manager of the predominantly white Public Servants' Association (PSA), Hans Olivier, says: "Nobody knows what the new government will look like, but we all know that there will be restructuring, and the question is what effect this will have on the individual (civil servant)."

One thing is certain — change in the nearly 1 million-strong public service (including the six self-governing territories) will not wait for a new government.

Finance Minister Derek Keys has made it clear that the Government wants to rationalise the public service, which would include shedding about 30 000 jobs initially.

With State revenue in the current financial year lower than expected, he has to reduce Government spending.

But Mr Keys's job of curbing State expenditure, including the public service wage bill, is by no means transient. How well he does it will, to a large extent, determine South Africans' quality of life over the next few years.

Econometrix director Dr Azar Jammine believes rising State expenditure lies at the heart of South Africa's economic ills.

"Since 1980 the level of employment in central government has risen by some 75 percent, that in the homelands by around 50 percent. This has negatively affected the economy for three reasons. Firstly, the Government has had to raise taxes to finance the increase in the number of public servants.

"Secondly, the Government has tried to save money to finance the growth of the public service by reducing vital fixed investment in the country's infrastructure.

"Thirdly, the Government has had to increasingly borrow money, leading to a sharp increase in public debt and the interest payable on it.

"This means that the future government will have to keep paying more interest, forcing it to spend less on housing, roads and other public facilities," warns Dr Jammine.

The head of the School of Public and Development Management at the University of the Witwatersrand, Patrick FitzGerald, warns against overzealously wielding the scalpel. He says rationalisation is not about reducing or increasing the size of the public service but about "improving performance and cost-efficiency, giving a better service to the public for their money".

"Many departments may look overstaffed now But if we improve service to all South Africans we may find that we need to increase sections of the public service," says Mr FitzGerald.

He suggests reorienting the public service and retraining its employees to enable it to help in economic development.

Dr Jammine and Mr FitzGerald — pointing to the problems faced by the Zimbabwean government after the massive growth in its public service since independence in 1980 — caution that uncontrolled growth in the civil service would ultimately prove to be economically unviable.

Another point of concern relates to political appointments and affirmative action programmes Mr FitzGerald considers these inevitable if the newly constituted civil service is to become representative of all South Africans and if it is to carry out the policies of the new government effectively.

Affirmative action would be directed mainly at the higher echelons of the public service, he says, citing Government statistics which show that senior management in this sector (including directors-general, diplomats, town managers and administrators) is overwhelmingly white and male

But, again alluding to Zimbabwe, Dr Jammine emphasises the need for politicians to keep in mind the economic cost of their decisions in relation to the civil service during the transition period.

"It may be that there will be a reluctance to pay off white civil servants, which, coupled with the employment of more blacks as part of an affirmative action programme, will merely increase the number of civil servants Also, the constitutional model we choose — be it unitary or federalist — will be crucial. If by federalism we have in mind the kind of apartheid structures we have had, which have contributed to low economic growth, such a system could again prove costly," says Dr Jammine ◻

Present composition of South African Public Administration

POSITION	WHITE	COLOURED	INDIAN	BLACK
Director-general, deputy D-G or equivalents	197	1	1	3
Ambassador, commissioner-general, etc	11	0	0	0
President, chairman of a council or commission	16	15	0	8
Director or equivalent	4 533	19	27	58
Executive official (control level)	287	0	0	6
Town clerk, treasurer	723	3	5	10
Government administrator and related managerial	1 177	9	19	110
TOTALS	6 564	47	52	195

Source: Central Statistical Services

Graphic: Liz Warder

Pouring cash into schools does not improve education

BDAY 6/10/92

SIMON BARBER in Washington

49

FEW of the calculations contained in the recent IMF occasional paper on SA's post-apartheid economy were more arresting than those dealing with per capita expenditures on education after racial disparities had been removed.

Assuming a new government devoted the same proportion of GDP to public schooling — about 6% — as the present one, and assuming (perhaps optimistically) a GDP growth rate of 3%, the study found that per-pupil spending in 1995 might level out at R1 313, a modest increase from the 1990 figure of R907 for blacks and a precipitate decline from R4 807 for whites.

On the face of it, these are depressing figures, implying major losses for the previously privileged few and only nominal gains for the supposedly liberated majority. How depressing depends on whether there is a direct correlation between the volume of money thrown at education and the quality of the end product.

The American experience, while scarcely probative, is encouraging. It suggests that above a certain minimum level, the relationship between expenditure and quality starts to become inverse and that, ultimately, less may be more.

By SA standards, the largesse lavished on the American public school student is eye-popping. The national average is close to R20 000 a year. Very few other countries spend more, yet the output is almost uniformly admitted to be sub-par. A big theme in this year's presidential election is that the US is turning out high school graduates unable to compete in the high-tech global economy.

Many reasons are given for this: The absence of rigorous testing; low teacher pay; excessively short school years (the average is 178 days); too much television; lax parents. And the unfairness of a system under which school districts must generate most of their funding from local property taxes, with the result that rich neighbourhoods get better schools than less well-off ones. Then there are bloated educational bureaucracies and spending cuts. The list of culprits, plausible and implausible, is endless.

Yet it is the one complaint that is never heard which may lie at the heart of why Johnny cannot read or add as well as Jean or Johan. The system is gold-plated. It has too many resources for its own good — too much money to throw around on inessentials and otherwise misallocate.

Consider, as Forbes magazine recently did, the 4 100-student West Carollton school district in Ohio, a sample about as middle-American as it is possible to find. For the fiscal year just ended, the district had an operating budget of $16,3m, or just under R50m. It would have been higher had not local residents staged a tax revolt in the '70s.

Close to 90% went on salaries and benefits. This might almost be understandable if the money was being used to pay top-quality teachers, but nearly 40% was consumed by non-teaching administrators and other staff.

Of what was left over from the overall wages and perks bill, less than 2% was available for basics like textbooks and supplies, insufficient for the elementary school to purchase new books. Even so, the high school's authorities were able to build a $2,3m state-of-the-art theatre, field a 50-member marching band complete with instruments, offer courses in interior design, dress for success and creative cookery — and then complain that the computer laboratory had a mere 36 personal computers.

What has happened here, and all around the country, is that the educational establishment has been addled by the amount of money at its disposal to the point where it has lost any sense of priority and has allowed the unnecessary — sprawling administrations, non-academic instruction and whatever the latest fad is — to crowd out the essential.

The computer fixation is a case in point. It is regularly argued that a key reason American students are falling behind their peers in other industrialised countries is that there are not enough PCs in their classrooms.

But the equation, more computers equals better schools, does not withstand scrutiny. A computer — little more, after all, than a glorified typewriter-cum-adding machine — is not a cost-effective tool for teaching or learning the three Rs, let alone languages, history and geography. For the machine to become useful, the user must already have acquired a substantial base of knowledge which is more cheaply and efficiently (if perhaps less entertainingly) obtained through pen, paper, books, competent teaching and application of the brain. That is even true of programming.

Tighter budgets might make the point more readily graspable. They might also serve to rid public schools of another, far more worrisome, impediment to basic learning. The American school day is already short enough without teachers having to set aside substantial chunks of it to performing tasks that have historically been the duty of parents.

Schools receive federal grants — an irresistible inducement — to schedule at least one period a week for an anti-drug project called Quest. This involves teaching 10-year-olds "self-esteem" (on the theory that if they love themselves enough they will not take drugs) and how to work and play co-operatively in a group. Were it not for the grants, the typical pupil might have some time left over from band practice and interior design to pick up a little algebra or English.

But then that assumes that he or she has not also had to attend an AIDS prevention class learning how to put a condom on a banana, or a "values-clarification" session, or a "multiculturalism" indoctrination period. One Ohio teacher interviewed by Forbes said the situation was now so out of hand that some of her colleagues were relying on parents to help with their children's spelling.

Politicians are to blame for a lot of this, since it is they who, in the name of reform, keep throwing money at the schools, while at the same time feeding administrative bureaucracies which themselves have odder and odder ideas about how and what children should be learning.

Parents in New York have been horrified to find their teenagers coming home with pamphlets enumerating students' "sexual rights" including "the right to decide whether to have sex and who to have sex with". This extraordinary document was prepared and printed by city authorities with federal money.

The system has run amok because, at root, it is so well funded. It has the luxury of being able to do too much, including engage in wilful social experimentation, and has thus lost sight of the relatively simple, well-tried, things it ought to be doing, like turning out young people who can read, write, calculate, think and who have a basic grasp of how the world works and why.

Whether SA will be able to achieve that on a per pupil outlay of R1 313 a year remains to be seen. But, because it will not be able to afford the ideological and other fripperies that are taking over in the US, it has a chance to do a far better job than is done with R20 000 per student here

Call for mini-summit to bolster economy

(49)

CT 7/10/92

By AUDREY D'ANGELO
Business Editor

BUSINESS confidence has started to inch up again — but needs urgent short-term measures to support it — according to the SA Chamber of Business (Sacob).

Sacob director-general Raymond Parsons called yesterday for the formation of a mini-summit including the government, the Reserve Bank, business and labour to formulate policies aimed at stimulating the economy in the short-term.

The Sacob business confidence index (BCI) for September rose marginally to 90,02% from 90% in August, due partly to lower inflation figures, a higher average gold price and a higher volume of manufactured exports.

But Sacob chief economist Ben van Rensburg points out that there is continued divergence "between the financial sector, which improved, and the real sector, which sank deeper into recession."

"It is important for politicians to recognise the need for confidence-building measures at this time."

Van Rensburg emphasises that "the slight strengthening of the business mood in September does not yet mean an improvement in business conditions or a turnaround in the economy — but is rather a positive response to recent political developments."

This was shown by the fact that the Sacob survey of the manufacturing sector in September showed falling confidence. Most manufacturers were "more pessimistic about the coming year than they were a month ago.

In view of this the slight rise in the BCI showed "the extent to which political progress or the lack of it can influence business sentiment — and underscores the vulnerablity of the business mood.

"It also confirms the importance which business decision-makers and investors ascribe to the formal resumption of constitutional negotiations.

"The prospects of a return to formal negotiations on a new political dispensation came at a time when the news on the economic front was getting bleaker by the day — as the combined effects of the drought, a slow world economy and declining real incomes took an increasing toll on employment levels and corporate profits."

Following the shootings at Bisho and the withdrawal of the Inkatha Freedom Party from negotiations, business and the wider community "require concrete actions from our political leaders to engender an improvement in confidence levels."

Van Rensburg warns that: "In spite of the fact that the latest export volumes were the highest in almost a year the news from the international economy continues to be uninspiring.

"Most recent assessments suggest that the world's largest industrial countries, which purchase the major part of SA's exports, will not enjoy a significant revival in the next 12 months.

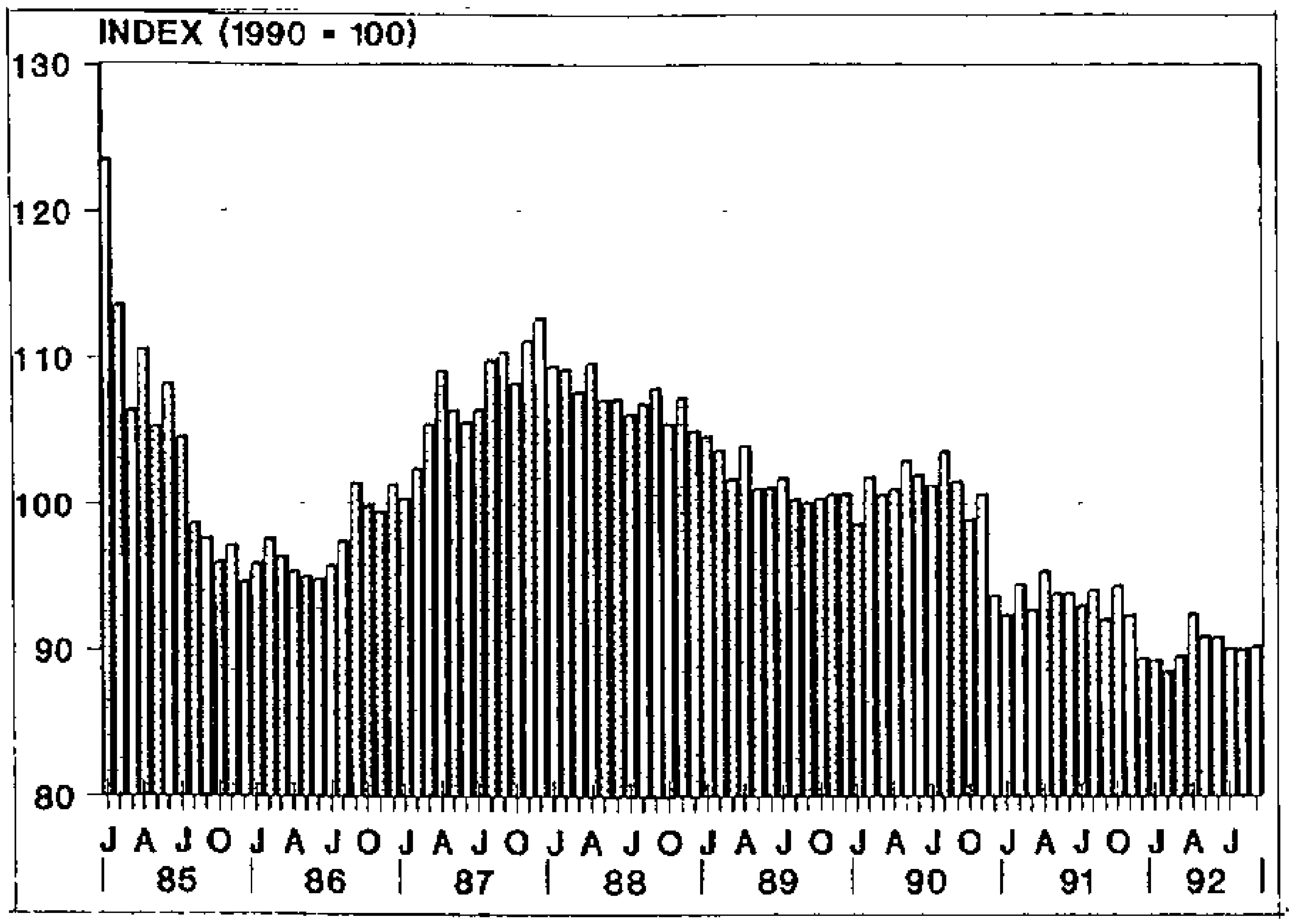
"In fact there are increasing concerns that business conditions in some of these countries — most notably Germany and the UK — could deteriorate in 1993 rather than improve.

"Unless SA exporters are able to increase their trade significantly with other countries the prospects of an export-led upturn in the economy in the short-term appear to be fading."

And, he says:"The real value of building plans passed has also improved over the past two months.

"But anecdotal evidence from the construction sector suggests it will be some time before an increase in plans passed translates into increased activity in the sector."

BUSINESS CONFIDENCE INDEX



OPINION

Dr Andries Treurnicht examines what he believes is the root of the violence in SA

Power struggle is the catalyst

STAR 7/10/92

(49)

JUST before the referendum I wrote in a newspaper article that "after a Yes vote on March 17, nothing could be as awesome as the resistance to Xhosa/ANC hegemony by the numerically superior Zulus who . will never accept ANC/SACP rule".

Apart from everything else that has gone awry since the Yes vote was cast, the core problem — the jostling for power in a post-February 1990 South Africa — remains, and this struggle has now become the catalyst for the destructive conflict now enveloping South Africa. It is strange that F W de Klerk refuses to acknowledge this fact, and that a unitary state under an ANC government can never survive.

Even liberal whites are having second thoughts about an ANC takeover: the organisation has shown its true colours these past months and confidence in the NP's new South Africa has understandably taken a dive.

Our economy reflects this lack of faith in the future, despite brave words from our captains of commerce and industry who funded the Yes campaign.

An HSRC survey revealed that only a small percentage of whites are prepared to live under an ANC regime, yet the Government beseeches the ANC's presence at the negotiating table, and pays a heavy price for this in concessions.

Millions of blacks have borne the brunt of ANC coercion, and self-governing and independent states are the victims of the ANC's march to power. One can thus understand the inability of numerous experts to stop the violence consuming our country.

De Klerk talks of federalism as the new panacea for a shattered South Africa. Others talk of regionalism as a reluctant sop to the diversity of peoples in this part of the world. But federalism does not address the crux of the dilemma; nationalism and the instinctive desire of peoples to be with their own.

Whether nationalism is seen as a problem or as a solution, it exists to such a degree that peoples throughout the world are prepared to die for their flag, their language, their culture, their nation. The conflagration in Eastern Europe is just one example of this conundrum.

Unless a future constitutional dispensation addresses the problems of ethnicity and self-determination, it is a waste of time and a recipe for discord. In a federal or regional South Africa, whites will still be unable to rule themselves. Although the proposed regions appear to be demarcated along ethnic national lines, whites will have nothing of their own.

The Conservative Party believes in economic interdependence and political independence, a system similar to the European Community where trade and aid are interchangeable. We cannot, however, subscribe to a policy where the central government has the real power and where regional autonomy is only as autonomous as the central administration permits. This is not independence, and the growing unease in Europe about subsuming national political and monetary power to a central administration in Brussels is one reason why the Maastricht Treaty could be a "dead letter", as one British journalist put it.

Confederation or a commonwealth of independent sovereign states allows peoples to govern themselves while interacting with each other within the limits which each one of them has set.

In other words, a KwaZulu or a Bophuthatswana government within a South African confederation maintains control over its own budget, its schools, its culture, its security forces. If it so desires, it may — in conjunction with other nations in the region — decide to allow matters such as transport, systems, economic concerns or foreign affairs to be handled by a central structure which would only function within the parameters allocated by the nation states within the confederation.

The fear of losing one's power base, of being swamped by another nation, of disappearing from the face of history is perhaps the most important reason why the governments of KwaZulu, Bophuthatswana, Ciskei and QwaQwa have withdrawn from negotiations with the Government.

They see their sovereignty being taken away by virtue of the bilateral and prescriptive agreement recently signed by the ANC and the Government, and they have done the most natural thing in the world. They have retreated to their heartlands and have said they will defend their countries. The same sentiments are expressed by white patriots.

Add to this the relentless dishonesty displayed by the National Party over the past years (to their own voters as well as to other political forces) and we have a surefire recipe for conflict.

The Government's regular capitulation to every ANC demand has not gone unnoticed in Ulundi Mmabatho and Bisho, and De Klerk's agreement with the ANC to allow a "democratically elected" constituent assembly to draw up a new constitution and serve as an interim parliament must have been the last straw for those who naively believed he would consult them about a future dispensation.

What must be done now? Every effort must be made to stop the NP/ANC/SACP alliance in its tracks. The De Klerk administration has not only deceived its own supporters but it has deceived those who went to Codesa with the mistaken idea that there really would be round-table discussions about the future of this country.

An alternative forum must be created as a substitute to the failed Codesa, a forum for those who value their heritage and who respect the traditions of others. □

● *The writer is leader of the Conservative Party*

Local disinvestment puts single currency further out of reach

BDAY 7/10/92

(49)

GRETA STEYN

IN THE heady days that followed the announcement of plans to create the new SA, the discount between the financial and commercial rands narrowed to less than 10% and a single currency seemed in the offing. As the discount surged to almost 45% this week, a unified currency again seemed a distant dream of a wishful central banker.

A dealer, when asked this week why the currency had weakened, responded facetiously: "More sellers than buyers." But he hastened to add there was a message in the identity of the sellers, in the fact that South Africans were taking money offshore while foreign investors were not keen to commit money to the country.

Is the slump in the finrand a massive vote of no confidence in the SA economy by SA business, or do the falls in the finrand only reflect a temporary blot on the horizon of new opportunities opening up for SA internationally?

The factors conspiring to send the finrand reeling include not only the SA offshore purchases, but also large speculative positions and the Reserve Bank's statement that it might from time to time support the currency.

SA companies expanding overseas are taking more than R2bn out of the country. Royal's plans to purchase tinned food company Del Monte is estimated to be worth about R1,3bn. Anglo American's purchase of a stake in Del Monte is expected to be financed offshore, which would not involve the finrand market.

First National Bank is buying UK merchant bank Henry Ansbacher, which could add another R500m-R600m. The deal will be financed through capital raised in a rights issue.

Standard Bank will be spending an undisclosed amount on buying ANZ Grindlays' African branches. The price is anybody's guess and could depend on factors such as African government attitudes and timing.

Standard has been negotiating with the Zimbabwean government on the takeover amid predictions of further devaluations in the Zimbabwean dollar. To what extent it will be able to benefit from the falling Zimbabwean currency remains to be seen.

The recent purchase by Investec of Allied Trust in London is no longer exerting pressure on the finrand market, but is another example of South Africans moving money offshore. Yet another is the recent announcement by Rand Merchant Bank that it is buying a dealing operation in Australia. Bankers say there are others waiting in the wings, hoping for Reserve Bank approval.

The Bank might be somewhat hesitant in giving the go-ahead and the companies themselves might think again at the present levels of the investment currency. In FNB's case, the price might turn out much higher than initially expected. Market talk is also that the Royal/Del Monte deal has not been signed; it could be abandoned and the finrand deals for it could be unwound.

The move offshore by local interests represents sizeable negative influences on the finrand. By contrast, foreign investors in SA equity have been conspicuously absent. In general, there has been net selling of JSE shares by foreigners while non-listed equity investments in the past year run into only a few hundred million rands.

The main positive influence until now has been the speculative interest in the currency. Foreign holdings of SA gilts run into billions of rands with foreigners holding more than half of Eskom's total issued stock. The money market, because of its short-term nature, gained in popularity as political uncertainty became a factor. Throughout the period of Boipatong and Bisho, there was no sign of the speculators scrambling to get out of SA. The gilts bull run continued virtually without pause and money market rates continued to mark time.

The build-up of large speculative positions was supported by the Reserve Bank's statement that it would, from time to time, intervene to support the currency. The Bank has been at pains to point out that it did not commit itself to supporting the currency. But it seems the finer nuances of the statement were lost on the dealers. Speculators felt safe coming into SA in the "knowledge" that their capital would be protected by the Bank.

The huge SA move offshore put pressure on the currency and pushed it towards levels that could trigger speculators' stop-losses. The Reserve Bank's retreat to the sidelines while the stuffing was being knocked out of the finrand sparked fears of speculators fleeing, fuelling bearish sentiment.

There were signs that stop-losses were triggered when the currency moved below $0,24. Money market investors in the Far East cut their losses and there was some selling of gilts. A nightmare of post-Rubicon proportions no longer seemed impossible.

But the Reserve Bank made a deliberately noticeable return to the market, soothing speculators with a forceful attitude and a handful of dollars. There was to be no nightmare on Diagonal Street.

At the present lower levels, and with the Bank back in the market, there are signs of marginal investors returning. The yields are a major attraction: a discount of 40% implies an effective return of about 18% for a one-month money market investment. But these investments are short term and unstable.

Dealers, relieved that there was to be no nightmare this time round, are worried about the way in which the SA acquisitions are being done. They believe the Bank could be more open with the market about the flows, and could also exert some influence to smooth them.

But the Bank should take care not to waste precious foreign exchange reserves to drive down the discount between the commercial and financial rands. The discount is not languishing at near post-Rubicon levels without a reason, and the Bank would be wise not to take on the market.

The message the finrand market is giving us is that SA companies want to move offshore while foreigners want to make easy profits but do not want to invest long term. Why should they want to invest in SA if South Africans are themselves not investing?

Investment in the productive capacity of the SA economy has dwindled to the basic minimum needed due to normal wear and tear. The Reserve Bank commented in its Quarterly Bulletin that this had "serious implications for future economic growth". Net investment — after allowing for depreciation — has fallen to only 1% of GDP from an average of 8% in the '80s and 14,5% in the '70s. For foreigners who want to cash in on the rapidly growing developing economies, SA will not be an option until SA starts investing in itself.

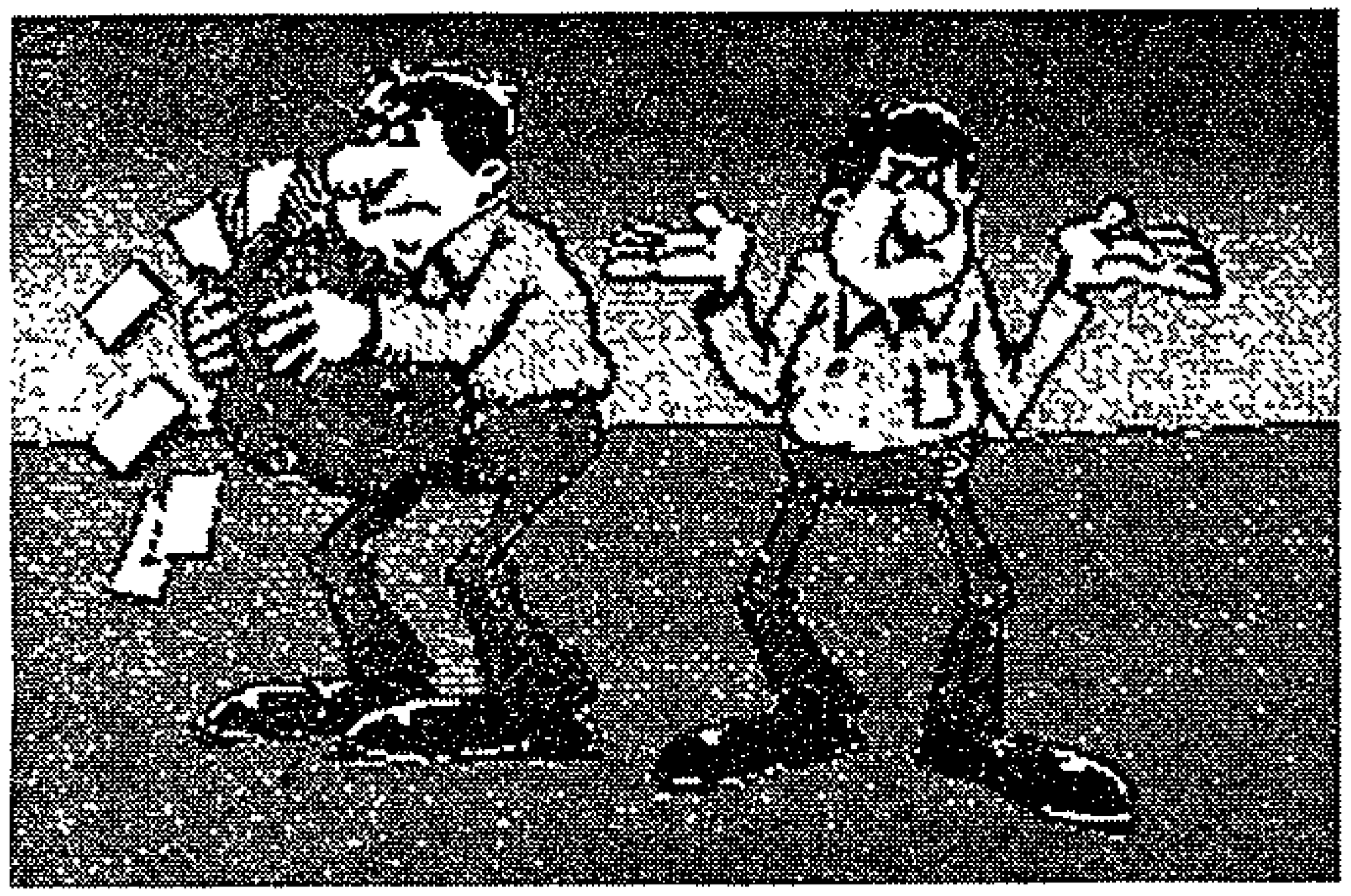
The late Reserve Bank Governor Gerhard de Kock had to see his work in scrapping the finrand undone when the debt crisis hit SA in 1985. His successor Chris Stals obviously shares the desire to do away with the dual currency system. That much was obvious from his statement on the finrand market earlier this year.

One currency would restore SA's dignity and take it out of the list of "exotic" investments on offer. But as long as South Africans continue disinvesting at this rate and foreigners come in only for a quick buck, this desire will not be realised.

SPOT DESK

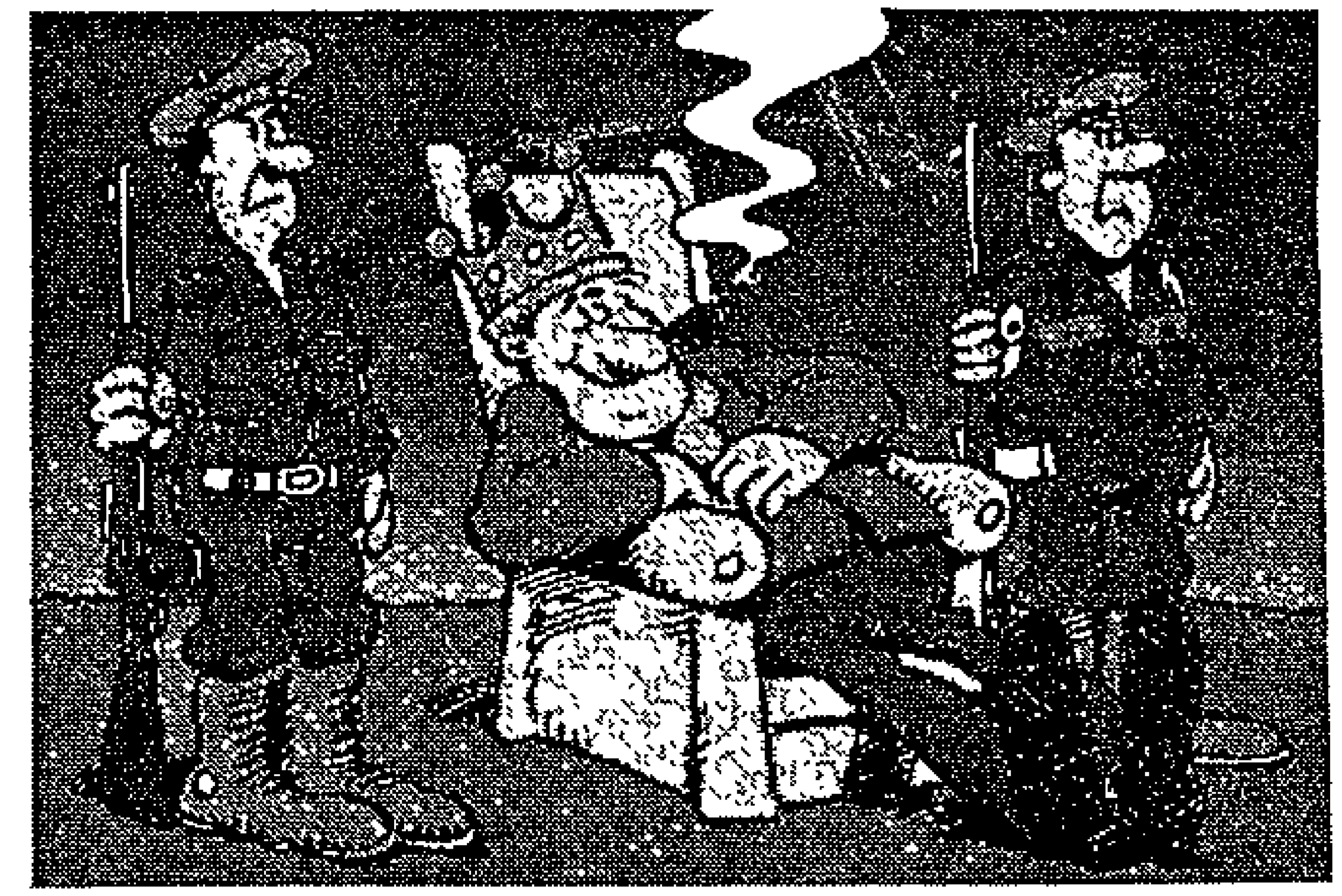
> *We fit ourselves (into institutions) by obeying certain rules of conduct that we have never made, have never understood, and never will understand.*

Sowetan 7/10/92. (49)



EARNING...

MONOPOLISING...



DICTATING?

● **From page 10**

which we fit ourselves by obeying certain rules of conduct that we have never made, have never understood, and never will understand. "The contribution of modern economics consists essentially in explaining how such an order — what I call an extended order — came into being, and how it constitutes an information gathering process, able to call up and to utilise, widely dispersed information that no central planning agency could possess, let alone control."

Sacob calls for mini summit

HILARY GUSH

SACOB yesterday called for an urgent summit between major economic players to shore up SA's deteriorating economy in the short term. BlDay 7/10/92

Sacob director-general Raymond Parsons told a news conference in Johannesburg that the economy was "on very thin ice and dangers of an accelerating downturn are worse than they have ever been".

"We urgently need a mini economic summit to discuss ways to rebuild confidence," Parsons said. (49)

He suggested that Finance Minister Derek Keys and Reserve Bank Governor Chris Stals steer the summit, but stressed business and labour constituted two "major players" in deciding SA's immediate economic future. He said the summit should be broadly representative of government policy-makers, monetary authorities, business and labour.

Parsons said: "Current debate on the short-term economic outlook is too diffused. Discussion on the route the SA economy should take in the short-term ought to be the least controversial of all economic debate, as it leaves aside long-term decisions on restructuring."

☐ To Page 2

Sacob

BlDay 7/10/92.

Asked whether he supported the propos-
al, Stals said last night that if the summit
led to wider participation it was welcome,
but cautioned that discussion on short-
term economic policy would probably not
provide an instant solution

He said the summit might serve to allay private sector fears and uncertainties.

Keys was unavailable for comment.

Speaking at the same conference, Sacob
economic policy director Ben van Rens-
burg said the business confidence index
(BCI) — a barometer of business mood —
rose to 90,2 in September from August's 90.

He warned the slight strengthening of
business confidence did not mean a turn-
around, but rather was a positive response
to "certain political developments".

(49) ☐ From Page 1

"It is indicative of the extent to which
political progress, or the lack of it, can
influence business sentiment — and under-
scores the vulnerability of the business
mood"

Movements in the financial and com-
mercial rand exchange rates formed one
of 13 sub-indices making up the BCI. The
recent finrand slump to a six-year low had
not yet been reflected in the index, but
would, no doubt, affect October's BCI.

He said signs of a speedy global econom-
ic recovery were not forthcoming

"Unless SA exporters are able to
increase their trade significantly with oth-
er countries (besides major industrial
countries), the prospects of an export-led
upturn in the economy in the short-term
appear to be fading," he said.

Economy running out of options, says Syfrets

(49)

STAR 8/10/92

Finance Staff

The economy will eventually run out of options unless its growth potential is lifted in a non-inflationary manner.

This stark warning is contained in the Syfrets Quarterly Economic Review for the three months to September.

"Our gross domestic product (GDP) growth rate declined from 5 percent in the 1960s to 3 percent in the '70s and 1,5 percent in the '80s," says Syfrets.

"The only way out is through improved productivity and enhanced technology, which implies an increase in savings and investment."

However, this does not mean huge capital-intensive projects of the type which have already swallowed billions of taxpayers' rands, with little to show in the way of comparative economic advantage, it says.

With the Government effectively dissaving and personal savings at a dismally low level for at least the last decade, Syfrets says, it is hard to see where funds are going to be obtained for vital fixed-investment spending — assuming anybody is prepared to take on capital expenditure in such an uncertain environment.

"It is no good expecting funds from abroad. Recent events in Europe, financial turmoil in Japan and lack of direction in the US highlight the demand for capital in other parts of the world with painful clarity."

On the positive side, Syfrets says, an interim government in the form of a transitional executive council could be in place by the end of December.

However, the impact of the changing political situation on financial markets will continue to be neutral to negative, with a recovery unlikely before the second half of 1993.

With economic recovery being pushed out even further, strong company earnings growth is likely to be reflected only in the 1994 reporting period.

Until sustainable recovery comes on the back of improving fundamentals and a shortage of scrip, fixed-interest investments will outperform equities.

ANC to outline plans in US

SIMON BARBER

WASHINGTON — The ANC has summoned its US supporters to discuss what kinds of political and economic help they should provide once an interim government is installed and the movement drops its call for sanctions.

ANC president Nelson Mandela and other senior officials will be outlining their "programme of action for the 90s" at a major conference of civil rights, church, union and other activist groups in New York next month.

The gathering, timed to coincide with the UN General Assembly's annual debate on SA, will feature workshops on education, housing, health care, workers' rights, land reform, constitutional issues and foreign investment.

"A particular focus of each workshop will be the organisation of constituent groups to advocate support for US foreign policies that will provide aid and material assistance in each issue area," the invitation states.

There is no mention of sanctions.

Sources close to the World Bank, which is helping the ANC and its affiliates devise economic strategies for the post-apartheid era, believe the meeting may be an important turning point.

An ANC spokesman said the decision to hold the conference was taken at the movement's policy conference in May. Similar sessions are to be held in Europe and Asia

The list of sponsors is a veritable who's who of the US anti-apartheid movement, ranging from New York mayor David Dinkins, the NAACP and the Episcopal Church to members of the congressional black caucus.

(49)

It also includes a smattering of black US entrepreneurs, mostly from the legal profession and entertainment industry, as well as diamond dealer Leon Tempelsman, who has long sided with the sanctions movement while negotiating with pro-sanctions congressmen to ensure that his own interests are not harmed.

Academic warns of 1993 Budget dangers

B/DAY 8/10/92. (49)

LINDA ENSOR

CAPE TOWN — Whether government decided to finance its 1993 Budget by increasing VAT or by raising its deficit before borrowing, the effects would be stubbornly high inflation and interest rates, an academic warned yesterday.

Stellenbosch University Bureau for Economic Research director Ockie Stuart said this would be compounded by the proposed fuel price hike.

He told a Cape Town Chamber of Industries seminar government was not able to increase individual and company tax rates, although fiscal drag would probably increase.

Increasing VAT could cause serious political disruptions, and if raised by 3%, would increase inflation from the projected 11% back to 14%, he said.

The need to borrow more would have inflationary effects as money would have to be created, and borrowing on the local market would increase interest rates.

Stuart expected a further drop in interest rates this year only.

It was unlikely fixed investment would recover next year as surveys indicated manufacturers were planning a net disinvestment, and some would not be replacing obsolete equipment.

Consumer spending would continue to be depressed for most of next year.

Manufacturers' confidence was nearly at a record low and there were no prospects for improvement next year, even with a political resolution, he said.

SA Chamber of Business chief economist Ben van Rensburg said Sacob saw signs of a run on confidence in SA, demonstrated by the performance of the finrand, which gave a glimpse of what would happen to the commercial rand if exchange controls were lifted.

He forecast a growth rate of about 1,5% for next year.

He said the decrease of gross domestic fixed investment (GDFI) in 1992 on an annualised basis was -4% compared with the -8,5% in 1991.

In the second quarter of this year total GDFI decreased by 19% in real terms, when SA needed a fixed investment, as a percentage of GDP, of 26% to deliver an economic growth rate of 3%. The long term picture for GDFI was not a good one, he said.

Van Rensburg predicted that the major impact of the drought still had to be felt and he said millions of people in rural areas would be in dire straits in the next few months.

He estimated that 4-million people faced starvation while unemployment could presently total in the region of 6,2-million people. While exports were performing well, this was determined to a large extent by incentives such as GEIS, which would fall away when SA re-entered the normalised world of trade and became subject to the GATT.

Public sector fear addressed

STAR 9/10/92

By Sven Lünsche (49)

The ANC appears to be trying to allay fears that it would swell the ranks of the public sector with its own appointments once a new government is in place.

In a speech to an economic conference entitled "A Blueprint for Prosperity", organised jointly by The Star and Southern Life, ANC secretary-general Cyril Ramaphosa yesterday called for a restructuring of the economy "within the boundaries of our limited resources".

In a speech delivered on his behalf, he said rationalisation of the public sector was one of the major components of a restructuring programme.

While ruling out privatisation, he said public corporations should be subjected to competition and should adopt new employment practices.

"This process may entail a reduction in the size of the public sector in ways which enhance efficiency and advance affirmative action .... while ensuring rights of workers."

● Conference reports - Page 15

PAC calls for an economic Marshall Plan

STAR 9/10/92 (49)

The Pan Africanist Congress (PAC) has proposed an economic Marshall Plan to address the issue of scarce resources, the destruction of skills by apartheid and the income gap between the haves and have-nots.

PAC secretary for economic affairs Professor Sipho Shabalala told the conference of three goals of socio-economic development:

- The restructuring of the economy.
- Social, economic and political stability.
- The strategic repositioning of SA as a winner in areas of economic and technological development.

He said massive investment was neccessary to meet vital social consumption needs such as the health, education and housing of African people.

The Government had a responsibility to meet these needs and the PAC proposed a new tax system to create incentives in the use of resources in a "direction desirable for national prosperity".

The PAC's plan would involve the balancing of three factors: "Redistribution, the economic accumulation process of the economy and economic development that does not marginalise any of the members of our society," Shabalala said.

He also put forward that a "Restoration, Reconstruction and Development Fund" be established "to which minimum specific sums of money will be contributed by the private sector, rich individuals, the state and foreign donors".

This would be over a period of five to ten years and could also receive contributions through an income tax surcharge on working individuals and corporations. — Sapa.

'State spending to be cut'

STAR 9/10/92

Helen Grange
Pretoria Bureau

The Government intends cutting State expenditure by about 3 percent in 1993/94, President de Klerk said yesterday.

De Klerk was supporting the recent recommendation by Finance Minister Derek Keys that State expenditure be reduced by an overall 5 percent.

De Klerk told an Administrators' conference in Pretoria that Government departments and administrations would have to cope with less funds in real terms to achieve their aims.

At the same time, public-sector services would have to be planned in such a way that affordability was maintained.

"We are counting on the active involvement of the administrators, the members of various provincial executive committees and officials of the provincial administrators to implement the proposed new municipal dispensation (amalgamating municipalities) before July 1 1993," he said.

● The Department of Foreign Affairs has scrapped about 130 posts, a source said this week.

● 'Regionalism a top priority' - Page 6

Cosatu tax revolt could be called off

(49)

DIRK HARTFORD

COSATU is poised to suspend its anti-PAYE campaign. This could open the door to getting the stalled national economic forum back on track. B/DAY

Cosatu said it would consider at its central executive committee meeting next week whether to suspend the campaign in the light of political developments.

Union and ANC sources say it is certain to drop the planned boycott as a result of recent agreements between the ANC and government. 9/10/92

The anti-tax campaign was the major reason government refused to go ahead with the forum's formal launch last month.

Finance Minister Derek Keys said government would not take part while parties to the forum supported illegal actions.

Employer organisation Saccola was also reluctant to to be involved with the forum while Cosatu promoted a tax boycott.

Cosatu's Jay Naidoo told the Blueprint for Prosperity conference yesterday that although Keys promised a consultative approach, "it is not clear whether he can overcome the constraints of government mindset" to avoid government unilaterally deciding on economic issues. The key to unlocking the economy from its downward spiral was effective government participation in socio-economic forums.

Cosatu sees such forums developing into democratic institutions dealing with key issues.

● See Page 2

1325 - 1287 / 38

ANC allays fears on future of public sector

STAR 9/10/92

[redacted] 49 [redacted] [redacted]

By Sven Lünsche

The ANC is attempting to allay fears it will swell the ranks of the public sector with its own appointees when a new government is in place.

In a speech to an economic conference, organised jointly by The Star and Southern Life in Johannesburg, ANC secretary-general Cyril Ramaphosa yesterday called for a restructuring of the economy "within the boundaries of our limited resources".

Ramaphosa, in a speech delivered on his behalf, said the rationalisation of the public sector was one of the major components of a restructuring programme.

While ruling out privatisation, he said public corporations should be subjected to competition and adopt new employment practices.

"This process may entail the reduction in the size of the public sector in ways which enhance efficiency and advance affirmative action, while ensuring the protection of consumers and the right of workers," Ramaphosa said.

A second key component of the programme involved the restructuring of the Budget by "radically revising downwards expenditure on the military and thus freeing funds to be spent on social investments".

He said the ANC's primary concern in restructuring the Budget would be to achieve equity in expenditure.

"Essentially, we propose that concrete targets be established for each area of expenditure, in line with a national development strategy.

"These targets should be subject to ongoing monitoring and evaluation," he said.

Ramaphosa added, however, that government expenditure should be guided by the criteria of efficiency and equity.

"Macroeconomic populist pitfalls which can have the opposite of good intentions in the medium to long term have to be avoided," he said.

"Programmes aimed at housing, infrastrucutral development, health, human resources development, training and improved access to resources have to meet both equity and efficiency criteria."

Other vital components of the economic restructuring programme included industrial strategies, the redistribution of land and income, the deconcentration of the private sector and the development of an appropriate trade policy.

The redistribution of land could be facilitated through a representative claims court, which would also take into account the need to achieve higher levels of food production.

Ramaphosa listed two advantages in changing the currently skewed distribution of income.

It would provide the means for mass consumption and would consequently impact on the way the industrial sector responded to new patterns in demand.

"Also, redistribution of income at the low end of the scale may be an essential requirement for the growth of the labour-intensive component of the manufacturing sector."

Ramaphosa told delegates the concentrated nature of the private sector was not conducive to the development of a prosperous economy, although he stressed that large enterprises "per se are not necessarily bad news".

"Our suggested instruments in this regard will rather be anti-trust and monopolies and mergers regulations."

Turning to industrial strategy, Ramaphosa said SA needed to focus on meeting domestic demand and becoming internationally competitive.

"Years of inappropriate import-substitution industrialisation policies and blind dependence on and exploitation of primary resources have resulted in an uncompetitive manufacturing sector which, on average, is unable to integrate itself successfully into the global economy," he said.

Ramaphosa concluded, however, that the success of any economic restructuring programme depended on the achievement of a broadly acceptable political settlement.

"We must, therefore, get the politics of the country right and do so as quickly as possible."

BLUEPRINT FOR **PROSPERITY** CONFERENCE

High price of job creation

By Derek Tommey

SA will have to invest R19 billion a year in 1985 terms in job creation if it wants to make an impression on the huge pool of unemployment.

The current total gross private fixed investment, including replacement investment, in 1985 terms, is only about R16 billion a year.

Dr Stef Naude of the Department of Trade and Industry told the conference it cost the private sector about R54 000 in 1985 terms to create employment for one additional worker.

The labour pool increases by almost 400 000 a year and to provide employment for 350 000 of these people would cost R19 billion a year in 1985 terms.

"This serves to indicate the magnitude of the challenge we are facing".

Naude said there were clearly no easy options or quick fixes. "We will simply have to scale down many unrealistic expectations and be prepared to make short-term sacrifices to reap the long-term benefits of higher sustainable economic growth."

afford these costs on their vehicles. | the solutions. | cake as a means of redistribution.

Ramaphosa's restructuring plan

B|DAY 9/10/92 (49)

HILARY ~~BUSH~~

A RESTRUCTURING programme based on stability, growth and socio-economic development is needed to ensure the success of a democratic SA, says the ANC.

ANC economist Tito Mboweni, speaking on behalf of secretary-general Cyril Ramaphosa, said: "We are well aware we need to restructure the economy . . . within the context of the maintainance of macro-economic stability."

Public sector corporations should be rationalised, restructured and subject to competition. This did not spell out privatisation, but rather managerial accountability and transparent budgetary systems.

Reducing the size of the public sector would enhance efficiency and advance affirmative action while ensuring consumer protection and workers' rights.

Restructuring of the national budget by redirecting expenditure away from unproductive current expenditure and towards socio-political development, so as to bridge the racial welfare gap, was also called for.

The ANC stood firm on its policy of income redistribution, which would provide the means for mass consumption and alter the industrial sector's response to shifting demand patterns.

Redistribution of income at the low end of the scale might be an essential requirement for the growth of the labour intensive component of the manufacturing sector.

Department of Trade and Industry director-general Stef Naudé stressed the need for an export-led recovery, based on final manufactured goods.

"SA's future economic development depends largely on industrial growth, which will also have to be much more export-oriented to increase the import capacity of the economy," Naudé said.

DP launches campaign for election funds

BILLY PADDOCK

THE DP has swung into election mode despite its leader Zach de Beer's criticism that it was the electioneering of the ANC and the NP that was preventing a speedy negotiated settlement for SA. B|DAY 9/10/92

At a media breakfast yesterday, De Beer launched a national fundraising campaign to collect R15m by the end of the year to help pay for a general election campaign.

Southern Transvaal regional fundraising co-ordinator Ronnie Napier said the party hoped to raise R4m in this region alone.

Whereas the DP had previously fought elections in chosen constituencies, the upcoming general election would involve proportional representation from a national electorate, which meant it had to canvass and fight for support at grassroots community levels, said De Beer.

The DP was expecting to win 10% of the national vote in an election.

Political deal needed for investment

BILLY PADDOCK

THERE was an urgent need for a political settlement because, while it would not stop the ANC and Inkatha fighting, it would bring the stability to stimulate investment, DP leader Zach de Beer said yesterday.

Speaking at the Blueprint conference, he argued that this settlement would have to contribute to the demise of a third force. B|DAY

Persistent violence was the single most discouraging factor for investment. It would be a negative factor even if there was political stability and the causes of the violence were fully understood.

De Beer said that if some of the violence was designed to prevent a political settlement, then the need for the settlement was more urgent.

However, there was no certainty that it would stop the fighting between the ANC and Inkatha, he said. "After all, both organisations are parties to the peace accord and to the Codesa Declaration of Intent, and that has not helped."

De Beer said it appeared that the leaders of these two organisations had limited control over their followers. 9/10/92

Governments and political organisations would in the future be judged by their ability to deliver economic prosperity.

Challenge of First and Third Worlds

GAVIN DU VENAGE

MEETING First and Third World needs of this country is the biggest challenge for fiscal planning, says tax advisory committee chairman Michael Katz. BDay

Katz told Blueprint conference delegates yesterday the danger existed of creating a structure that favoured the one over the other. 9/10/92.

The old adage of "the more you earn, the more you pay" no longer formed part of the conventional wisdom in tax structures.

The thinking now was that "redistribution is better achieved on an expansion of business than on raising taxes". Lower taxes encouraged investment, but this could disappoint the Third World element, and the resulting instability would inhibit growth. On the other hand, an overbearing tax system could dry up revenue.

Katz discounted a tax on dividends. This, in effect, would be a double tax, and would encourage business to finance through debt.

"This tax system makes debt attractive, and will lead to badly structured companies" he said. Katz also discounted the value of a fringe benefit tax. Smaller concerns could not afford these costs on their vehicles.

Central planning 'stifled economy'

(49)

BDay 9/10/92

BILLY PADDOCK

DECADES of centralised and interventionist planning with a flabby and inefficient bureaucracy, and not the political impasse, was the reason for the country's stagnant economy, Inkatha national chairman Frank Mdlalose said yesterday.

Speaking at the Blueprint for Prosperity conference in Johannesburg, sponsored by Southern Life and the Star, he said SA had to look beyond cyclical downturns, recessions and the political impasse to find solutions to the economic and tax problems.

An economy which remained heavily regulated and inward-looking and which was being held back by an oversized and inefficient bureaucracy was the real issue at hand, he said.

The economy had failed to provide encouragement to the productive and had instead sheltered the inefficient and punished the entrepreneur.

Mdlalose said it was vital that the country identified the role of other economic actors such as labour and business carefully in trying to find the solutions.

He said there was too much blurring of the various roles and relationships, with each actor demanding a say in areas which were not traditionally his domain.

Mdlalose criticised Cosatu's demand to be included in economic decision-making, on Budget determination and the distribution of life savings.

"If we are to have a prosperous interaction, we would need to find a medium between broad consultation on one hand and a clear definition of what would constitute an unhealthy power struggle which could very well open the door to a paralysis in decision-making," he said.

He said Inkatha's strategy would demand the deregulation of industry; a concerted effort in education and training to maximise productivity and a broadening of the industrial base together with export-orientation. It would also seek to stimulate increased economic activity rather than attempt to divide a crumbling cake as a means of redistribution.

☐ **SUPERMINISTER:** Finance Minister Derek Keys

Keys warns SA not to count on aid

ALIDE DASNOIS (49)
Business Staff ARG 10/10/92

SOUTH Africa will not be able to count on much foreign aid to help with the rehabilitation of the economy, said Finance Minister Mr Derek Keys in Cape Town this week.

Speaking at a lunch organised by the Executive Women's club, the Minister of Finance said the trend world-wide was to reduce foreign aid. The United Nations had suggested that the rich countries allocate 0,7 percent of gross domestic product to aid, but even this relatively modest goal now seemed out of reach, he said.

"Even the Scandinavian countries — the only ones to have met this target — are now cutting back on aid," he said.

"For us in South Africa, this means we won't be able to count on an assisted start to the rehabilitation of the economy.

"My advice to a new government would be to pursue a policy which is responsive to market forces," said Mr Keys.

The ANC, he said, had attached great value to foreign aid in the past. "But what was adequate for the financing of a liberation movement falls far short of what is needed for the rehabilitation of a country".

However, he said, he was sceptical about the capacity of market forces alone to sort out economic problems — in South Africa or elsewhere.

The collapse of centrally planned economies, said Mr Keys, meant that there were no longer any forces competing against capitalism. "But we are discovering some of the deficiencies of the capitalist system, such as the fact that growth is unreliable."

The American economy, he said, was unable to get off the ground because of the huge deficits accumulated under the Reagan administration. "Every American is now adjusting his or her balance sheet and cutting spending. At the same time the world is adjusting to different spending patterns — defence spending has been drastically cut, leading to reduced employment and lower economic activity".

The world market, said the Minister of Finance, did not provide efficient mechanisms for the channelling of savings.

The 1990s, he said, had seen the emergence of three poles, each with its own satellites — the United States, Europe and Japan. Each was likely to spend money closer to home, in an attempt to increase wealth in its own limited sphere of influence.

This meant that South Africa would largely have to "go it alone", he said.

Capitalist Sacob and socialist PAC parley

STimes (BuSS) (49)

By NORMAN WEST, Political Reporter

THE South African Chamber of Business (Sacob) has held discussions with the Pan Africanist Congress about political and economic obstacles facing the country.

It was the first meeting between the two organisations which hold opposing views about restructuring the economy. 11/10/92

Although Sacob is capitalist in spirit and believes in a free market operated through private enterprise, the PAC holds strong socialist views and backs redistribution of wealth in favour of "indigenous" blacks.

It also believes in the creation of new economic activities to oppose capitalism and market forces.

Minutes of the meeting were confidential and meant only for members of the board of management, major chambers, national associations and direct members.

The Sacob delegation comprised its president, Hennie Viljoen, deputy-president Spencer Sterling, director-general Raymond Parsons, chief economist Ben van Rensburg and manager of labour affairs Gerrie Bezuidenhout.

The PAC delegation was led by its first deputy president Johnson Mlambo, secretary for foreign affairs Gora Ebrahim, secretary for legal affairs Willie Seriti, member of the national executive committee Carter Seleka, chief of protocol Count Pietersen and director of economic affairs Mos Malatsi.

Army

Mr Mlambo is chairman and leader of the PAC's armed wing, the Azanian Peoples' Liberation Army.

The two-hour meeting, held at Sacob's request, was to exchange views on the economy and the political situation.

Mr Viljoen sketched the concerns of business about the economy, particularly the impact on it of the political logjam and violence.

Sacob was also concerned about mass action and the resultant turbulence which, Mr Viljoen said, was destroying the economy and harming business confidence.

A concerted effort was needed to rebuild and restructure the economy to support the political transformation process and to redress the inequalities caused by political actions of the past, Mr Viljoen said.

Mr Mlambo claimed that the PAC never took part in violence and was convinced that poverty and unemployment played an important role in causing conditions for continued violence.

It was these conditions, because they affected the PAC constituency most, that compelled it to talk to organised business, the Government and others.

Mr Seriti identified "a remarkable degree of convergence" between the PAC views and those of Sacob on the need for economic revival.

Mr Parsons said Sacob believed negotiations could not be left only to politicians.

Sacob was anxious to see negotiations back on track. Business could not support actions which could further damage the economy because of its implications for economic growth, unemployment and the capacity to reduce social imbalances.

Business pinned its hopes on the resumption of negotiations. It hoped they would be seen to lay the foundations for SA's political and economic future.

The PAC agreed that all political parties as well as organised labour and business should be involved in negotiations. STimes (BuSS) 11/10/92

Budget

Mr Gora Ebrahim said the PAC was opposed to an interim government which could perpetuate the present dispensation beyond 1994.

The PAC proposed that the present tricameral system be allowed to continue, but it should be linked to a transitional authority (TA) which would be more representative.

The TA would take over the responsibility for the budget, security, ensuring free and fair participation in the political process and international relations.

The PAC reiterated its contention that a "more representative" negotiating forum should be established.

Economic forum called for by big business to try and stop SA's slide

CONFIDENCE in the business community has reached such a low ebb that the SA Chamber of Business (Sacob) has called for a summit of the most important economic players to find way to stop the decline in business and employment. (49)

Among the major players identified by Sacob's Dir-Gen Raymond Parsons are labour and business, while finance minister Derek Keys and Reserve Bank's Chris Stals will obviously have to be present. C/Pen

One hopes that the summit, if it takes place, will cause a major rethink – especially among our political leaders – who seem to completely ignore the widespread suffering caused by the continuing violence and unrest.

Yet it is not unreasonable to pose the question whether SA businessmen are, in fact, overreacting. 11/10/92

Is is really necessary to throw in the towel and – instead of concentrating on building up your business – spend your energy in trying to get your savings out of the country?

The present negative climate cannot last forever!

What we are experiencing at the moment is an unusual situation:

- We are suffering from the worst drought in living memory.
- The international recession is causing a low demand and low prices for our commodity exports.
- Politically we are in transition. While it is inevitable that this will cause tension none of the major players want to see a collapse of our economy. Nor is their hard evidence that the assets of the middle classes will be plundered by a new government.
- The lack of foreign confidence, as evidenced by the collapse in the financial rand, is not really so exceptional.

We have been living with a lack of foreign confidence for a long time and indications are that

MONEY TALK

we will simply have to accept that as we are part of a struggling and unstable Africa confidence is likely to remain low.

But SA has so much in its favour that those who are now so negative may well find that they are left behind once the economy turns. And this is likely to happen sooner rather than later.

For instance, a normal, rainy season can cause a major turnaround in agriculture. Not only is agriculture a huge employer of labour but rain will enable millions of rural people to produce food again.

A recovery in agriculture will thus generate large amounts of money that will be spent in retail stores, co-operatives and on trucks, machinery and so on. Do not underestimate the multiple affect of this.

Another valuable factor in our favour is the peace agreement that was signed by Mozambique's warring parties.

Recovery of the devastated economies of Mozambique and Angola can generate substantial business for SA companies, although most of them may be sceptical about the potential of the two nations to recover in present circumstances.

Bear in mind the world is keen to see this happening and will assist them. Nobody wants to see another Somalia or Ethiopia.

Finally, the world economy should recover during the next year or so, which will mean valuable earnings for our large commodity exporters.

Far-sighted businessmen should take note of the foregoing and try and shake off their present fears of the future.

It may well be very profitable for them over the longer term.

US Africa policy: anybody's guess

From Simon Barber in Washington

BARRING a miraculous turn-around, America will elect a new president in three weeks' time.

Foreign policy has been such a side issue throughout the campaign that the implications for South Africa remain uncertain.

Some in the State Department have privately predicted that as president, Bill Clinton would toss Africa, like a bone, to the Congressional Black Caucus and the Jesse Jackson/Randall Robinson wing of the Democratic Party.

Senior ANC officials on visits to America have made it clear they relish such a prospect. Economic planning chief Trevor Manuel, for example, has said the balance of forces will shift in the ANC's favour after election day on November 3.

But few of the statements the Clinton campaign has issued on South Africa would seem to bear out Mr Manuel's optimism.

One policy statement pays obeisance to state and local sanctions and to "continuing current restrictions on South Africa's access to ... the IMF".

Violence

In reality, as the statement itself concedes by the use of "continuing", this differs little from the current administration's approach. Elsewhere, the philosophy is identical.

On the question of violence, no fingers are pointed and a distinction is drawn between "those responsible" and the government of President FW de Klerk.

There is a pledge to provide assistance — already offered by assistant secretary for Africa Herman Cohen — to "local peacekeeping structures" and to support "Nelson Mandela's call for international monitoring".

"When the transition to democracy is assured, the Clinton administration would begin to develop a programme of aid and investment incentives that can be used to help a democratically-elected government overcome the bitter legacy of apartheid," says the policy statement.

The only difference here with present policy is that the Bush administration has already started developing such a programme.

Campaign propaganda is not, of course, a completely reliable guide. How a new team will really behave depends, to a large extent, on who wins the policy battles in the post-election transition.

As the far right saw Ronald Reagan's 1980 victory as an opportunity to seize control from the centre, so the Democratic left will seek to ride piggyback on Clinton's election.

On foreign policy, however, they will find few allies among those already in the Clinton camp.

Thus far, there is no obvious candidate for Mr Cohen's job.

Among those mentioned are the Aspen Institute's Dr Pauline Baker, Michael Clough, until recently resident Africanist at the Council on Foreign Relations, and former UN ambassador Don McHenry.

But the selection could just as easily be made from the ranks of the career foreign service, as was the case with Mr Cohen.

A common reading is that Clinton is chiefly interested in domestic reform, knows himself to be an innocent abroad, and will therefore seek to place his foreign policy in professional hands.

S Times 11/10/92

Caution

He is smart enough to know that a novice can ill afford to be advised by wheel-reinventors.

An alternative view is that the new president's caution would not extend to Africa, a region so marginal to US interests that it can readily be given to those, like the Black Caucus, who seem to want it most.

Growth or disaster for the economy

S/Times [Buss]

By ZILLA EFRAT

THE economy is at a crossroads — growth or a disaster from which it could take decades to recover.

The key to recovery is an "end to the economic civil war" which has sent business confidence reeling to a 25-year low and slowed spending and investment.

Finance Minister Derek Keys and several economists say growth is technically inevitable next year — if SA suffers no more political setbacks.

11/10/92.

However, Econometrix director Tony Twine warns that the economy is "very close" to being pushed on to a negative growth path.

Three scenarios are generally drawn for SA's future: optimistic, pessimistic or "bumbling along in the middle". For the past few years, SA's economy has been on a middle path from which things could get better or worse.

Mr Twine says the economy could be tilted into the negative scenario if sectional interests continue to be placed above those of the nation.

49

Terms

If this happens, the best-case scenario will no longer be achievable.

"Even the middle-road scenario becomes difficult to get back to or even unattainable."

"Cracks" are on the surface. Political turmoil could open the cracks into chasms and plunge the economy into the worst-case scenario.

One "growing crack" could be further large-scale defection of foreign and domestic capital and the reluctance to offset the depreciation of SA's capital stock.

Another could be a further decline in State revenue collections in nominal terms as economic activity dries up.

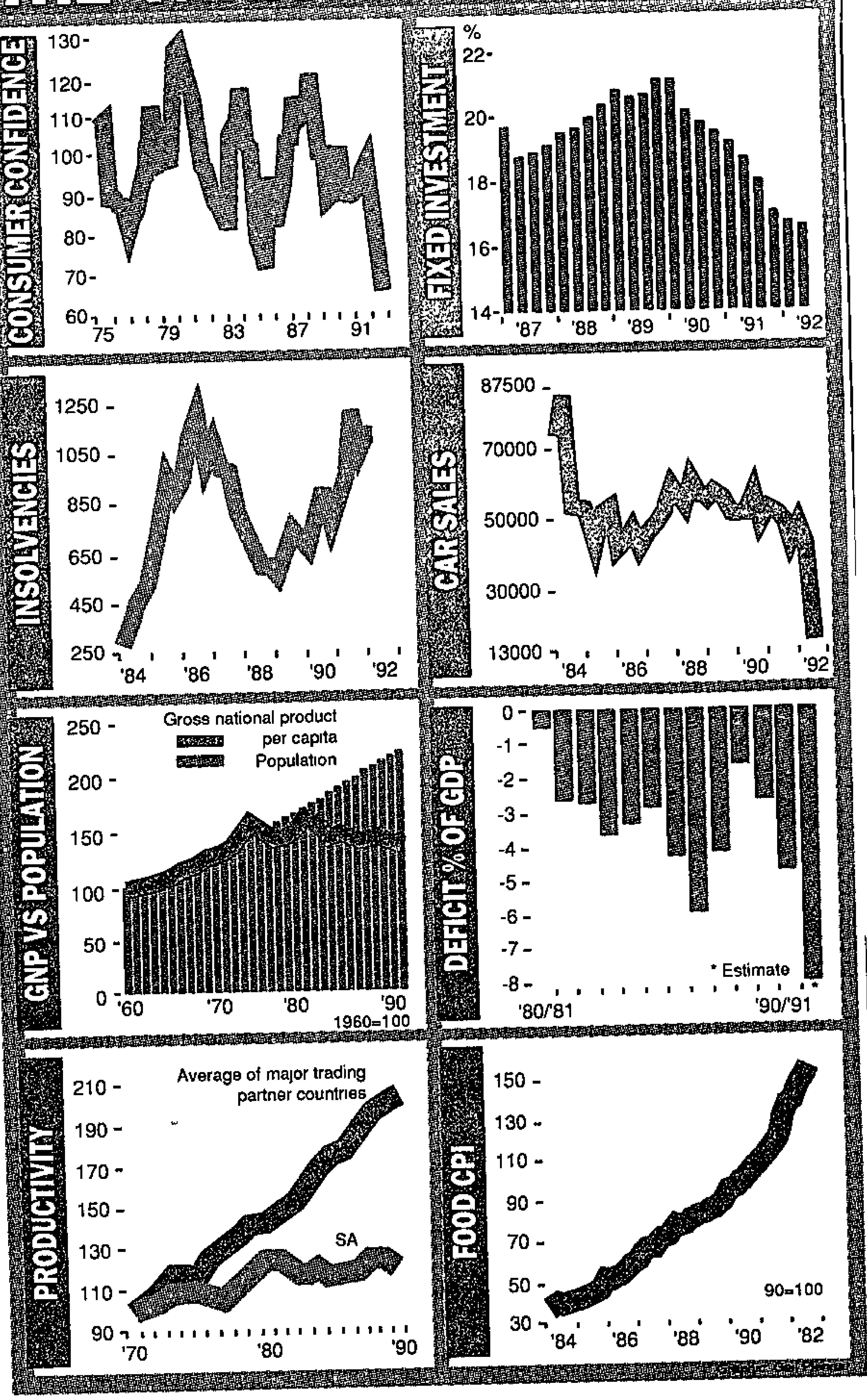
If there are no more negative political developments, economists say SA is in for some growth next year because of the extremely low base the economy has reached.

They expect economic conditions to pick up in the second quarter of 1993 and believe growth of about 2% in gross domestic product is possible next year.

Absa senior economist Adam Jacobs says an upturn in world economies will boost exports and restocking should take place because of run-down inventories.

But Mr Adams warns that the expected growth in GDP will do little to increase employment because capacity and labour are underused.

THE VANISHING ECONOMY



Reserve Bank acts to control size of financial rand pool

STAR 12/10/92

49

By Sven Lünsche

The listing of a South African company on the Johannesburg Stock Exchange (JSE) now needs the formal approval of the Reserve Bank's Exchange Control Department.

In an apparent attempt to control the size of the financial rand pool, the Reserve Bank has issued a number of directives to the JSE.

They were released by the stock exchange authorities as a practice note two weeks ago.

The directives tighten the exchange control requirements for transactions on the JSE, extending their scope to instances which do not necessarily involve off-shore investments on the local equity market.

They come at a time when the stock exchange authorities are appealing to the Reserve Bank to ease exchange controls, thereby allowing wider investments by local companies on foreign financial markets.

The Bank, however, has recently been criticised for granting "without thinking" foreign investment approval to local institutions, leading to volatile trading on the financial rand market.

The charges were reportedly rejected by Reserve Bank Governor Dr Chris Stals, who was, however, critical about the way in which some banks had recently dumped finrands on the market.

The new regulations, described by one company director as Draconian, appear to be an attempt to monitor more closely the involvement of foreign investors on the local market.

The Reserve Bank's assistant general manager, exchange controls, Alec Bruce-Brand, denies that the directives are an attempt to tighten administrative controls, arguing that they simply "formalise existing informal arrangements".

However, the JSE's corporate finance manager Tracy Stewart admits that the scope of the directives took her by surprise.

"The previous arrangement required approval by the Reserve Bank for transactions involving non-residents — this has now been widened to virtually any transaction on the market," Ms Stewart says.

"It appears to be an attempt to halt the recent decline in the financial rand pool," she adds.

In terms of the practice note, the following instances require approval by the Bank's Exchange Control Department:

- The listing of a SA-registered company on the JSE.
- Rights issues by listed companies.
- The delisting of a JSE-listed company.
- The declaration of a dividend in specie or special dividend for any purpose.

This is in addition to the following transactions, which previously required formal approval:

- The acquisitions by non-residents of a cash shell.
- Restructures, mergers and changes in control where non-residents are involved.
- The listing on a foreign exchange of a JSE-listed company.
- The listing on the JSE of a foreign company.

Wanted urgently: business supremo

STAR 12/10/92

49

Debate is in full swing in economic circles on proposals to press the Government to appoint a special national supremo to unleash the full potential of a new generation of small business entrepreneurs. Support for the idea is growing, reports MICHAEL CHESTER.

IT COULD read: "Wanted: Minister of Small Business. Visionary able to identify and encourage radical new approaches to economic growth by unleashing the full potential of small and medium enterprises. A major task will be cutting bureaucratic red tape and cultivating the full co-operation of various government departments. Prospects of Cabinet status for ideal candidate."

No, unfortunately the announcement has not yet appeared in the Government Gazette. But there is a growing swell of opinion in economic circles that it is time it did.

The idea of a specific new ministerial portfolio to encourage the expansion of the small business sector was among the top items on the agenda at a recent conference at Sun City run by the Small Business Advisory Bureau.

The Small Business Development Corporation has long underscored the crucial need for radical new thinking about strategies to bring budding entrepreneurs deeper into the economic mainstream.

The potential role of a Small Business Supremo was first identified when the National African Federated Chamber of Commerce (Nafcoc) invited Eric Forth, as British Minister of State for Employment, to launch the National Industrial Chamber a year ago.

Nafcoc learnt that Britain had already taken the lead by establishing such a portfolio — and Forth had been running it.

The programme introduced special government incentives to create more mini-businesses to test a new path to economic expansion — with the added bonus of lower unemployment. And Forth reported a whole string of successes.

The debate also fired the enthusiasm of SA Chamber of Business deputy director-general Ron Haywood when he heared how Britain had tackled the issue.

He learnt that:

- In Britain, with a member of government of ministerial rank acting as special guardian of the interests of budding entrepreneurs, the small business sector had grown by 30 percent or more in the 1980s. No fewer than 373 000 new mini-ventures had been launched.
- New small businesses, with labour forces of less than 20 workers, had created more than a million jobs over the past 10 years — twice the total scored by larger companies.
- The UK had made dramatic cuts in regulatory red tape to sweep away hindrances to allow faster development of small businesses in the manufacturing and service sectors.
- Self-employment increased by 70 percent — and the number of women in the small business sector doubled.
- Since 1981, no fewer than 28 000 mini-firms had benefited from a loan guarantee scheme by almost R4,5 billion.
- The UK government had ploughed R40 billion into the nurturing of small businesses — and the private sector had topped it with R45 billion in training schemes.

Haywood found that in Japan no less than 60 percent of industrial companies were small businesses, many engaged as subcontractors or jobbers to big business. In Taiwan, the proportion climbed to 90 percent.

"One also sees how the small-business formula is being copied at an increasing pace in more and more Western industrial nations as they find themselves slipping behind their Far Eastern rivals in competitiveness," Haywood said.

"South Africa must follow suit. Even if the creation of a special new portfolio may take time, we desperately need a 'Champion of Small Business' in the corridors of power.

"Fortunately, there have been positive signals coming back from the Department of Trade and Industry. But there are still dreadful frustrations when small businessmen are shuttled from one government department to the next on every move," he said.

Sacob has already set in motion a number of initiatives intended to spur on big business to offer a helping hand to aspirant entrepreneurs — not least in handing many more subcontracts to mini-businesses to tackle the production of components or the provision of a wide variety of services.

Not only has a special Small Business Committee been formed at national level to encourage the process, but scores of individual chambers are being asked to follow suit.

"South Africa still needs as many big corporations as possible to match the international giants by using economies of scale in industry and commerce," said Haywood. "Equally important, though, as proved all around the world, we also need to mobilise all the potential resources of the small business sector. The ideal would be far more balance in the development of big business and small business — more harmony and more pooling of skills.

"We have tremendous resources at our disposal. We usually concentrate on our mineral resources when we weigh our relative advantages in global terms. We need to give a lot more attention to our human resources."

Haywood likes to insert the reminder that when South Africa sells its basic chrome ore in its natural form, it brings in no more than about R600 a ton. If the raw ore were processed all the way to the manufacture of finished products — stainless steel pots and so on — it would become worth tens of thousands of rands a ton.

"The missing link is the required number of factories along the pipeline to handle the gradual beneficiation of the raw material. That's where countries like Japan, with few such natural resources of their own, weave the magic that makes them economic world-leaders.

"South Africa needs to take a new count of its known and hidden resources. The role of small business could be enormous.

"The answer would be the installation of a Small Business Supremo with the clout to clear all obstacles and define brand new ways to tap the full potential of our budding entrepreneurs." □

Bank 'unable to prop up finrand'

BDay 12/10/92

(49).

TIM MARSLAND

THE Reserve Bank would try to spread local finrand transactions over a longer period, but it did not have the reserves to sustain support for the unit, Reserve Bank Governor Chris Stals said at the weekend.

"There will be no change in Bank policy, but we regret what happened to the financial rand over the past few weeks," he said in an interview. "We have learnt from the experience."

The Bank would attempt to slow the pace of finrand purchases by local companies for offshore acquisitions, he said.

The finrand plummeted to its largest discount to the commercial rand and its lowest level against the dollar in six years early last week. Market sources attributed the unit's decline to speculation that deals involving offshore acquisitions by local banks, such as FNB and Standard Bank, were about to be concluded, requiring large forex purchases through the finrand at a time of waning overseas confidence in the SA economy.

The unit lost 31% against the dollar from its September high of R3,70.

Friday's close of R4,32 means the unit is still 16,8% lower than the September high.

Stals was reacting to a report from London stockbrokers James Capel, entitled SA Bonds — Robbing Peter to Pay Paul, written by analyst Jon Bergtheil.

Bergtheil said: "The Reserve Bank should have a serious rethink about the pace of its approvals for such schemes (offshore purchases) because the foreign bond investor may soon become very tired of the game and make a permanent exit instead of simply stepping out of the market until value appears."

Bergtheil said SA acquisitions abroad were the reason for the latest weakness in the finrand.

"Unfortunately, each time that such transactions take place, the SA companies have to acquire their dollars or Deutschmarks via the financial rand mechanism, thereby expanding the size of the "pool" of financial rands, which is detrimental to the price.

"All this is rather galling for the foreign

☐ To Page 2

Finrand

BDay 12/10/92

(49)

☐ From Page 1

investor who has been faithfully investing in the country only to find that the improved trade climate (assisted by such investment-friendly foreigners) is resulting in money moving offshore and weakening the financial rand and the value of the bond investment."

Stals said that while he agreed with James Capel, there was little the Bank could do to support the finrand.

"We will perhaps try to spread finrand transactions out over a larger period. There is not much we can do, but we will be careful in future.

"The fall in the finrand reflects the frustrations we have with these exchange rate controls." He ruled out scrapping the finrand until underlying problems, such as political turmoil, were solved. However, "we want to get rid of the unit when able".

Stals believed a major reason for the fall in the finrand over the past few weeks was uncertainty regarding currencies on the global market.

He understood local companies' enthusiasm to purchase offshore, which secured them offshore trade finance. Local banks had been denied this opportunity for years, so were keen to take chances offered to them. While offshore acquisitions by local companies and political factors contributed to the finrand's fall, he doubted it was the major reason.

"One should not underestimate the effect turmoil on foreign currency markets has had," he said.

One of the unit's problems was that foreigners had R6bn in finrands on deposit at SA banks. This was not invested, and some players held the unit for speculative purposes. He believed confidence in the finrand would return, but it would take time.

Stals said SA bonds still offered attractive yields to foreigners. A bond with a 14% fixed interest rate would yield about 25% to a foreigner, due to the discount between the finrand and the commercial rand.

Foreigners are paid interest on SA bonds in commercial rands, while the unit is purchased through the financial rand

However, he agreed the capital loss incurred when the finrand weakened could outweigh the yield advantages.

Bergtheil said: "Until we see evidence of the Reserve Bank slowing down the pace of approval for offshore investments, we will be advising clients to wait until offered real yields of 8% on the current CPI of 14,3%."

He said SA bonds were offering better value than in August. The Eskom 168 bond offered a real yield of 3,5% during August but presently offered about 7%.

☐ James Capel SA trading desk head Andy McDougall has complained that the report on October 8 misrepresented his views. However, Business Day is satisfied the report correctly reflected McDougall's comments in a telephone interview, and stands by the report.

Communism on the menu at R500 a plate

B|DAY 12|10|92. (49)

RAY HARTLEY

SEVERAL top businesses, including mining houses, have agreed to fork out R500 a head to sit down to a slap-up meal with leading communists and digest their latest views on the economy.

Among those expected to serve up the SACP's new economic policy at Johannesburg's Carlton Hotel on Wednesday are general secretary Chris Hani and chairman Joe Slovo.

The dinner party (or rather, party dinner) will gross an estimated R75 000 for the organisation if all 150 places on offer are sold.

"Looking at the target constituency, I'm sure the R500 is not too high. So far we have had a response rate of more than 50%," SACP regional secretary Jabu Moleketi said.

He said top mining houses including Genmin and Gencor had already indicated they wanted more information and had booked seats at the banquet.

But Anglo American officials have turned down the invitation, saying their CEOs would be "otherwise engaged", proving just how divided business was, he said.

Moleketi said the SACP would use the occasion to get a first-hand taste of what business thought of the party.

The SACP's last fundraising dinner cost guests a mere R200 each, while guests at a recent ANC banquet were charged R1 000, SACP official Nomvula Mokonyane said.

The menu, which is being selected by a special committee of SACP and Carlton Hotel officials, is expected to be the best spread offered by the establishment.

"Businessmen need not worry — it won't be pap and vleis," Mokonyane said.

Worrall slams ANC's 'economic sabotage'

CT 13/10/92 Political Staff (49)

SOUTH AFRICANS were becoming tired of the ANC's "economic sabotage", Democratic Party MP for Berea, Dr Dennis Worrall, said last night.

Dr Worrall said millions of South Africans were realising that the DP was a realistic centrist option.

They were becoming tired of the ANC's split personality — in which some favoured negotiations and others mass action — and the NP's incompetence.

Although President F W de Klerk was widely admired, he was surrounded by incompetents, he said.

Relief on basic foods expected

Keys hints at VAT hike next year

BDAY 13/10/92.

49

FINANCE Minister Derek Keys hinted yesterday government would raise the VAT rate next year but would soften the blow with relief on basic foodstuffs.

Asked in an interview in Pretoria whether there was a chance of the VAT rate being raised, he said: "There has to be. That is why I pointed out that I was in negotiations with the VAT committee on the definition of basic foodstuffs. There is only one reason why one would be doing that."

Asked whether that meant basic foodstuffs would be zero-rated, Keys said he did not want to say too much about it, "but I am quite happy with the way the negotiations are going".

The Cosatu-led VAT Co-ordinating Committee has asked government to zero-rate basic foods. The committee fears VAT will be increased to 16% in the next Budget. Economists believe a rate of at least 12% is inevitable given government's revenue crisis.

Keys said budgeting for revenue from VAT had been difficult because it was a new tax. With VAT having been in place for a year now, government was better equipped to make future projections.

The main reason for lower-than-expected revenue was the weak economy. The economy had been assumed to grow in nominal terms by 15% (a real increase of one percent) and was growing only by a nominal 11%. Adjusted for inflation, it meant the economy would shrink by 2%-3% this year.

Asked whether SA was overtaxed, he said: "For the level of government spend-

GRETA STEYN

ing we have got, we are undertaxed. Look at the deficit. If we want to be more lightly taxed, we need a smaller government."

Government's debt was not yet a problem but "if we went on adding to the debt as we did this year it would certainly become a problem". SA had been incorrectly characterised as a country with low government debt.

The planned cuts in government consumption spending meant attention would have to be given to the way in which key areas such as nursing, teaching and police were run. The programme to cut consumption spending would not, however, affect social spending such as pensions.

Although he could not disclose any details on the economic model before November, he emphasised that cutting government spending was only one element of government's thinking on the economy. The need to increase investment in productive capacity required that measures be taken to make it more attractive to invest.

Investment was important because there were only two sources of growth for an economy — higher productivity and investment in new productive capacity. SA had had virtually no new additions to its productive capacity at the current level of investment.

The economic forum was being hampered by Cosatu's mass action campaign, but dialogue was continuing, Keys said.

On drought aid from the IMF, he noted the finance was not at concessionary rates. SA had agreed to review the situation after next year's Budget "when we can give (the IMF) a clear idea of what our policy is".

World Bank works discreetly to shape SA economic policy

BDAY 13/10/92. (49)

SIMON BARBER in Washington

THE World Bank is emerging as one of the key players in the formulation of post-apartheid economic policy. For the immediate future it will be playing this role not, as some have naively predicted, through the provision of finance, but rather by making available to all parties its vast experience.

At this stage, the bank has no official line on the kinds of policies it wants to see South Africans adopt. Rather, it is assessing the options. Unofficially, of course, it has a pretty good idea of what needs to be done and has quietly been working with the ANC, Cosatu and others to show them why and how.

The assessment process, begun last year, has resulted thus far in three discussion papers — dealing with macroeconomic issues, trade and industrial policies and employment prospects — with a fourth, on public expenditure, due to be completed by the end of the year. In addition, a number of preliminary sectoral reports — on urban issues, for example — are circulating.

An internal summary of work completed as of September 16, as well as that planned over the coming year, provides a useful snapshot of the bank's present thinking. The central question, says the document, is how to "shift the economy onto a higher growth path that is both poverty reducing and sustainable, and addresses current inequities".

The bank's research tends to the "very important conclusion" that there is little scope for "kickstarting" the economy by using government spending to stimulate demand. The problem lies not only with the swelling deficit — now headed for well over 6% of GDP — but because, as surprising as it may seem, the economy now has "fairly limited spare capacity". To use the Budget to promote a consumption-led recovery would entail raised demand for imports and higher inflation.

The preferred approach is to spur domestic investment. This will require a "credible" political transition and an end to "turbulence and uncertainty", backed by "clear rules of the game", a depreciated real exchange rate, and sound fiscal management that keeps the debt burden in check. Solid domestic investment would be a signal for foreign investors to re-engage, and SA could "comfortably" become a "moderate capital importer" — but only "in the context of steady export growth".

"International experience with nationalisation is not encouraging." Better to "broaden ownership of the means of production" by following the example of Malaysia, which maintained overall support for the private sector while using the capital market to expand equity ownership among its disadvantaged Bhumiputera majority. This had "efficiency costs", but created a strong political support base for growth-orientated policies without threatening the private sector.

The fiscal deficit is already too high. Levels above 4%-5% of GDP do not look sustainable without increases in domestic borrowing that would abort needed investment through higher interest rates. Printing money is not sensible. Borrowing abroad would "progressively weaken" the country's foreign reserves.

That said, spending on public services for the black population and for infrastructure in neglected areas does have to be increased substantially. Since "total spending requirements are likely to be far in excess of the finance dividends related to the further dismantling . . of the apartheid system", that means a major reallocation of resources, increased user fees for those who can afford them, and higher taxes.

Preliminary work on expenditure restructuring suggests "there may be little room to raise further revenue from existing sources. Income tax has risen substantially as a proportion of GDP over the past decade, and there are obvious political difficulties in further raising VAT. There may, however, be some revenue to be gained from a revamping of the tax allowances currently received by large corporations."

Historically, the stubbornness of inflation has had more to do with higher import prices than with "deliberate or inadvertent" increases in the money supply. Disinflating will be difficult without maintaining high unemployment, even if the union movement is co-operative on nominal incomes policies. "Moderate" inflation is preferable to higher interest rates. "An appropriate stance could be to live with moderate inflation during the transition, but take strong corrective action if an inflationary acceleration threatens — in SA's case, 20% has the feeling of a good warning bell."

As for the exchange rate, the rand should be depreciated to keep exports competitive and act as a brake on imports. Capital inflows and restored confidence could lead to upward pressure on the currency as investors buy in. This should be counteracted by reducing import protections, relaxing restrictions on capital outflows and abandoning the dual exchange rate.

Even under the best of conditions, prospects for a rapid reduction in unemployment remain grim, with job growth in the formal sector barely moving ahead of labour supply into the next century.

Reasons for present historic unemployment levels include upward pressure on black wages from the unions; a past and ongoing emphasis on capital-intensive "strategic" investments "which could not be justified under rational cost-benefit methodology" (Sasol, for example); the effects of job reservation; and the recession.

Of these, only the recession can quickly be dealt with, and even then the other "inhibitory" factors "are likely to further slow formal employment growth".

There will therefore have to be a major emphasis on encouraging the informal sector, chiefly through the continued removal of regulatory impediments. Government job creation schemes will also be needed, preferably paying below-market wages and targeted at areas where there are "substantial concentrations of surplus labour". Experience shows such programmes to be most effective when tied to infrastructure development in neglected regions.

Training will be a priority but will not, in and of itself, make a substantial dent on unemployment. "There is little evidence that unemployment declines sharply by education among black school-leavers below diploma or degree level." Employment subsidies are a "natural choice", but to avoid over-claiming by employers a national employee registration system might need to be instituted.

Ideally, trade and industrial policy should be geared towards promoting "labour-demanding, outward-orientated expansion", particularly in the manufacturing sector. The question is how that ideal is to be achieved.

The bank's research suggests that SA's comparative advantage over its foreign competitors may be in relatively capital-intensive manufactures, including steel, certain basic chemicals, non-ferrous metals, and pulp and paper products. But is this a result of longstanding distortions and can downstream industries, encouraged in the past by import-substitution policies, flourish and compete without protection?

"Our work suggests that there continues to exist significant competitive potential in upmarket segments of labour demanding activities" — clothing, for example — "although the prevailing set of incentives has inhibited the realisation of this potential in export markets." A separate paper stresses the potential both for exports and employment of high value agriculture linked to land redistribution policies.

In the coming year, the bank proposes to complete a comprehensive model of the economy to get a clearer picture of what levels of fiscal deficit the country can sustain and for how long. It will be also looking at a model to predict the effects of its advice on income distribution.

The bank's advice is not to be treated lightly. The extent to which its counsel is taken or ignored will determine how viable other lenders and investors, both public and private, judge SA to be under its new management. Nor, when the time comes for the bank's directors to decide what specific projects and programmes to support, will they be anxious to back what their experience tells them is a loser.

Worrall slams ANC's 'economic sabotage'

CT 13/10/92 Political Staff (49)

SOUTH AFRICANS were becoming tired of the ANC's "economic sabotage", Democratic Party MP for Berea, Dr Dennis Worrall, said last night.

Dr Worrall said millions of South Africans were realising that the DP was a realistic centrist option.

They were becoming tired of the ANC's split personality — in which some favoured negotiations and others mass action — and the NP's incompetence.

Although President F W de Klerk was widely admired, he was surrounded by incompetents, he said.

Extra factors may put govt deficit at 9%

DIRK HARTFORD (49)

GOVERNMENT's Budget deficit would probably run at about 9% if Reserve Bank foreign exchange losses, homeland government debts and total spending on drought relief were taken into account, Finance Minister Derek Keys told about 300 delegates at Seifsa's AGM last night.

Keys said the deficit, without these factors, currently stood at around 7% — or about R20bn. B/Day 13/10/92

Government's aim was not to make things any worse. But it had avoided trying to reduce the deficit at this time through increasing taxes as this could "smack of panic" and "send the wrong signal".

Even excise duties — which are normally adjusted every six months — had been passed over in the current situation.

But Keys warned government could not go on like this forever. Government spending — which had been going up since the '60s — could be about 22% of GDP this year. Expenditure was about 10% of GDP in the '60s.

He said the Cabinet was united on starting to reduce the level of government consumption spending which, in terms of the country's resources, should be about 16%.

Reducing the deficit would be the biggest single blow government could deliver against inflation.

Keys said if the level of investment could be increased to 25% or 26%, then the extra resources would spur growth by 3,5% to 4%. If private consumption was reduced, growth levels could be higher.

Government's task was to create a situation where these resources were available so the private sector could direct them to appropriate investments.

He said government's economic model, due to be released in November, was based to a large degree on government stepping aside to allow the private sector to develop the economic future of the country.

Keys said he was very interested in development spending, but only if it produced strong growth and did not demand excessive capital spending. He was also very serious about the national economic forum, but wanted to be certain first that all parties were equally serious.

BUSINESS DAY, Tuesday, October 13 1992

FNB blames luck, bad economics and politics

BIDAY • 13/10/92 (49)

HILARY GUSH

ECONOMIC policy should be speedily reassessed and should not be sacrificed to any political agenda, says First National Bank in its latest Business Brief.

"We are currently suffering from the consequences of a poor economic policy record, a poorly structured economy lacking adaptability, much current bad luck due to depressed commodity prices and drought, and general political behaviour which seemingly accepts economic costs as a price to be paid for achieving a new dispensation."

While a slowing pace of destocking — which started over 18 months ago — has been an early harbinger to a cyclical upturn in previous business cycles, the report says "the economic downswing is apparently gaining momentum".

Although Reserve Bank Governor Chris Stals's strict monetary policy does not rule out further cuts in nominal interest rates over the next 18 months, a significant fall in real interest rates is unlikely.

The report says that in addition to the cutback of 30 000 public sector jobs next year, Finance Minister Derek Keys is expected to announce other reforms in the Budget in March.

"It would seem that supply-side reform will feature high on the agenda, particularly the further lowering of the nominal company tax rate (currently 48%), but it is the remaining changes that will be crucial if the Minister were to intend, and succeed, in lowering the budget deficit once more below 3% of GDP."

While signs from the Finance Department point to significant reform of fiscal policy in the next budget, changes in industrial and trade policy are not clear-cut.

A reduction in import protection, a change in export promotion policy, and revision of incentives to boost private fixed investment are some of the structural changes needed.

The report says that with political transition there will be a transformation of SA's industrial structure and foreign trade potential. A normalisation of external financial relations is bound to follow.

"The lifting of the foreign debt moratorium, the ending of the dual exchange rate regime, and the eventual liberalisation of exchange control, all appear to be on the agenda. In turn, this could eventually imply a more open financial market system integrated more fully with international realities, and dictating higher real rates of interest than currently prevailing in what remains an artificially closed domestic system."

'Major change' with Budget

CT 13/10/92 (49)

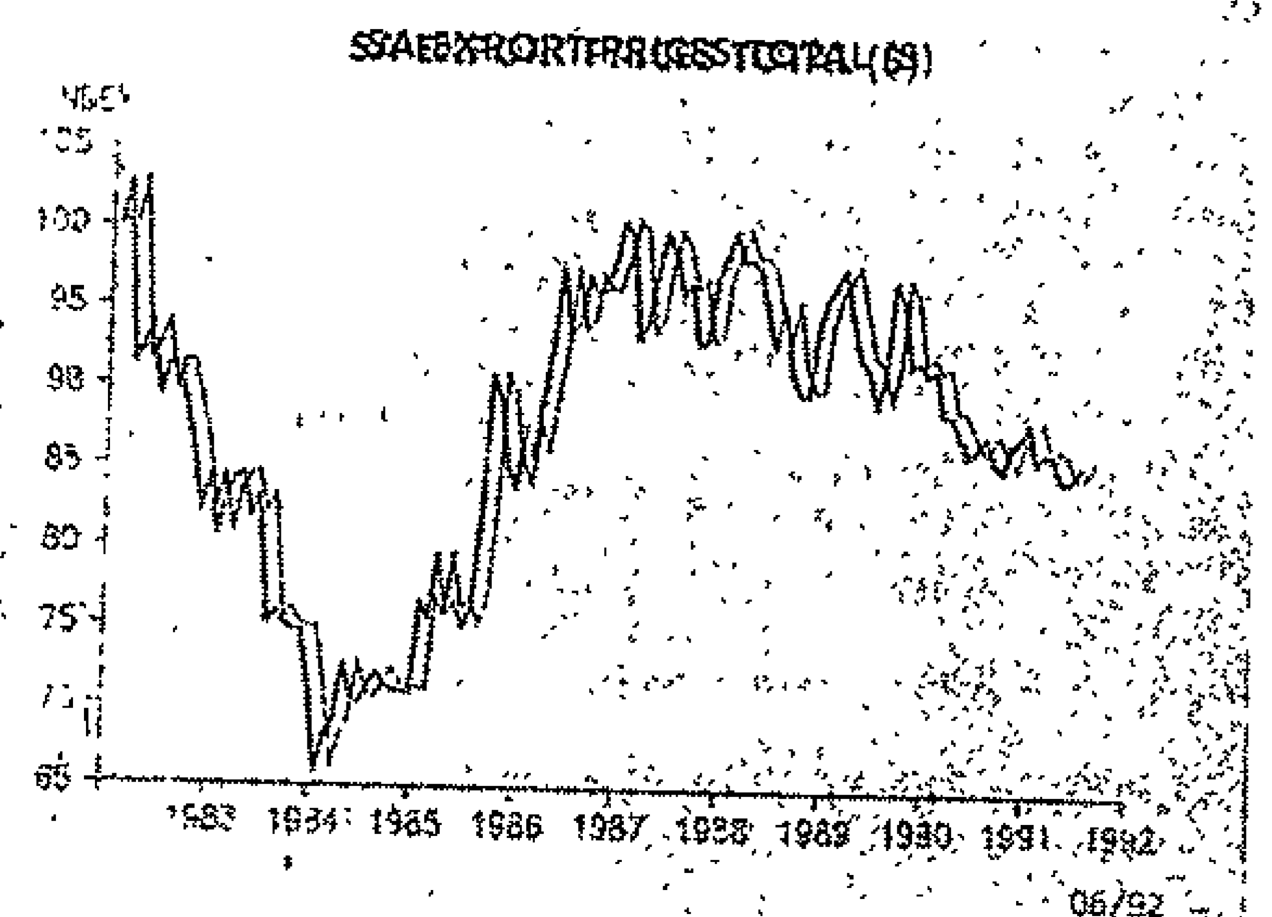
By AUDREY D'ANGELO
Business Editor

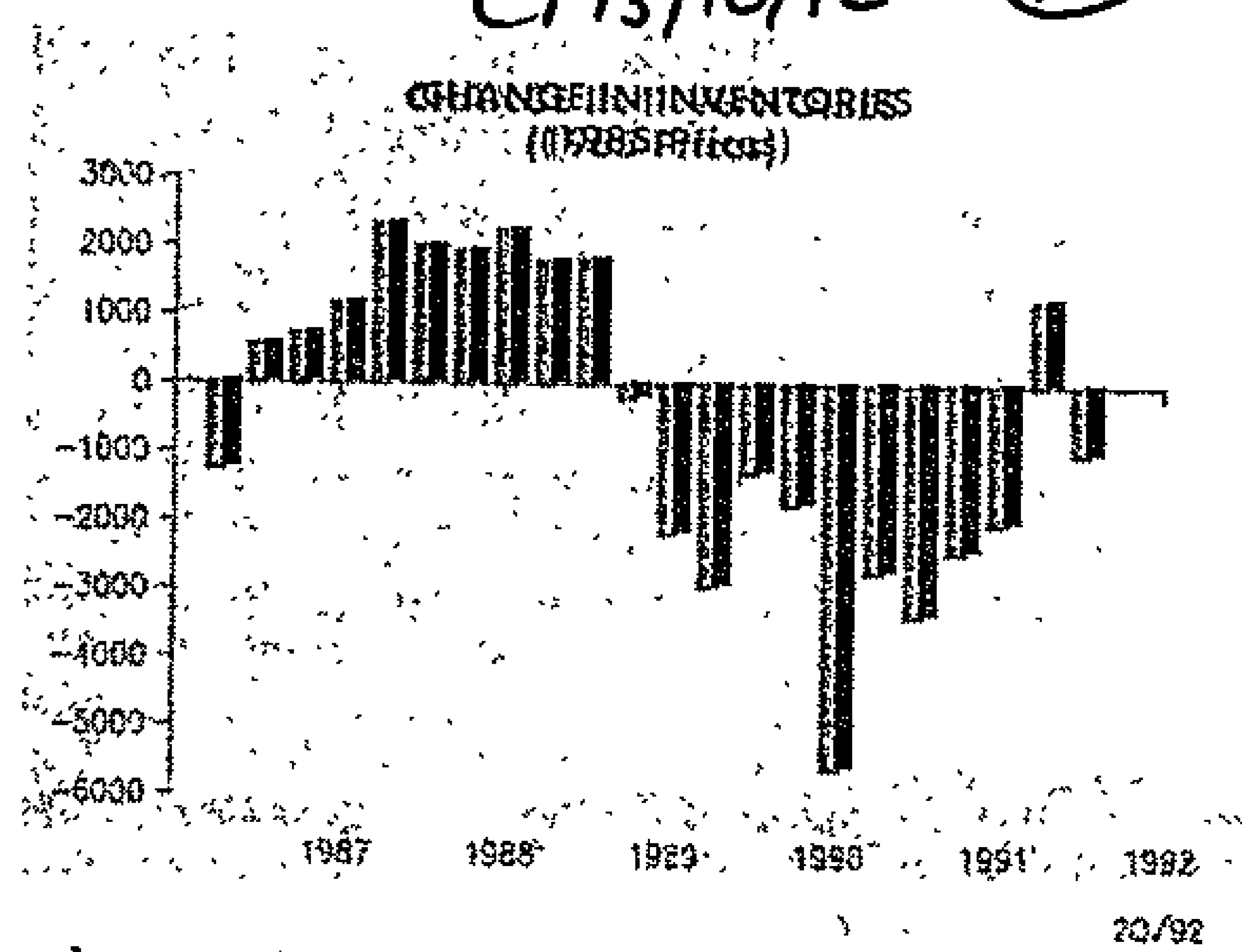
THE Budget next March is likely to bring "a major change in course" for the economy, First National Bank chief economist Cees Bruggemans forecasts.

And he thinks the Minister of Finance, Derek Keys, may be prepared to risk prolonging the recession by starting to cut down the public service even if unemployment in the private sector is still high.

If that happens, he warns, "only a more normal rainfall pattern, higher commodity prices, induced investment projects and improved exports may then eventually start to lift the economy out of recession."

The Government has made it plain that it will not impose a restructuring of the economy without adequate consultation with other parties.





This has already started to take place and the ANC and Cosatu are expected to give their views in next month's debate on the economy.

Bruggemans says in his latest Business Brief that he expects the Budget in March to address monetary stabilisation, Government spending and tax reform as the start of an agenda spreading over several years.

He also expects changes in industrial and trade policy. These will include a reduction in import protection and changes in the way in which exports and private fixed investment are encouraged.

"It would seem that supply-side reform will feature high on the agenda, particularly the further lowering of the nominal company tax rate, currently 48%.

"But it is the remaining changes that will be crucial if the Minister intends to lower the budget deficit below 3% of gross domestic product (GDP)."

Stressing the urgent need for these, Bruggemans says that although there have been many hints over the past few months about impending changes in trade and industry policy, few have so far been made.

"Yet many of the crucial structural changes will have to be initiated here, including a reduction in import protection, a change in export promotion and the manner in which fixed private investment will be promoted generally.

"While sequencing of so many and such important policy reforms is inevitable, it is to be hoped that time remains of the essence rather than being sacrificed on one or more political timetables.

"While — contrary perhaps to all appearances — our social fabric remains fairly robust and our economic potential largely undented for the moment, there are limits to anyone's capacity to absorb abuse indefinitely."

Formula to transform economy

STAR 14/10/92. (49)

Researchers at the University of Pretoria have compiled an economic package which argues that State spending can be cut by billions of rands a year — and still leave room for dramatic improvements in vital social services. They contend that radical new economic strategies are needed, reports MICHAEL CHESTER.

A THINK TANK at the University of Pretoria has spotted what it believes to be a formula to transform South Africa into an economic powerhouse

In an exercise sponsored by the Small Business Development Corporation, the Department of Economics at the University of Pretoria has examined the ailments that have flattened economic performance.

The treatment the Pretoria think tank recommends is drastic. But the researchers believe it is a formula that would give South Africa the chance to spin the kind of economic miracles woven by a growing list of Far East countries — now joined by such former midgets as Singapore and Malaysia.

First on the agenda, says the new study, must be to cut government spending That must go hand-in-hand with a reshuffle of priorities.

It takes as an example the leap in government expenditure that carried the total to more than R85,6 billion in the 1990/91 Budget year It was not only the new record that bothered the researchers, it was also the shape of spending patterns

The researchers are convinced the total could have been cut by as much as R7,7 billion — and still leave scope for improvements in key social services

The cuts would have affected general government bureaucracy, with spending slashed from almost R30 billion to less than R12 billion. Spending on defence would have been more than halved, dropping from around R17 billion to under R8 billion, the researchers say

The savings could have been used to boost education, housing and health services

In particular, Budget allocations to economic services would have risen from about R7 billion to over R15 billion.

The proposals would be aimed at reversing an erosion in living standards that the researchers have traced to the 1960s

Large-scale deregulation should be undertaken to remove all obstacles in the way of a new generation of business entrepreneurs

Turning a flow of Budget deficits into a run of Budget surpluses would also lower interest payments on government debts.

Among priorities listed is the urgency of a reversal in taxation on company and individual taxpayers.

Also on the agenda are moves to increase South Africa's share of world trade, which, in spite of recent export successes, have slipped from 1,7 percent in the 1960s to 0,7 percent. The Pretoria researchers believe the aim must be to lift it to at least 1,1 percent in the next three years.

That means lowering of protective tariff barriers and cheap imports.

All import quotas should be abolished to clear the decks for more open competition — and, hopefully, lower prices

That should be accompanied by a general readjustment of export incentives

The researchers say exports by the manufacturing sector were the basis of the economic miracles achieved by countries in the Far East, many of which started from way behind South Africa not so long ago but have now zoomed ahead.

The researchers also propose scrapping exchange controls, if necessary letting the rand exchange rate drift lower to levels that would discourage capital outflows on one hand and encourage more exports on the other.

Once the exchange rate has found a new base, monetary policies should move in to hold it stable at its lower level

The University of Pretoria report proposes that while the rand is allowed to weaken on the currency market, to set course for an eventual return of foreign investment, domestic interest rates should take the opposite direction and be allowed to go higher than rates quoted overseas — at least in real terms, taking inflation into account

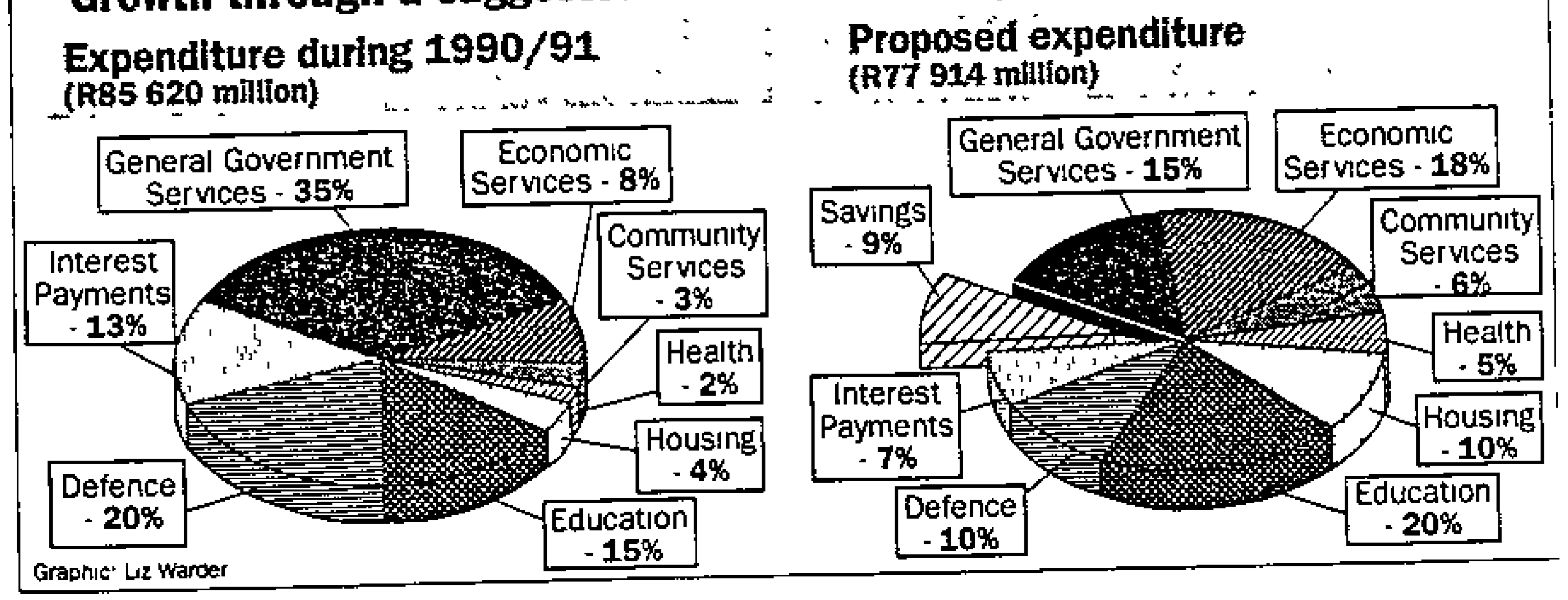
For the next few years, real rates in South Africa should be pitched at least a few percentage points higher than rates in the leading overseas industrial nations, bringing about a reversal of capital outflows to investment inflows.

The longer-term objective would be a far lower inflation rate. The researchers believe that though their package of proposals could mean an initial increase in inflation, the annual rate would in turn dive to well below a modest 5 percent by 1995/96

But another essential item was calling a halt to the chronic upward curve of production costs, as measured by the cost of labour in each end-product "The labour scene needs to be depoliticised," says the team, "and urgent attention must be paid to a general increase in productivity"

The researchers believe that South Africa is packed with potential as a tourist magnet At the moment, with no more than 0,02 percent of the international tourism market, income is running at about R2,7 billion a year

Growth through a suggested redistribution of government expenditure



Graphic: Liz Warder

The rewards for a bigger slice of the market are enormous Even a 0,06 percent share of the world total would boost income by between R5 billion and R6 billion An 0,25 percent share — still well below the average of overseas tourism leaders — would boost annual income to no less than R24 billion.

The think tank has published its scenario, entitled "Requirements for economic growth and development in South Africa"

Professor G L de Wet, who led the research team, is convinced that mapping out new strategies has become vital if South Africa hopes to cope with a mountain of longer-term socio-economic demands

"We don't expect the proposals to be popular with everyone," he says "The medicine could taste bitter in the short term in various circles But we believe the end-results would justify such drastic action"

That is underlined in estimates of the longer-term impact. The economic growth rate at the moment has fallen below zero The think tank forecasts it could be running abreast of the Pacific Rim economic tigers at a formidable 7,2 percent a year between 1995 and 2002 — if South Africa bites the bullet. □

Angolan Interior Minister Francisco Paiva, right, welcomes Pik Botha to Luanda. Picture AP

Pik bears message from Savimbi to Dos Santos

BDAY 14/10/92

RAY HARTLEY

FOREIGN Affairs Minister Pik Botha was scheduled to deliver a message from Unita leader Jonas Savimbi to Angolan president Jose Eduardo dos Santos last night in a further bid to defuse growing tension in Luanda.

Foreign Affairs official Gary Scallan said yesterday Botha was also scheduled to meet Luanda's Catholic bishop Cardinal de Nacimento, who could also play a mediating role, later last night.

Botha met Unita leader Jonas Savimbi in Huambo, central Angola, earlier and could extend his stay beyond today to hold a further meeting with Savimbi, he said.

"At this stage Minister Botha's trying so hard to collect all the data he can. He had his first meeting at 2.30am this morning," Scallan said.

BILLY PADDOCK reports that US Assistant Secretary of State for African Affairs Hank Cohen said yesterday in Johannesburg the US and SA had agreed on a common policy towards the Angolan election results and the course of action to be followed to prevent a return to war.

He and Botha had vowed to support the UN decision on whether the election was free and fair and had agreed to urge Savimbi to accept the results.

It was unfortunate that Savimbi had questioned the validity of the elections instead of submitting his allegations to the UN.

He confirmed that the US would establish relations with a government emerging from a free and fair election.

Scallan said UN officials took "a very very wise decision" not to release the election results yesterday.

He said the situation in Luanda had calmed down substantially after restless Angolans were told the results had been delayed. However, sporadic gunfire could be heard on the outskirts of the capital.

Sapa-Reuter reports that two people were killed in Luanda on Monday night, and that yesterday Unita troops mobilised in at least five provinces.

Scallan said there had been a substantial reduction in the number of SA businessmen visiting the capital since tensions flared at the weekend. SAA had "acted pre-emptively" in cancelling a scheduled flight to Luanda on Monday. The move had created the wrong impression about SA's commitment to African countries, he said. The cancellation had left 126 passengers stranded at the airport.

He could not confirm reports Britain had decided to evacuate all non-essential personel from their embassy yesterday.

Scallan said seven Angolan parties supported Savimbi's accusations of electoral fraud.

Development policy for SA on the agenda

13/10/? 14/10/92

KATHRYN STRACHAN

A CONFERENCE on development and democracy in sub-Saharan Africa, convened jointly by the Africa Institute of SA and the Institute for African Alternatives, begins at the Balalaika Hotel in Sandton today.

Academics and policymakers from countries throughout Africa will attempt to map out a new development path for SA.

A spokesman for the Institute for African Alternatives said there were important policy pointers that could be derived from Africa's experience with democracy in the post-Cold War era and with their development efforts since gaining independence.

Topics to be ~~debated~~ include renewing and restoring democracy in Africa, the role of the state and the civil service, growth with equity in regional co-operation, and the need for development-orientated government.

49

Revolution in business

1604 ~~30~~.(49)

Sowetan 15/10/92

■ Move away from Marxism to entrepreneurship:

By Joshua Raboroko

A SILENT revolution is taking place in South Africa. This is the growth of small business, according to Mr Clem Sunter, chairman of Anglo American's gold and uranium division.

Addressing senior executives of 120 South African corporations in Johannesburg at the weekend, he said two trends had emerged around the world during the 80s.

These were the move away from collective Marxist ideologies and the move towards entrepreneurship.

"The fastest growing sector of the British economy is self-employment," he said.

He noted that in Khayalitsha in the Cape Province, for instance, 70 percent of dwellings had a backyard business and that the annual turnover on those 3 000 hectares of sand dunes had been estimated at R74 million a year.

"This just shows," he said, "that if we unlock the door to entrepreneurship we will find the High Road to development in South Africa."

Sunter said that a "dual logic" economy was developing in South Africa. It was necessary to have big business that could undertake the large projects and compete with big corporations in other countries.

Big business could also provide an important multiplier effect, opening the way for many local sub-contracting opportunities.

It was important to create a ladder of opportunity for all South Africans so that people of ability and ambition could climb from the bottom micro-business rung all the way to the Johannesburg Stock Exchange.

Small Business Development Corporation managing director Dr Ben Vosloo told the executives South Africa needed to cultivate a value system based on individualism, private ownership and self-reliance.

'£300m to bypass finrand hurdle'

Foreign loan to fund Del Monte deal

BDay 15/10/92. (49)

MARCIA KLEIN
and GRETA STEYN

FEARS of a crumbling financial rand exchange rate had prompted Royal to finance a major portion of its Del Monte Europe acquisition with a huge foreign loan — speculated to be £300m, sources said yesterday.

They said the terms of Royal's offshore acquisition of Del Monte — through Royal Foods (Royfood) and possibly in conjunction with Anglo American and Minorco — had been restructured as the Reserve Bank had indicated the entire deal could not go through the finrand.

Reserve Bank senior Deputy Governor Pierre Groenewald confirmed the Bank was considering Royal's request to allow it to finance part of the deal with a foreign loan. He said a decision would be reached in the next few days.

It was believed that Royal wanted to finance R1,3bn of the deal through the finrand, but it would now make use of offshore borrowings.

There was speculation earlier this week that the Reserve Bank would prevent Royal from using the finrand as it would result in a collapse of the market.

A market source said Royal had at the start of negotiations arranged a £300m credit line in London as bridging finance and had originally intended to repay £185m via the financial rand. It had now arranged to defer repayment of the loan for two years.

Groenewald confirmed large amounts were involved but could not provide details.

He denied market talk that the Bank had exerted pressure on Royal to structure the deal differently, saying the finrand transaction had been approved in principle and the company had approached the Bank after the currency had weakened sharply.

There was concern yesterday that any sign that the finrand would weaken on such a huge call would see speculators and jobbers sell short. This would mean the Del Monte deal would cost more than Royal thought.

The finrand reached a six-year low of R5,12 in intra-day trade at the beginning of the month as SA companies expanding overseas put selling pressure on the unit. It has bounced back sharply and closed yesterday at R4,39 after trading in a tight range of R4,44-R4,35. Dealers said there had been little sign of Reserve Bank intervention to strengthen the unit over the past few weeks.

There was speculation that Royal had started buying back finrands because it had decided to restructure the deal.

Bankers said the weak finrand had caused companies planning to follow overseas acquisitions to rethink. Reserve Bank Governor Chris Stals was this week quoted as saying the Bank would try to spread finrand transactions over a longer period and that the Bank had "learnt from the experience".

It has been speculated that the acquisition of Del Monte Europe, which has been estimated at between R1bn and R3bn, would see Anglo acquire control of Royfood and Del Monte.

Analysts said yesterday it was possible that Royal chairman Vivian Imerman,

☐ To Page 2

Del Monte

BDay 15/10/92 (49)

☐ From Page 1

who would have a significant stake of the Royal/Del Monte group, could be bought out following conclusion of the deal. Imerman could not be contacted for comment yesterday as he was abroad.

Yesterday Royfood's share dropped 20c or 2,3% to 830c on expectations that the finrand problems may cause a delay in the deal, or cause Royal to pay more for Del Monte than originally anticipated.

But a source said it was expected that the acquisition would go ahead in a different form, with Royal finding another way around the finrand problem.

He said the deal was massive and complicated, and was "still at the touch and go stage".

However, an announcement was expected as soon as this weekend.

Economy is on thin ice Sacob's director says

Sowetan 15/10/92 (49)

By Joshua Raboroko

■ Urgent meeting needed to discuss worst-ever crisis:

THE South African Chamber of Business has called for an urgent conference between major economic, labour and other players to discuss the country's declining economy.

Sacob director-general Mr Raymond Parsons told a media briefing in Johannesburg that the economy was "on thin ice and dangers of an accelerating downturn are worse than they have ever been".

He proposed that the summit be attended by the Finance Minister Mr Derek Keys, Governor of the Reserve Bank Dr Chris Stals, labour, government representatives, business and policy makers.

He added that the conference should be broadly represented, with almost every organisations involved There was an urgent need for a "mini summit" to discuss the waning economy and rebuild confidence, he said

"The present debate on the short term outlook is to diffused. Discussions on the route the South African economy should take in the short term need to be the least controversial of all economic debates, as it leaves aside the long term decisions on restructuring."

Moving forward

Parsons' proposal comes in the wake of calls from business, trade unions and political sectors last week that the creation of a national economic forum was important and a positive step.

Speaking at a conference in Johannesburg, Southern Life assistant general manager Mr Martin Sweet said he welcomed the establishment of a national economic forum but warned that South Africa should be aware that such a forum could become a cartel of economic elites.

"South Africa's economy is poor and urgent steps must be taken to drag it out of the quagmaire," he said.

Problem-solving

IFP national chairman Dr Frank Mdlalose said: "We must seek solutions to South Africa's problems We need to look beyond the cyclical downturn, political impasse and damaging impact of economic isolation."

ANC economist Mr Tito Mboweni said the economic outlook for the country was closely linked to the political and social outlook

"If we can successfully make the major transition, our economic outlook will be better than many would have expected," Mboweni said.

PAC economist Mr Sipho Shabalala said the economic, social and political history and conditions were at their most critical.

BUSINESS Economists and businessmen pessimistic about near-future prospects

Economic recovery may be slow

Sowetan 15/10/92

49

By Joshua Raboroko

■ **Economists forced to review next year's predictions because political instability has thwarted growth:**

THERE is a strong possibility that the expected economic recovery of 1993 will be weaker than predicted, says Dr Cees Bruggemans, group economist of First National Bank in an article written for the Rode Report on the SA Property Market.

Developments of 1992 are starting to throw a shadow over 1993. Even if the coming months were to show that the political negotiating process has not irretrievably broken down, it may prove difficult to get the economy off the ground soon.

Indeed, it looks possible that the first half of 1993 will remain weak and that a slow recovery may materialise later next year."

According to the report, it would put paid to a number of things; employment may not recover fast, and wage increases may struggle to keep pace with inflation.

While many economists have scaled down forecasts for 1992, few have done so for 1993.

A minority see GDP growth of one percent next year.

Survey says SA should cut controls on trade

B DAY 15/10/92 (49)

THEO RAWANA

SA COULD achieve an average growth rate of more than 7% if it adopted outward-looking trade and exchange rate policies, a study conducted for the SBDC has found. Policies should also be orientated towards the private sector.

The findings, contained in the latest issue of Focus on Key Economic Issues, are the culmination of a comparative study by Pretoria University's Economics Department of developing countries' economic performance over the past 30 years.

Titled Requirements of Economic Growth and Development in SA, the survey concludes that unsuccessful economies are characterised by a heavy protectionist approach and an inward-orientation. Their governments also play a larger role than those in successful economies.

"Outward-orientated policies are characterised by low or no foreign trade controls, strong export incentives, very few domestic control measures and by maintaining stable and non-overhauled real exchange rates," the researchers say.

"Combined with broad institutional structures that favour decentralised, private decision-making, countries like Hong Kong, Korea, Singapore, Taiwan and Thailand have outperformed even the developed, industrial countries in two important aspects: their higher growth rates for exports and real per capita income."

In contrast SA, Australia, Argentina, Chile and Peru applied inward-orientated policies of a protectionist nature, direct control measures in their domestic economies, overvalued exchange rates and weak export incentives.

"As a result they have fared increasingly worse than the developed, industrial countries in respect of export growth and growth in real per capita income.

"In addition, the ratio of capital to output has increased in these inward-orientated countries, while a decrease has taken place in the outward-orientated ones."

The survey found that economic welfare in SA did not start to decline in the late '70s as generally presumed, but, judged by real per capita income, had already started during the second half of the '60s. The rate fell from 3,3% on average during the 1960s to 0,4% during the 1970s, to -0,5% during the 1980s, and -2,7% in 1990 and 1991.

"This is not surprising considering that SA's share in world trade (and) the inflow of direct foreign investment have steadily declined over this period, while the government's percentage share of resources has doubled," say the researchers.

"It has been calculated that the average annual real growth rate could rise from its present level of 0,5% to 7,2% between 1995 and 2002 should SA succeed in raising its share of world trade from the present level of 0,7% to 1,1% over the same period."

The survey says that a policy approach to sustained growth and development can only be modelled on the economically successful, outward-looking countries.

Economy needs a new political style

BDay 15/10/92

(49)

DAWIE DE VILLIERS

VETERAN British Labour politician and minister Sir Dennis Healy said that the first rule of politics was: "If you find yourself in a hole, stop digging."

When we consider the economic circumstances in SA there can be no doubt that we find ourselves in a hole — a deep one. We must not only stop digging: we must get ourselves out of the hole.

Various reasons can be advanced as to why the economy finds itself in this weak position — in particular the appalling drought conditions; the slow recovery of the world economy; high inflation over a protracted period; continuing violence, and so on. However, as long as the political uncertainty in our country prevails, the likelihood of any meaningful economic recovery will remain remote.

The economy does not function independently of developments in other areas. It is integrated with daily events and political developments. The economy has reached a stage where political developments probably exercise a greater influence on

If political parties do not care about what happens to the economy, they must carry on as they have been doing. If they care, and are particularly concerned for the millions of unemployed, then they must drastically review their conduct. Only they can reverse the negative trends by fundamentally changing the economic and political enviroment.

There is a simple, though extremely important, criterion against which the statements and conduct of political roleplayers can be measured. Are they solution-orientated?

It is not whether they have reasons to say what they say or to do what they do. It is not whether it falls within their democratic right to say that or do so. It is whether it contributes to creating a climate which is conducive to the search for solutions.

Inflammatory statements have become the order of the day. The politics of negotiation have been replaced by the politics of demand. Week after week the country experiences the debilitating effect of disruptive mass actions. The powers of toyi-toyi are preferred to the powers of talk-talk, and in this process — not surprisingly — the economy continues to decay.

What has happened to the spirit of tolerance which prevailed in the early days of the transition — the tolerance which characterised most of Codesa? Why has it vanished? Tolerance of political opponents; of diversity; of each other and the other man's point of view.

An article on American values in The Economist of September 5 states: "Modern America shows all too acutely the dangers that arise when a nation of many peoples, beliefs, races and traditions keeps to the rallying cries of liberty, equality and happiness, but neglects the glue of mutual regard, attention and respect."

Amended to reflect on our own situation, this statement could read: "Our situation shows all too acutely the dangers that arise when a nation of many peoples, political parties and organisations, races and traditions keeps to the rallying cries of liberty, equality and happiness, but neglects the glue of mutual regard, attention and respect." We must have tolerance if we wish to create a climate conducive to negotiations and economic recovery.

Every constructively minded and responsible politician ought to ask most earnestly what steps he and his party can implement to constrain further economic decline and unemployment. What can be accomplished with a view towards restoring confidence and improving the economic climate?

The misimpression prevails in certain extra-parliamentary circles that the economic decline can be turned around once a new government has come to power. The tragic fact is that the erosion of the productive capacity of our economy is not a phenomenon which can be rectified with alacrity. The damage remains, some of it permanently.

It might take years to resuscitate the economy, even under the most favourable circumstances. If the productive capacity of the economy is eroded extensively, any possible recovery would be extraordinarily difficult, very protracted and a virtually impossible task.

There are many examples throughout Africa which warn of what can happen if matters are allowed to drift too far.

☐ **This is an edited version of a speech delivered by Public Enterprises Minister De Villiers in Parliament this week.**

NOBEL PRIZE (49)

FM 16/10/92

Wages of crime

Gary S Becker, awarded the 1992 Nobel Memorial Prize in Economic Science, has been called an "economic imperialist," says Wits business economics lecturer Henry Kenney, "because he applies economic analysis to aspects of human behaviour normally regarded as the sole province of the other social sciences.

"For instance, Becker's analysis has been applied to a number of areas of which the 'economics' of crime is one of the better known.

"Individuals respond to changes in price — in this case, punishment — just as they respond to changes in the price of goods. When the 'price' of a criminal act is raised, its perceived value may be reduced."

Becker, a professor at the department of economics and sociology at the University of Chicago, assumes individuals — and also units such as households, firms, and other organisations — behave rationally.

The Royal Swedish Academy of Sciences, which awarded Becker the US$1,2m prize, says: "Becker's analysis has often been controversial and hence, at the outset, was met with scepticism and even distrust. Despite this he was not discouraged, but persevered in developing his research, gradually gaining increasing acceptance."

George Stigler, 1982 winner of the prize says of Becker: "He may go down in history as chief architect in the designing of a truly general science of society."

Becker, affiliated to the Hoover Institution at Stanford University, received his doctorate from the University of Chicago in 1955. He was professor at Columbia University from 1957 to 1968 and affiliated with the National Bureau of Economic Research from 1957-1979. He was president of the American Economic Association in 1987.

He is the 19th American to win the prize which has been awarded 32 times since 1969. ■

80% of deficit financed by govt

CT 16/10/92 (49)

PRETORIA. — The government has financed almost 80% of the expected 7% budget deficit in the first six months of the 1992/93 financial year, according to the director general of Finance, Gerhard Croeser.

He said yesterday the higher deficit than budgeted for of 4,5% resulted mainly from the longer and more intense than expected economic recession.

Due to almost 80% of the financing programme being completed, there should not be any further upward pressure on the capital market for the remaining part of the financial year.

The financial markets had already greatly discounted the increased deficit of the budget, he said.

The difference between exchequer issues and receipts amounted to R13,530bn for the period April to September. Adding R5,363bn in total redemptions, the total financing requirement (excluding exchequer bills) was therefore R18,893bn.

Total exchequer issues during the first half of the financial year were R49,804bn, 18,1% more than for the same period last year at R42,154bn.

However, Croeser said "conclusions regarding the eventual outcome of expenditure should not be drawn from these figures, as almost no seasonal patterns appear in exchequer issues from year to year".

Total exchequer receipts from April to September this year of R36,274bn were 4% higher than the corresponding period last year when receipts amounted to R34,916bn. — Sapa

Government borrowing keeps soaring

BDM 16/10/92

GRETA STEYN (49)

GOVERNMENT has, after only six months, borrowed almost R4bn more than budgeted for the full fiscal year, figures released by the Finance Department yesterday show.

A statement showed government had raised R22,4bn from the capital market. The extra borrowing is needed mainly because of the weak revenue situation.

The statement indicated there was only a slight improvement in the revenue position in September after a particularly bad month in August. For the fiscal year so far, revenue is up only 4% on the previous year against a budgeted 15,7% Income tax and VAT were "much lower than budgeted".

The Budget deficit is now expected to reach 7% of GDP this fiscal year compared with a budgeted 4,5%. The Finance Department said the main reason for the higher deficit was the "intense" recession,

☐ To Page 2

Borrowings

BDM 16/10/92 (49)

☐ From Page 1

that had lasted longer than expected.

"The influence of this on the exchequer receipts during the first six months of the financial year is obvious," the statement said. In the September quarter, revenue was down slightly from the previous fiscal year, implying a huge drop in real terms.

On spending, the increase for the year's first half was 18,1% against a budgeted 16,5%. The statement cautioned against concluding this pointed to an overrun for the full year of a similar magnitude.

The statement said government had completed almost 80% of the higher financing programme. It noted financial markets had already greatly discounted the Budget's course, and further upward pressure on the capital market rates for the rest of the financial year was unlikely.

OFFICIAL: SA under-performs

S Times (BUSS) 18/10/92 (49)

By KEVIN DAVIE

SOUTH AFRICA has emerged as one of the main under-performers of the latest World Competitiveness Report.

The report ranks 37 industrialised and newly-industrialised nations.

South Africa, which is included in the annual study for the first time, is ranked eight of 14 developing economies, narrowly ahead of Venezuela.

Singapore, Taiwan, Hong Kong, Malaysia, Korea, Thailand and Mexico were found to have more conducive environments to promote global and domestic competitiveness.

The report is a joint annual project by the World Economic Forum and IMD, a Lausanne-based management development school.

The ranking looks at eight key variables:

- Domestic economic strength;
- Internalisation;
- Government;
- Finance;
- Infrastructure;
- Management;
- Science and technology; and People.

SA achieves relatively high rankings on only two of these criteria. It is ranked fourth in finance, the performance of capital markets and the quality of financial services.

Dismal

SA gets the second-highest developing country ranking in science and technology.

But SA's performance on several of the other criteria is dismal. SA is ranked 12th in terms of the strength of its domestic economy, just ahead of 14th-ranked Hungary, now reforming after years of socialist rule.

SA is 10th on participation in international trade and investment flows and 10th on the extent to which government policies are conducive to competitiveness. It is last (14th), after Pakistan, on the people measure, which describes the availability and qualifications of human resources.

"The challenge is to spread its competence, skills and educational basis among the population," the report says.

Some points of SA's excellence are identified by the report. South African managers consider themselves the most willing to delegate, co-operation between universities and companies is only behind that of Singapore, and SA, Singapore and Malaysia come out tops in the protection of intellectual property.

Japan is the industrialised world's most competitive nation, with Germany holding second position. The US slips from second to fifth. Switzerland holds third spot, with last year's top performer, Denmark, moving from eighth to fourth.

The report says Denmark's improved rating comes from the confidence Danish executives have in their economy. This is supported by the underlying economic data, which shows that the domestic economy climbed from 11th to 8th place among industrialised countries.

Urgent

Competition Board chairman Dr Pierre Brooks says the report shows that there is an urgent need for the reappraisal of the competitive environment in SA.

"It is clear there are deficiencies in the system which need to be remedied as a matter of urgency. A comprehensive reappraisal of the situation is necessary."

Exchequer under budget

S Times (Buss) 18/10/92

EXCHEQUER issues in the first six months of this year were 35,4% greater than revenue collected, said the CSS on Friday. (49)

It was 21% higher during the same period last year. The report shows revenue collected only 43,7% of the budgeted amount, compared with 47,4% for the corresponding period in 1991.

Expenditure in the first six months of 1992 was 16,6% higher than the year before, while revenue collected only rose 4,2%.

Economists pessimistic about unemployment

B(DAY) 19/10/92

(49)

PRETORIA — The critical unemployment problem continued to worsen between March and June this year, Central Statistical Service figures show.

Economists say there is little hope of the increase in the number of workless slowing before deep into next year, and then only if the political situation improves.

CSS figures in the three major areas of employment — mining and quarrying, manufacturing and construction — show the number employed declined by nearly 8 000 in the four months.

In mining the total employed dropped by 17 500 to 603 401, in manufacturing by 15 500 to 1 394 419 and in constuction by 4 700 to 373 600.

Earlier this week in Parliament, Public Enterprises Minister Dawie de Villiers said employment in the formal sector was estimated at 7,8-milliom — 57% of the economically active population.

GERALD REILLY

Absa senior economist Adam Jacobs said even if the recession hit bottom by the end of the first quarter next year, with the help of a good agricultural summer season, it would be months before this affected employment.

"There is unlikely to be a significant improvement in the job market during 1993, all we can hope for is a decrease in the rate of increase," he said.

It was only through increased exports that the critical unemployment problem could be eased.

"But to achieve increased export targets and become internationally competitive we must lower our cost structure, raise the quality of our manufactures and build a reputation as a reliable supplier."

A glimpse at Keys' shock therapy . . .

(49) CT 19/10/92

From SIMON BARBER

WASHINGTON. — Two charts Finance Minister Derek Keys has been showing to cabinet, the ANC and overseas policymakers and investors demonstrate the kind of shock therapy he is trying to apply to get consensus on a structural adjustment programme.

The first chart shows an unnerving 10-year decrease in gross domestic investment accompanied by a steady growth in government consumption expenditure.

As a share of gross domestic product, investment is shown falling from from 26% in 1983 to 16% this year, while government consumption — ie money not spent as investment — has risen steadily from 15% to 21%.

Private consumption has risen from 56% to 60% over the period, while the export component of GDP has fallen from a high of 32% in 1986 to 24% this year.

The second chart compares SA's investment and government consumption ratios with those of 14 industrialised and developing countries.

In every case, the countries are devoting more of GDP to investment than to government consumption. SA is the only country in which the ratio is reversed.

Japan, with 32% investment and 9% consumption, tops the list. But others who appear to have got the balance right include such Chile (20/10), Hungary (23/11), Egypt (22/12), India (24/12) and Kenya (21/18).

The message Keys is trying to get across, says SA's ambassador to the IMF and World Bank, Francois le Roux, is that "we have reached a stage where we aren't even replacing outdated capital stock while at the same time we are financing consumption through long term loans — it's like taking out a mortgage on your home to pay your liquor bills".

● A recent World Bank paper entitled "South Africa: macroeconomic issues for the transition" warns that declining investment levels mean that, despite being in deep recession, the economy is in fact running at close to full capacity.

BUSINESS DAY, Monday, October 19 1992

Bank turnover in bond market up dramatically

BIDM 19/10/92.

TIM MARSLAND

(49)

RESERVE Bank turnover in the bond market this year has increased by five-fold from the same period in 1991/92, reflecting how successful its policy of marketing government stock has become.

In 1990, the Bank realised that it needed to boost liquidity of government stock, which would in turn reduce government's funding costs as the differential narrowed between government's bonds and those of parastatals.

A senior dealer says the Bank has succeeded in marketing government bonds "beyond its wildest dreams".

Figures from the Bank show that turnover for the five months ended September was R120bn compared with R25bn last year, with 81% of its trade passing directly through the capital market.

The Bank's turnover is equal to government's total issued stock.

A Bank spokesman says criticism that too much of the Bank's activity is directly with investors, thereby bypassing the market, is now untrue.

The figures show 55% of the Bank's dealing is with brokers and 26% with merchant banks — a total of 81%.

About 17% of its transactions are listed under "other banks" while 1% is with pension funds and 1% with insurers.

A dealer says that previously, the Bank sold large parcels of stock directly to institutions, and the market did not know at what rate the transaction had been executed.

The figures show that in the five months ended September, the Bank sold R59,159bn in RSA bonds during the period and purchased R49,078bn, showing net funding of R10,081bn.

A dealer welcomed the Bank's activity in the market.

"It's always good to be able to get a price on the RSA stock," he said.

"Previously, you did not even know the Bank's phone number — now you need a speed-dial to their trading desk."

The Bank spokesman said the main reason for the popularity of government stock was the Bank's activity as a two-way player.

The figures show that the focus of the Bank's activity shifted from the medium dated stock in the beginning of the year to longer dated stock in line with activity on the capital market.

In April, 10% of its activity was in the short term area, 58% in the medium dated area and 32% in the longer dated area.

By July, this shifted to 3%, 58% and 39% respectively. In September, the Bank did no transactions in the short area, 41% in the medium area and 59% in long dated area.

Government's RSA 150 bond has become the Bank's star attraction.

The Bank's figures rate the RSA 150, in terms of turnover, as the most traded bond at more than double the second most active Eskom 168 bond.

Next is the RSA 147, then RSA 153, Post Office 005, Post Office 001, Umgeni Water Board 55, Eskom 170, RSA 144 and Umgeni Water Board 50.

During the first eight months of the year, turnover on the JSE bond floor amounted to R350bn.

Of that, R173bn was in the top six RSA bonds.

A market player said government stock was attaining its correct role in the bond market as government stock was the best paper one could purchase.

Most of the Bank's 1992 funding is in the medium dated area, with 26% in the RSA 119 bond, 22% in the RSA 144 bond, and 20% in the RSA 147 bond.

Only 4% was in the long dated RSA 150 bond.

SA tourism with the Gulf ready for takeoff

BIDM 19/10/92

PETER DELMAR

SA TOURISM with the Gulf is set for takeoff since the introduction of flights between Johannesburg and Bahrain earlier this month.

By this time next year four airlines will be flying between SA and the Gulf, offering about 60 000 seats a year in each direction.

For the more adventurous South Africans, the allure of the formerly forbidden Arabia will no doubt be a major drawcard. And once they get there they will not be disappointed.

For decades South Africans have been fed a diet of misinformation about the Middle East.

Arabs are friendly and courteous and eager to find out about SA.

For tourists venturing to the region, a few days in Dubai will be essential. Even the most casual student of finance and business will be fascinated by how this little emirate within the greater United Arab Emirates has positioned itself, in less than 30 years, as the region's leading trade centre.

The shopping is excellent. The gold soukh or market offers outstanding value and the local duty-free shop is often described as the best in the world.

In fact, the entire emirate is a duty-free area, with import duties at a nominal 1%, except on alcohol.

Dubai offers the foreign visitor the most liberal lifestyle to be had anywhere in the Middle East.

Bars and discotheques serving all sorts of alcohol stay open until the early hours.

Hotels are excellent if pricey. A single room in one of the top hotels will cost in the region of R300 to R400 a night. Beers cost between R8 and R15 and a modest hotel meal, with beer — not wine which is very expensive — in the region of R80.

The desert is undoubtedly the most fascinating feature of the emirate. Tours in 4 X 4 vehicles take the tourist on a thrilling high-speed roller coaster ride through the red sand dunes to the mountains of Hatta, whose hauntingly stark lunar landscapes unexpectedly give way to sparkling clear rivers cutting their way between sheer cliffs.

Deep sea fishing in the Gulf draws thousands of European holidaymakers and the palm-fringed beaches are white and unspoilt.

Proposal for national jobs corps

BDAY 19/10/92

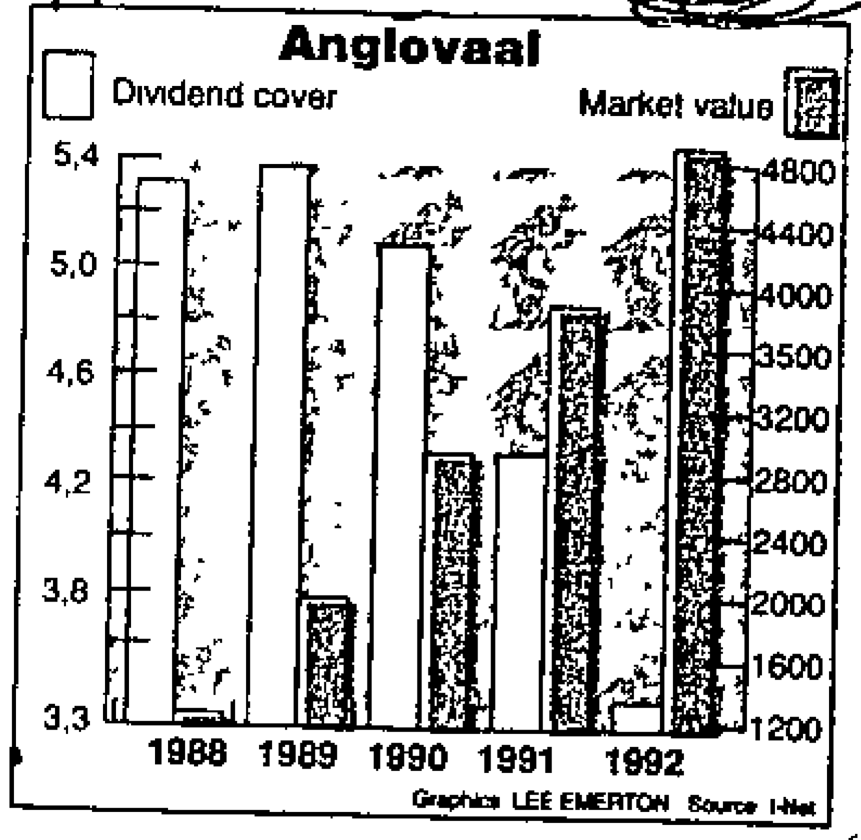
MATTHEW CURTIN

THE creation of a national jobs corps may be one way SA can break out of the vicious cycle of homelessness, unemployment and a lack of confidence in the economy, says Anglovaal chairman Basil Hersov.

In his 1992 yearly review, Hersov said continuing violence in SA, which had offset what political progress had been made in the year, had among its causes "the lack of significant change on the ground for many millions in our society, in fact a worsening of conditions".

In addition, overseas economic conditions deteriorated and there had been "a loss of faith in a better SA". The loss of faith could become a self-fulfiling prophesy, and the words unemployment and homelessness summed up "most of the fundamental problems facing the nation".

Hersov said an imaginatively and sensitively devised and organised job corps could be one of the many strategies used to break out of "this negative cycle".



He said Anglovaal's confidence in 1991 that the economic downswing was flattening out had proved to be premature.

The SA economy would not turn around unless these factors occurred: "International economies must emerge from their present recessionary state; rainfall will have to return to normal in the forthcoming season; and the political impasse will have to be broken."

With the chances small that all of these conditions would be met or that the causes of violence would be addressed successfully, Anglovaal was prepared to face tough trading conditions in the current financial year, and possibly into the next.

Hersov said the group planned capital spending of R1,4m in the next three years for "expansion and asset replacement", most of it by Anglovaal Industries.

It was hard to predict results for 1992/3, but "the economic recession, low mineral and metal prices and inflationary pressures will make growth in group earnings a major challenge", he said.

In the year-ended June 1992, Anglovaal's earnings fell to 464c from 478c a share, but the company increased its dividend to 100c from 92c a share. Attributable earnings fell to R278m from R285m.

Stals to defend monetary policy

BDAY 19/10/92

SHARON WOOD

RESERVE Bank Governor Chris Stals will defend his restrictive monetary policy at the Sacob annual convention in Durban later this month.

One of the motions to be tabled at the convention is highly critical of present monetary conditions and calls for government, the Bank and the Economic Advisory Council to urgently reconsider current monetary measures. It says monetary policy has gone far beyond the limits of usefulness and is inflicting harm.

Stals said on Friday he hoped the motion would be presented at the time of his address — on the last day of the conference — because "this will give us ample opportunity to tell them why they are wrong".

The Reserve Bank was always willing to discuss its policy but criticism at the convention was unlikely to change the Bank's monetary policy stance, he said.

The motion, proposed by the Border Chamber of Commerce, calls for urgent steps to prevent the further collapse of the economy.

Bank reviews role in capital market

BDAY 19/10/92 (49)

TIM MARSLAND

THE Reserve Bank fears it may be playing too big a role in the capital market and is re-evaluating its level of activity there, sources said at the weekend.

Latest Bank figures showed the Bank traded R120bn in the market for the five months ended September, compared with R25bn in the previous year. This meant its turnover consisted of about an eighth of the market. Capital market turnover at a major Bank for the period was about R75bn.

Bank deputy governor Chris de Swardt said at the weekend the heavy volume was due to special circumstances surrounding the bull market.

A source said the Bank intended calling a meeting of market players to discuss its activity.

De Swardt said the matter could be discussed at the annual pre-Budget meeting next year, but he did not know of any plans to call a meeting sooner. He said that when the Bank decided in 1990 to take on the role of market maker in government stock, it did not anticipate how active it would become.

He acknowledged the Bank could have made a profit in the bull run. "Players do make a profit in a bull run, but this is an internal matter of the Bank," he said.

A senior dealer said a private Bank would have made between R30m and R40m on turnover of R120bn, but added that he did not believe it had been the Bank's intention to make money.

Dealers said at the weekend they did not believe the Bank's role to be excessive "for the moment".

"It could become a problem if the Bank increases its activity. We have seen them manipulating rates from time to time, but this is not a major problem," said a dealer, who declined to be named.

Should the market turn bearish, the Bank would take a loss and become a net buyer of stock, he said.

A source said Bank members had been studying foreign capital markets and could consider appointing private banks to market government stock on its behalf.

De Swardt said the Bank foresaw in 1990, when it took on its current role, there could be a need to appoint outside market markers.

However, nothing was planned at the moment. An analyst said the problem of having private market makers had been highlighted by the recent US stockbrokers Salomon Brothers case where it had cornered the five year bond market in the US.

Salomon Brothers had played a dual role as bond market maker and private player and a number of senior staff had left the company.

A dealer said any losses made by the Bank were attributed to government funding. He said the Bank's activity also helped government's borrowing programme.

The Bank raised R10bn on government's behalf in the five months to September out of total funding of R22bn. A source said R12bn had been taken up by the Public Investment Commissioners.

● See Page 7

Demand for minerals expected to stay low

MATTHEW CURTIN (49)

RECOVERY in the global economy is likely to improve prospects for SA's mining industry only from 1993, but factors such as environmental pressures and oversupply will still depress the outlook for some minerals, says the Minerals Bureau.

"In view of the slow economic recovery in the major industrial countries, international demand for minerals is expected to remain depressed for at least the remainder of 1992", the bureau said in its 1991-1992 review of SA mining and minerals.

SA's declining but still high inflation rate continued to threaten the competitiveness of SA's mineral industry in world markets. BDAY 20/10/92.

The bureau said the medium-term outlook for gold was not overly-optmistic.

Oversupply would hit coal prices in the medium term, but "the European market for imported coal is anticipated to increase substantially due to privatisation, the abolition of coal subsidies, and politico-economic developments in Eastern Europe".

SA coal producers would increase their share of the export market, with a small improvement in exports to the US and Africa expected too.

Platinum group metal exports would improve from 1993 to 1995 because of growing demand for platinum-based car catalysts in Europe, driven by tightening clean-air legislation.

The bureau expected some increase in demand for SA ferro-alloy exports as customers built up stocks in anticipation of a recovery in industrialised economies, but iron and steel prices were unlikely to rise because of oversupply worldwide. The same situation applied to non-ferrous base metals such as copper, lead, zinc and zirconium.

Prospects were better in the industrial minerals sector, although environmental pressures would hit demand and prices of asbestos and fluorspar.

Chamber calls for govt spending cuts

BIOM 20/10/92

GERALD REILLY (49)

BIG cuts in state spending are the only solution to a spendthrift government's massive and escalating debt problem, says the Northern Transvaal Chamber of Industries.

The chamber, in its latest Economic Focus, said the continuous net dissaving by government at an increasing rate since 1984 had become a serious structural problem.

The dissaving had reached a staggering total of R25,700bn. Last year it amounted to R7,4bn and in the first half of 1992 it had reached R8,8bn — the result of lower than expected government revenue and the sustained high level of state spending.

The chamber said resorting to the capital market for loans to finance the gap between income and expenditure was tantamount to the destruction of a huge part of the country's scarce capital resources.

"Reducing the deficit by spending curbs and getting it down to manageable levels of 3% of the GDP, in comparison with an estimated 8% for the 1992/93 fiscal year, will pave the way for a real blow against inflation and a much more attractive economic environment to foster fixed investment."

Pupil numbers 'to rise 50%'

BIOM 20/10/92.

Business Day Reporter

THE number of pupils in the country will increase by 50% to 14,6-million over the next 10 years, a University of the Orange Free State report predicts.

This growth, combined with the existing backlog, will result in immense pressure on authorities to provide education and an infrastructure for education, says the report, published by the university's Research Institute for Education Planning.

Eighty percent of all pupils attending schools in SA and the independent homelands fall under the black departments of education.

Of these pupils, 42% attend schools in the six self-governing regions, 29% attend Department of Education and Training schools and the remaining 29% attend schools in the TBVC states.

The increase of 460 000 pupils since 1990 represents a growth rate of about 5% in the total school population of SA and the independent states.

As in the past, the highest growth rate was experienced in black education — 5,8%.

If the school format is not changed, this increase in numbers will result in a demand for 132 000 additional teachers and an equal number of extra classrooms, and this would not even address the existing backlog, particularly with regard to classrooms.

To achieve a decrease in the present ratio of 48 pupils a classroom in black education to 40 pupils a classroom, more than 34 000 additional classrooms will have to be built over the next decade.

While there has been a noticeable increase in the number of successful matriculants and therefore an improvement in the general literacy of SA citizens, it is disturbing to note that pupils still tend to choose subjects that do not prepare them for the labour market or for technical or commercial studies.

Another source of concern is the large number of pupils who drop out of school or do not complete a standard, and who will subsequently require basic training in the work situation, the report says.

No noticeable improvement in the provision of education for black pupils has been experienced, and black education compares poorly with education for the other population groups in respect of pupils/classroom ratios and pupils/teacher ratios, it says.

Economy still stagnating

49

GERALD REILLY

PRETORIA — Latest economic indicators continue to point to a deeply distressed stagnating economy, Central Statistical Service figures released yesterday show. BIO/M

They show total manufacturing production reached its lowest level since March 1986.

The physical volume of manufacturing production index dropped to 93,4 in August — 7,3% lower than the index level in July.

Of the 27 major manufacturing groups surveyed, 24 showed decreased production. Main contributors to the decline were food, beverage, textile, basic non-ferrous metal products and machinery industries.

According to manufacturers, the CSS says, the decreases can mainly be attributed to strike action and a lack of demand. Strike action was reported by factories in 15 of the 27 major groups. 20/10/97

Also yesterday, the CSS released figures showing that at current prices, retail trade sales will increase by 7,3% to R21,067bn in the three months August-October compared with the same period last year.

However, at constant 1990 prices, sales would decline by 5,4%.

Economists say an improvement in retail sales can be expected towards the end of November and in December but the prospects for a significant increase compared with last year are grim.

— an increase in the fuel tax of 8,0 c/l and 6,0 c/l respectively on petrol and diesel; and

— rail and pipeline transport tariff increases implemented by Spoornet and Petronet, respectively, with effect from 1 January 1992

These increases were reflected in the price structures of fuel with effect from 21 March 1992. The cumulative underrecovery in respect of transport cost for the period 1 January 1992 to 20 March 1992 was financed by the Equalization Fund.

Increases were as follows in the PWV area

— Petrol 1,0 c/l

— Diesel 1,0 c/l

— IP 0,9 c/l

No tariff increases were applicable to fuel sold at the coast

(2) Since 1 January 1991 various elements in the fuel price structures were approved without a concomitant fuel price increase and the cumulative underrecovery in respect thereof was financed temporarily by the Equalization Fund. The price elements which were approved since the above-mentioned date are as follows:

Price element	Date of increase	Increase (c/l) Petrol	Diesel	IP
a) Delivery cost	1 January 1991	0,5	0,5	0,5
	1 January 1992	0,4	0,4	0,4
b) Retail profit margin	14 December 1991	1,5	—	—
	1 July 1992	2,1	—	—
c) Wholesale profit margin	1 April 1991	2,0	2,0	2,0
	1 October 1991	2,0	2,0	2,0
	1 July 1992	4,0	4,0	4,0
d) MMF levy	1 April 1992	2,0	1,6	—
e) Net changes in landed cost until 31 August 1992		0,005	(6,298)	0,461
Total unit underrecoveries on 1 September 1992		14,505	4,202	9,361
Less increases on 10 October 1992		7,0	—	3,0
Remaining unit underrecoveries		7,505	4,202	6,361

In view of the high underrecoveries as at 1 September 1992, Cabinet has decided to implement smaller but more frequent fuel price increases which will have a smaller effect on the inflation rate.

Projections for 1992-93 tax year 49

379 Mr G C ENGEL asked the Minister of Finance

(1) Whether any projections have been made for the 1992-93 tax year in regard to state revenue, state expenditure and the estimated budget deficit, if not, why not; if so, (a) (i) what, by category, are the latest projections for (aa) state revenue, (bb) state expenditure and (cc) the estimated budget deficit and (ii) in respect of what dates are these projections furnished and (b) how do these projections vary from the budget in each case;

(2) whether he will make a statement on (a) the above-mentioned deficit and (b) how it is proposed to fund it; if not, why not? B877E

The MINISTER OF FINANCE:

(1) As normal for a Budget, projections are periodically made for the 1992/93-financial year

(i) and (ii) A statement on the course of government finance, with special reference to the Budget, is issued three times yearly by the Department of Finance. The latest document was issued on 16 October 1992. Copies of two tables from this document, containing particulars of the Budget up to September 1992, are attached. Projections for internal management purposes are undertaken on a regular basis, but are not included in the statement. Experience has shown that a large degree of unpredictability is present in the month-to-month pattern of government expenditure and income. Therefore, unless prior indications unequivocally show a substantial deviation, Government refrains from making statements that may give rise to unnecessary speculative moves in the financial markets. If however circumstances necessitate it and an occasion arises to put the outcome of the Budget in perspective, changes in the Budget (expenditure totals and financing) are made by top management between Budget dates

(2) I have stated—in a press statement on 3 September 1992—that this year's deficit before borrowing will be higher than the budgeted figure, because the current recession is more serious and has lasted longer than was forseen at the time of the Budget. I repeat that the deficit before borrowing may be as high as 7 per cent of GDP for the 1992/93-financial year, compared with the 4,5 per cent budgeted for

I also remarked that it is not my intention to seek additional funds during this fiscal year to reduce the deficit before borrowing: in my assessment of the state of the economy, any such move would be counter-productive. Experience has shown that, with strict countrol of expenditure, a cyclical increase in the budget deficit during recessionary conditions is reversed during an economic upswing

So far, 80 per cent of this year's financing programme has been completed. In view of this and because financial markets have already discounted the course of the Budget, it is not expected that the deficit will cause upward pressure on capital market rates for the rest of the financial year

49

TABLE 1

EXCHEQUER ISSUES AND RECEIPTS (QUARTERLY)

This table has been compiled from the Statements of Receipts in and Transfers from the Exchequer Account published monthly. Any analysis of these statements should bear in mind that they are shown on a cash flow basis, i e

(a) TOTAL EXCHEQUER ISSUES·
Total issues do not represent actual expenditure. Late issues and surrenders in respect of a specific fiscal year result in total issues (as shown here) differing from the actual expenditure figures as shown in the Budgetary documentation.

(b) TOTAL EXCHEQUER RECEIPTS·
The receipts for month X do not include amounts in transit for that month, but include those in transit for month (X-1). This means that the April figure of each fiscal year includes the "in transit" figure for March (the previous fiscal year)
Proceeds from privatization, other capital revenue and loans are excluded from these figures

(c) DIFFERENCE BETWEEN ISSUES AND RECEIPTS·
As a result of (a) and (b) this difference cannot be directly compared with the actual deficit before borrowing

TOTAL EXCHEQUER ISSUES
(R million)

	1988/89	% growth	1989/90	% growth	1990/91	% growth	1991/92	% growth	1992/93	% growth
APR-JUN	12 979	8,7%	16 395	26,3%	17 478	6,6%	21 089	20,7%	25 087	19,0%
JUL-SEP	12 974	18,1%	15 746	21,4%	18 354	16,6%	21 065	14,8%	24 717	17,3%
OCT-DEC	12 937	14,0%	15 758	21,8%	16 858	7,0%	20 279	20,3%		
JAN-MAR	17 715	29,6%	17 900	1,0%	21 706	21,3%	23 957	10,4%		
TOTAL	56 604	18,1%	65 799	16,2%	74 396	13,1%	86 390	16,1%		

49

TOTAL EXCHEQUER RECEIPTS

(R million)

	1988/89	% growth	1989/90	% growth	1990/91	% growth	1991/92	% growth	1992/93	% growth
APR-JUN	8 773	20,3%	11 986	36,6%	14 302	19,3%	14 399	0,7%	15 853	10,1%
JUL-SEP	13 236	26,7%	16 850	27,3%	18 969	12,6%	20 517	8,2%	20 421	–0,5%
OCT-DEC	12 298	32,7%	14 202	15,5%	15 747	10,9%	17 851	13,4%		
JAN-MAR	13 904	26,8%	17 963	29,2%	17 776	–1,0%	19 335	8,8%		
TOTAL	48 210	27,0%	61 000	26,5%	66 794	9,5%	72 102	7,9%		

DIFFERENCE BETWEEN ISSUES AND RECEIPTS

(R million)

	1988/89	1989/90	1990/91	1991/92	1992/93
APR-JUN	4 206	4 409	3 176	6 691	9 234
JUL-SEP	–262	–1 104	–615	547	4 296
OCT-DEC	639	1 556	1 111	2 428	
JAN-MAR	3 811	–63	3 930	4 622	
TOTAL	8 394	4 798	7 602	14 288	

– Surplus

+ Deficit

TABLE 2

EXCHEQUER ISSUES AND RECEIPTS (CUMULATIVE)

This table has been compiled from the Statements of Receipts in and Transfers from the Exchequer Account published monthly. Any analysis of these statements should bear in mind that they are shown on a cash flow basis, i.e :

(a) TOTAL EXCHEQUER ISSUES:

Total issues do not represent actual expenditure Late issues and surrenders in respect of a specific fiscal year result in total issues (as shown here) differing from the actual expenditure figures as shown in the Budgetary documentation.

(b) TOTAL EXCHEQUER RECEIPTS:

The receipts for month X do not include amounts in transit for that month, but include those in transit for month (X-1) This means that the April figure of each fiscal year includes the "in transit" figure for March (the previous fiscal year)
Proceeds from privatization, other capital revenue and loans are excluded from these figures.

(c) DIFFERENCE BETWEEN ISSUES AND RECEIPTS:

As a result of (a) and (b) this difference cannot be directly compared with the actual deficit before borrowing.

49

TOTAL EXCHEQUER ISSUES (cumulative)

(R million)

Period	1988/89	% of total	1989/90	% of total	1990/91	% of total	1991/92	% of total	1992/93	% of total*
April to:										
Jun	12 979	22,9%	16 395	24,9%	17 478	23,5%	21 089	24,4%	25 087	24,9%
Sep	25 952	45,8%	32 141	48,8%	35 832	48,2%	42 154	48,8%	49 804	49,5%
Dec	38 889	68,7%	47 899	72,8%	52 690	70,8%	62 433	72,3%		
Mar	56 604	100,0%	65 799	100,0%	74 396	100,0%	86 390	100,0%		

* Budgeted (R100 676 million)

TOTAL EXCHEQUER RECEIPTS (cumulative)

(R million)

Period	1988/89	% of total	1989/90	% of total	1990/91	% of total	1991/92	% of total	1992/93	% of total*
April to										
Jun	8 773	18,2%	11 986	19,6%	14 302	21,4%	14 399	20,0%	15 853	18,7%
Sep	22 008	45,7%	28 836	47,3%	33 271	49,8%	34 916	48,4%	36 274	42,8%
Dec	34 306	71,2%	43 038	70,6%	49 018	73,4%	52 767	73,2%		
Mar	48 210	100,0%	61 000	100,0%	66 794	100,0%	72 102	100,0%		

* Budgeted (R84 749 million)

DIFFERENCE BETWEEN ISSUES AND RECEIPTS (cumulative)

(R million)

Period	1988/89	1989/90	1990/91	1991/92	1992/93
April to:					
Jun	4 206	4 409	3 176	6 691	9 234
Sep	3 944	3 305	2 561	7 238	13 530
Dec	4 583	4 861	3 672	9 666	
Mar	8 394	4 798	7 602	14 288	

Landed cost of fuel

380 Mr P H DE LA REY asked the Minister of Mineral and Energy Affairs †

Whether his Department intends switching over from the present system according to which the landed cost of fuel is determined to another system; if not, why not; if so, (a) for what reasons, (b) when and (c) what are the particulars of this system?

B878E

The MINISTER OF MINERAL AND ENERGY AFFAIRS:

No, because the current import parity pricing system (in Bond Landed Cost) is a market related pricing system which has withstood the test of time due to the fact that it satisfies the key criteria of a good price determination mechanism; namely

Study blames politics for high unemployment

3/0/M 21/10/92

GERALD REILLY

PRETORIA — The socio-political "catastrophe" in SA goes hand in hand with the shocking unemployment figure, says an employment review by Boland Bank economist Louis Fourie.

Fourie said that last year only three out of 100 new workers found jobs in the formal sector. Prospects for this year were no better.

For too long the economy had been subordinated to politics and forceful action was needed to give the economic debate the necessary status in the negotiation process, he said.

Since the early '80s the population had faced growing poverty, high inflation and a heavier tax burden.

In the '70s, an average of 95 out of 100 new entrants to the labour market found work in the formal sector. By the end of the decade this had dropped to 62. In the '80s the figure was 16 out of every 100.

The outcome was that between 1981 and 1991 only 186 000 out of 3,3-million job seekers found work, leaving 3,1-million job market entrants unemployed or semi-unemployed.

Fourie said that in the 10 years to 1991, public sector employment increased by 321 000 to 1,36-million while in the private sector there was a decline of 47 000 workers.

He said even the current economic downswing was marked by relatively high salary increase levels.

In 1989 the average increase was 18%, in 1990 16,6% and last year 15,9%. "This represents an average annual increase of 16,9% in the three downswing years against an inflation rate of 14,8%."

(49)

Fourie said given an average economic growth rate of 2% a year until the end of the century, more than half the labour force would be unemployed by 2000.

It is believed ANC secretary-general tus Mekgwe.

Productivity in ANC spotlight

WILSON ZWANE (49)

NO PROGRAMME aimed at increasing productivity would succeed unless the entire economic system was legitimised, ANC NEC member Saki Macozoma said yesterday. B/DAY 21/10/92.

Addressing the 36th annual convention of the Institute of Personnel Management in Sun City, Macozoma said labour should not be blamed exclusively for the ills of the country's economy.

He said various factors had an impact on the "productivity dynamic".

These included the perception SA's economic system was illegitimate because it excluded blacks, and the poor education system which "fails to inculcate basic tenets that would help in increasing productivity".

Macozoma said the country's political crisis was characterised by:

☐ A lack of political legitimacy;
☐ Mistrust of security forces and the judicial system (by blacks);
☐ A climate of repression and intolerance;
☐ Escalating exploitation of ethnic and regional divisions; and
☐ The collapse of local authorities.

Police 'threatened Boipatong witness'

B/DAY 21/10/92

TWO policemen threatened a witness of the Goldstone commission of inquiry into the June 17 Boipatong massacre when they visited his home, the inquiry heard in Vereeniging yesterday.

ANC counsel Karel Tip told the commission, which resumed sitting yesterday after a two-month recess, that the witness had said policemen visited his Boipatong home on Wednesday last week. The witness was not home so the policemen had left a threatening message with his wife, Tip said.

SAP counsel Flip Hattingh told the commission the police had no idea the man was to be called as a witness.

He said policemen had visited the Boipatong area on Wednesday night to make certain observations, but said they had not entered any premises.

The commission was also told that an analysis of the erased police tapes relevant to the investigation would be made available next week.

Judge Richard Goldstone said the British government, to whom the tape had been submitted for analysis, would provide the commission with the relevant information. — Sapa.

Stress a danger to black managers

B/DAY 21/10/92

ANDREW KRUMM

SUN CITY — The small pool of black managers would shrink in the next five years should advancement programmes not take into account stress-related disorders, Bristol-Myers-Squibb director Ben Allmann said yesterday.

Speaking at the 36th annual convention of the Institute of Personnel Management, Allmann said corporates had to extend their thinking beyond the workplace, or about 86% of black managers would suffer from performance-impairing stress related disorders within the next two years.

He said his predictions were based on the results of a three-year collaborative national management stress research project he conducted among managers from 13 major companies.

The project showed that black managers found their homes and community environments twice as stressful as their work.

Black managers recorded lower remuneration, less praise and more criticism, discrimination and cultural gaps as contributory to stress.

CITY

SA must go it alone, warns business chief

(49)

ARG 21/10/92

Mr Christo Wiese

TOM HOOD, Business Editor

SOUTH Africa must go it alone, a top businessman has warned.

Pepkor chairman Mr Christo Wiese said yesterday: "South Africa is for all practical purposes on its own. It will have to find its own solutions — and pay for them."

Mr Wiese told the Cape Chamber of Industries in Cape Town that the country could expect only minimal assistance from the international community in its transition to a new order.

"The stream of development aid which ... poured into Africa and other Third World countries during the 1960s and 1970s is down to a trickle," he said.

"Whatever assistance we do get will depend on the extent to which we adhere to the rules of the global game.

"That means the days of reckless government spending are over, that a lethargic approach to the country's high inflation can no longer be condoned and that positive interest rates are here to stay.

"What we shall also have to learn is that a country, like an individual, will prosper only if its people are prepared to work hard. With a philosophy of entitlement we shall get nowhere."

The international community to which South Africa was returning was very different from the one it left 25 years ago, said Mr Wiese.

"The collapse of international socialism has ... strengthened worldwide support for the principles of democracy and free enterprise.

"The rules of the global game are now clearly spelt out and they call for a multiparty democracy, a market-led economy and fiscal and monetary discipline.

"Countries have no choice but to abide by these rules. If they don't, they will simply marginalise themselves."

Mr Wiese said that in spite of dramatic changes in budget allocations for social services, it was clear South Africa did not have the means to provide such services at First World standards to everyone.

Nafcoc in plans for the future

(49)

Sowetan 22/10/92

■ **Plan for next two years:**

THE role of black business in the South African economy will be discussed at the seventh biennial Nafcoc summit to be held at the Wild Coast on October 23 to 25.

Nafcoc president Mr Archie Nkonyeni said the association was reorganising and restructuring to meet the challenges of political change.

He said: "We must be proactive through a professional structure which participates and communicates in both the South African economy and in regional African affairs of the sub-continent."

The summit will review and set policy for the black business organisation for the next two years.

Another important issue will be to set guidelines for the implementation of a special programme aimed at accelerating black advancement.

"As long as the legacy of the apartheid economy remains, Nafcoc will press for economic programmes designed to bring black business closer to mainstream economic activities," Nkonyeni said.

Also attending will be Nafcoc's national executive and representatives from the organisations's regions, commercial, transport, industrial and agricultural sectors.

Builders want set part of GDP

Own Correspondent

CAPE TOWN — A commitment by government of a fixed percentage of GDP to be used for building and civil construction should be a priority goal for the industry, delegates to the 87th congress of the Building Industries Federation of SA were told. (52)

Construction group Shire MD and past president of the SA Federation of Civil Engineering Contractors Ian MacGregor said state expenditure on construction should not be less than 2% of GDP in any year. (49)

The expected ratio of construction expenditure to GDP for a developing country like SA was 6,1% but figures indicated only 50% of funds required by international norms were being fed to the construction industry.

An evaluation of the Budget for the 1992/3 financial year showed that the state would have to borrow about R15bn to finance the deficit in its Budget. B/DAY 22/10/92

"Considering that only R5bn is spent on capital projects and that one of the criteria of an acceptable budget is that loan money should only be used to finance capital projects, the state Budget falls far short of its goal," said MacGregor.

Leave VAT rate, cut back your spending, govt told

GOVERNMENT should not try to make up the shortfall in VAT revenue by increasing its rate but must slash state spending instead, economists say.

They were reacting to Finance director-general Gerhard Croeser saying on Tuesday that government would be forced to increase VAT to at least 13%.

Econometrix economist Tony Twine said instead of attempting to raise VAT revenues by 30% of the current take, government would at least do better by trimming its expenditure by an equivalent amount.

Ironically, he said government's revenue could fall even further if it increased the VAT rate. Consumers would cut back on their spending.

Standard Bank chief economist Nico Czypionka said it was more imperative for government to cut spending. (49)

"Our calculations show that to keep on an even keel, they would have to reduce expenditure by 5%. But, I'm not sure they have the guts to do that."

Czypionka said this inefficiency as well as the duplication of apartheid government departments needed to be rooted out.

Finance Minister Derek Keys has said the number of public servants would be reduced by about 30 000 next year as part of his attempt to cut government spending by 3%. — Sapa.

Stals dashes expectations of cut in interest rates before year's end

BDay 27/10/92 (49)

GRETA STEYN

ESERVE Bank Governor Chris Stals yesterday put a damper on hopes of a two percentage point cut in interest rates before the end of the year.

Speaking at the Afrikaanse Handelsinstituut conference in Johannesburg, he said there was little scope for further easing policy. The policy stance of the past year would "at least" have to be maintained.

The capital and money markets have been waiting for a signal from Stals on interest rates, with dealers geared for a cut in Bank rate when the inflation figures are released this month. Many bankers believed a second cut could follow soon afterwards, or early next year. The bearish tone of Stals's latest policy statement has, however, raised the possibility that rates will bottom with the next Bank rate cut.

Stals said inflation was still "very high" — even the underlying rate of 12% and lower was still far above the inflation rates of SA's trading partners. Other factors working against an easing in policy was the high level of debt in the personal, corporate and public sectors, the fact that interest rates were low in real terms, the balance of payments was still vulnerable, and the money supply was growing at a faster rate than real economic activity.

He said there was room for nominal interest rates to be cut if the inflation rate declined further, interest rates abroad softened, domestic money supply growth did not accelerate, and domestic credit extension was kept under control.

He said monetary policy in recent years had never really been restrictive Although it had been tighter than in the past, policy had not been strict enough to force the financial stability that was needed to support sustainable rapid economic growth.

Measures that could encourage economic growth were highlighted in Finance Minister Derek Keys's speech at the same conference. Keys said help given by way of Section 37E of the Income Tax Act would no longer be tied closely to export potential. "The proper test of sustainability is the ability to be world competitive and consequently the export requirement has been removed with effect from this September. This amendment will be confirmed by legislation next year."

He added that government wanted to continue supporting large developmental projects, especially as long as private fixed investment in other directions remained as "sticky" as it had been in the past few years

He also commented on the inability of SA financial markets to mobilise capital for large development projects and small entrepreneurs. The really large "pioneering" projects like the aluminium smelter had almost as much difficulty in generating enthusiasm as small entrepreneurs, because they would start to yield income only after a number of years.

"To the extent that these essentially venture capital operatives begin to see them-

☐ To Page 2

Interest rates

BDay 27/10/92 (49)

☐ From Page 1

selves more as administrators of large estates — avoiding risk and safeguarding rather than taking risk and venturing — the mechanism will run down and the country's rate of growth with it"

With capital in essence limited to "trustee investments", a developing country could have difficulty in carrying out important parts of its programme The Industrial Development Corporation could not fill the void because its resources were limited by comparison to what the private sector ought to be mobilising

He did not indicate, however, whether any government action would be forthcoming in response to the problem

On other measures for growth, he said agricultural land could be used more productively and there was scope for developing value-added agricultural exports

● See Page 4

Keys meets major players

DIRK HARTFORD (49)

WHETHER the proposed national economic forum gets off the ground or not depends on today's critical meeting between Finance Minister Derek Keys and delegations from labour and business.

It is the first tripartite meeting since government blocked plans in September to launch the forum because of Cosatu's promotion of a PAYE boycott and mass action. BDay 22/10/92.

Today's meeting is between the proposed forum's process committee and Keys and his advisers. Sacob director-general Raymond Parsons, Chamber of Mines president Bobby Godsell and Cosatu general secretary Jay Naidoo are part of the process committee.

Naidoo said the meeting — which would address issues blocking the formation of the forum — was critical.

"It will determine whether co-operation or confrontation is on the agenda in the medium term. We want constructive co-operation and we hope that is where the meeting will take us," he said.

Although he rejected the link between Cosatu's anti-PAYE campaign and government's refusal to endorse launching the forum, Naidoo said the postponement of the boycott should make agreement easier.

Business sources also described the meeting as critical. It was imperative the forum got off the ground as soon as possi-

□ To Page 2

Keys BDay 22/10/92. (49)

□ From Page 1

ble on the basis of pursuing economic growth.

If the forum failed to get the go-ahead, it was possible business could discuss proceeding with bilateral discussions with the trade unions on issues the forum was meant to address.

Cosatu is pushing for the full participation of government as it believes this is the only way to get the talks to "deliver".

Keys had said that once parties to the forum were committed to speedy economic growth, to not taking action that harmed each other and to obeying the law, government would be ready to participate.

He said yesterday issues that needed to be addressed included:

□ Effectively using the unemployed in communities;

□ Making it easier for the unemployed to get work in the formal sector;

□ On-the-job training for workers;

□ Ways to minimise unrealistic expectations,

□ The reintroduction of normal commercial relations between financial institutions and house buyers;

□ The stopping of other boycott actions, and

□ The raising of agricultural productivity on high potential land.

Keys said other issues that could be addressed were agricultural exports, tourism, financing of big and small business, achieving national consensus on investment and long-term growth and promoting an entrepreneurial climate.

Keys said the formation of the forum would create confidence and be an important step forwards.

He warned, however, that it would take a great deal of negotiation to get there.

Banker outlines path to economic growth

B/DAY 22/10/92

(49)

EDWARD WEST

MAJOR economic adjustments to improve incentives, mobilise resources and stimulate investments were needed for economic growth in SA, said African Development Bank southern region vice-president Andewale Sangowawa.

Speaking at the Afrikaanse Handelsinstituut Congress, he said the economy should be restructured to face new economic and political realities — especially as it related to integration into major African and world economies.

He believed it imperative that SA — despite its preoccupation with domestic problems — should take part in charting a path for integration into the region, as African economies could become important sources of growth for SA.

Regional economic integration needed to be pursued as a matter of development strategy, and the bank was studying the prospects and opportunities southern African regional integration could offer.

The process of negotiation and agreement on the integration scheme would take a long time, but in the meantime the countries in the region could intensify lesser forms of integration, such as co-ordination and harmonisation.

Co-ordination would involve voluntary alignments of national policies, particularly in fiscal reform, exchange rate stabilisation and removal of tariff and non-tariff barriers.

Harmonisation would represent a progression through the adoption of common legislation, of policy instruments geared towards regional equity, with costs and benefits of the economic integration scheme being equitably distributed.

Payment problems could be overcome by bilateral agreements.

□ Sapa reports Council of SA Banks head Tony Norton said there were a great many difficulties in the capital formation process, the productivity and mobility of capital in SA.

The former president of the JSE said there was much that could be done to improve the situation.

Identifying problem areas, Norton believed SA could achieve a political settlement and a healthy economic policy neccesary to attract foreign capital.

He said increasing exports, making more productive use of existing capital, reversing government's "non-savings", and stimulating savings and capital application through real interest rates was also needed.

Norton said it was imperative for SA to strive towards a better balance between the components of savings and a greater flow of savings, just as a more liquid and effective financial market was required — devoid of increasingly high costs.

No incident at matric exams

WILSON ZWANE

MATRIC exams in Diepkloof were written without a hitch yesterday despite earlier reports which indicated that pupils would not sit for them unless their demands were met. B/DAY

The pupils reportedly demanded that five of their colleagues, who were arrested two weeks ago in connection with the murder of a Soweto doctor, be released unconditionally. 22/10/92

DET Johannesburg region spokesman Saul Moshokoe said exams in Diepkloof "went well", with more than 90% of pupils reporting.

According to Moshokoe, only three pupils sat for their exams outside Diepkloof. But, he added, it had nothing to do with the situation in the township.

The three pupils had apparently been forced by "personal" circumstances to sit for exams outside the township, Moshokoe said.

He could not say whether the five pupils, whose arrest had threatened chaos at Diepkloof schools, sat for their exams.

Another DET spokesman Kim McEvilly said there was nothing to stop the five pupils from writing their exams as their bail had been set.

Soweto police spokesman Lt-Col Tienie Halgryn could not confirm whether the five pupils were out on bail.

NOTICE 936 OF 1992

SOUTH AFRICAN RESERVE BANK

Statement of assets and liabilities on the 30th day of September 1992

	1992-09-30	1992-08-31	Change
Liabilities	R	R	R
Share capital	2 000 000	2 000 000	—
Reserve fund	93 325 065	93 325 065	—
Notes in circulation	11 330 864 517	11 050 434 918	280 429 599
Deposits:			
Government	10 222 940 969	9 927 386 907	295 554 062
Provincial administrations	113 063 774	105 235 928	7 827 846
Deposit-taking institutions	2 188 753 353	2 057 420 665	131 322 688
Other	72 627 133	65 893 359	6 733 775
Other liabilities	5 036 568 941	5 004 346 210	32 222 730
	29 060 143 752	**28 306 043 052**	**754 100 700**
Assets			
Gold	5 905 875 467	5 655 872 761	250 002 707
Foreign assets	4 866 211 034	5 893 255 116	(1 027 044 083)
Total gold and foreign assets	**10 772 086 501**	**11 549 127 877**	**(777 041 376)**
Domestic assets:			
Discounted bills	4 754 775 000	2 823 010 000	1 931 765 000
Loans and advances:			
Government	—	—	—
Other	1 455 302 910	1 469 761 530	(14 458 620)
Securities:			
Government	998 918 506	1 090 397 683	(91 479 177)
Other	1 122 985 045	1 122 985 045	—
Other assets	9 956 075 790	10 250 760 917	(294 685 127)
	29 060 143 752	**28 306 043 052**	**754 100 700**
Rand per fine ounce	881,14	838,69	42,45
Gold holdings in fine ounces	6 702 539	6 743 699	(41 160)

C. J. SWANEPOEL,
General Manager.

Pretoria, 8 October 1992.

(23 October 1992)

KENNISGEWING 936 VAN 1992

SUID-AFRIKAANSE RESERWEBANK

Staat van bates en laste op die 30ste dag van September 1992

	1992-09-30	1992-08-31	Verandering
Laste	R	R	R
Aandelekapitaal	2 000 000	2 000 000	—
Reserwefonds	93 325 065	93 325 065	—
Note in omloop	11 330 864 517	11 050 434 918	280 429 599

	1992-09-30 R	1992-08-31 R	Verandering R
Deposito's:			
Regering	10 222 940 969	9 927 386 907	295 554 062
Provinsiale administrasies	113 063 774	105 235 928	7 827 846
Depositonemende instellings	2 188 753 353	2 057 420 665	131 322 688
Ander	72 627 133	65 893 359	6 733 775
Ander laste	5 036 568 941	5 004 346 210	32 222 730
	29 060 143 752	**28 306 043 052**	**754 100 700**
Bates			
Goud	5 905 875 467	5 655 872 761	250 002 707
Buitelandse bates	4 866 211 034	5 893 255 116	(1 027 044 083)
Totaal aan goud en buitelandse bates	**10 772 086 501**	**11 549 127 877**	**(777 041 376)**
Binnelandse bates:			
Verdiskonteerde wissels	4 754 775 000	2 823 010 000	1 931 765 000
Lenings en voorskotte:			
Regering	—	—	—
Ander	1 455 302 910	1 469 761 530	(14 458 620)
Sekuriteite:			
Regering	998 918 506	1 090 397 683	(91 479 177)
Ander	1 122 985 045	1 122 985 045	—
Ander bates	9 956 075 790	10 250 760 917	(294 685 127)
	29 060 143 752	**28 306 043 052**	**754 100 700**
Rand per fyn ons	881,14	838,69	42,45
Goudbesit in fyn ons	6 702 539	6 743 699	(41 160)

C. J. SWANEPOEL,
Hoofbestuurder.

Pretoria, 8 Oktober 1992.
(23 Oktober 1992)

NOTICE 937 OF 1992

DEPARTMENT OF TRADE AND INDUSTRY

Notice is hereby given that the following promissory note issued by the Department of Trade and Industry to Hoechst S.A. (Pty) Ltd as set hereunder, has been mislaid:

Promissory note issued to Hoechst S.A. (Pty) Ltd

Promissory Note No	Date of issue	Due date	Face value (R)
00000706	16 June 1991	1 April 1992	60 919

The above-mentioned promissory note will after the date of publication be regarded as cancelled. Should the promissory note be retrieved, it must please be returned to the Department of Trade and Industry, Private Bag X84, Pretoria, 0001.
(23 October 1992)

KENNISGEWING 937 VAN 1992

DEPARTEMENT VAN HANDEL EN NYWERHEID

Hiermee word kennis gegee dat die volgende promesse uitgereik deur die Departement van Handel en Nywerheid aan Hoechst S.A. (Edms.) Bpk., soos hieronder uiteengesit, verlore geraak het:

Promesse uitgereik aan Hoechst S.A. (Edms.) Bpk.

Promesse No.	Uitreikings-datum	Vervaldatum	Sigwaarde (R)
00000706	16 Junie 1991	1 April 1992	60 919

Na datum van publikasie word bogenoemde promesse as gekanselleer beskou. Indien die promesse gevind sou word, moet dit asseblief aan die Departement van Handel en Nywerheid, Privaatsak X84, Pretoria, 0001, teruggestuur word.
(23 Oktober 1992)

Rand's effective value 'still stable'

BDAY 23/10/92. (49)

HILARY GUSH

THE trade-weighted — or effective — value of the rand remained stable despite the unit's recent slump to a new record low against the dollar.

Economists and forex dealers said yesterday the effective rand exchange rate had remained relatively stable despite a firmer dollar.

UAL economist Dennis Dykes said that if the market knew the exact weightings of the various currencies in the basket, they could possibly set up a trading system which would make profits at the Reserve Bank's expense.

Dykes said the Bank had disclosed the identities of the currencies making up the trade-weighted basket. These were the US dollar, pound, Deutschmark, yen, Italian lira and Dutch gilder.

He said there was no question of the dollar's dominance in the basket as most of SA's trade was denominated in the US currency. "The dollar's weighting is, without a doubt, greater than 50%, and probably quite a bit higher than that."

Martin and Co economist Carmen Maynard said despite the fact that about 10% of SA's total trade was with African countries, the Bank's trade-weighted basket did not appear to include any African currencies. "For a representative trade-weighted basket African currencies would naturally have to be included."

Maynard believed the Reserve Bank did not disclose the various weightings for fear that the potential for the market to speculate about currencies would arise.

She said the effective rand had "not performed badly at all" despite falling to a historic low against the dollar. The weaker rand was simply a function of a stronger dollar.

A Reserve Bank spokesman confirmed the Bank kept the weightings confidential to prevent the market speculating against prospective Bank movements in the forex market.

He said while the rand was weak against the dollar it had gained on the crosses and that a relatively stable trade-weighted value had been maintained.

From Wednesday's R2,9173 close against the dollar, the rand slid to a R2,9275 low in morning trade yesterday. But by mid-afternoon — as the dollar slipped to DM1,50 and exporters came into the market and sold the US currency — the rand firmed to end at R2,9188 against the dollar.

Keys's economic plan will not pander to others' models

BDay 23/10/92.

GRETA STEYN

(49)

CLUES are emerging on the contents of Finance Minister Derek Keys's long-term economic policy programme, which will be released next month. These pointers suggest the policy package will carry Keys's own mark rather than favour any one of the many other plans already drawn up for SA.

Plans and ideas have come from a number of quarters including the World Bank and IMF, Old Mutual, Nedcor and Keys's predecessor in economic co-ordination, Wim de Villiers

One of Keys's main objectives is to raise the country's fixed investment spending, especially private fixed investment Industrial, monetary and fiscal policy instruments will be used to foster sustainable, investment-led economic growth

An important signpost to the plan is the discussion document drawn up by Trade and Industry director-general Stef Naudé with the help of the Industrial Development Corporation It is understood Keys is using the report as a building block for his economic model. The document contains a range of policy suggestions on improving the investment climate and improving competitiveness. Some of the strategies are already being implemented

The first suggestion is nothing new — the lowering of SA's inflation rate to levels comparable with the country's trading partners. It is also in line with the IMF's thinking on inflation, but much stricter than the World Bank's suggestion that SA "live with moderate inflation" made in an informal policy document

The second suggestion is a lowering of the corporate tax rate. This was policy before revenue problems in the face of mounting social spending caused government to put the idea on the backburner

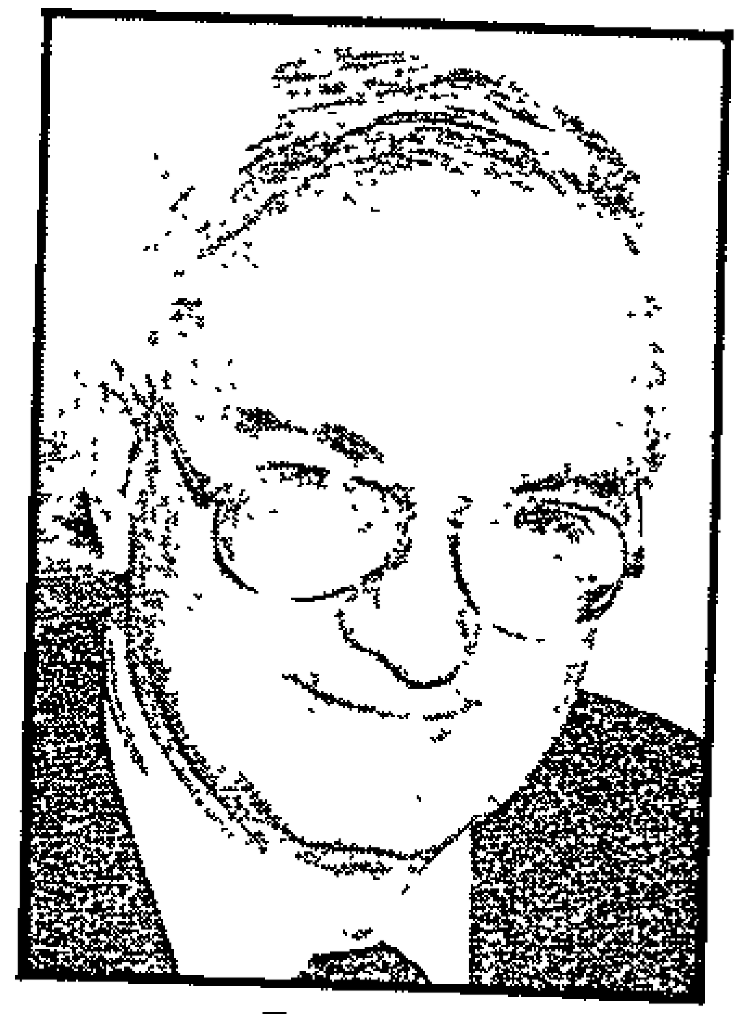
Proposal number three is the improvement of savings to finance investment, with special emphasis on government savings There is no doubt that turning around government dissaving is a major element of Keys's plan He has already raised the ire of the public servants by his move to cut spending by 3% in real terms The programme apparently contains a five-year plan to wipe out government's use of the country's savings for consumption spending. The use of foreign savings to finance investment is also mentioned.

Maintaining exchange rate stability is the fourth suggestion, but there is a strong hint that Naudé would favour a weaker rand: "Export driven industrialisation ... is facilitated substantially by a lower external value of the currency The latter simultaneously reduces the need for and level of selective export subsidies Depreciation in many countries served to reduce tariffs " The World Bank has argued for rand depreciation in SA, it is also a stock element of the traditional IMF structural adjustment package. The Reserve Bank, however, remains steadfastly against weakening the rand and the Bank's influence will probably be seen in Keys's ideas.

Another proposal is to scrap import surcharges that impede investment. This also echoes past policies that have not been implemented.

The sixth ingredient is labour stabilisation of labour costs by raising productivity The report says labour relations have to be strengthened through consensus on economic policy. This idea is being implemented in fits and starts in the form of the economic forum.

The report recognises it will take time before all the ingredients are in place, and suggests selective support measures should play "a more prominent role than otherwise" The section on incentives borrows from the Far Eastern "tigers" and is more



NAUDÉ

interventionist than the IMF would like. It suggests preferential interest rates to industries affected by changes in tariff policy if they want to upgrade competitiveness by investing in modern plant and equipment. Training and retraining of labour would also require government action.

The role of Section 37E of the Income Tax Act in encouraging investment in big capital projects with long lead times will remain important, says the report. This flies in the face of explicit criticism of the policy by the IMF Keys's lifting this week of the export requirement for 37E relief is clear evidence he will not be swayed by the IMF He said government would continue to support large developmental projects, especially as long as private fixed investment remained "sticky"

Further use could be made of preferential interest rates to encourage exports of value-added minerals, the discussion document said, while the General Export Incentive Scheme could be revised for those industries due for tariff reform. Government should also adopt measures to encourage research and development.

The major differences between the Keys approach and that of Wim de Villiers lie in tariff reform and labour relations.

De Villiers' restructuring plan, which was never formally released, envisaged slashing protection. It also blamed the trade union movement for aggravating SA's economic problems and argued for decentralised wage bargaining. There was no suggestion of consensus policymaking.

But Keys's approach is to proceed with caution. The task force appointed to investigate the textiles industry was a "mini economic forum", government sources say Labour, government and industry representatives negotiated a new strategy, rather than it being formulated in Pretoria.

In summary, the approach emerging is one of strict monetary and fiscal discipline combined with targeted interventions gradual reforms and consensus policymaking

But some pieces of the puzzle are still missing Keys's ideas on personal taxation are not yet clear, although it seems dramatic reductions are not on the cards The programme is also likely to contain a development element and possibly proposals for financial markets

On development Keys this week indicated he would favour more active job creation programmes He said the economic forum would have to, among others, design a programme for effective utilisation of the unemployed in communities He said the obvious solution was to use the pool of unemployed in providing for the basic needs of the rapidly growing urban population

Other elements of a development strategy could be reflected in the tax structure. There has been speculation of a wealth or capital gains tax, but Finance special adviser Japie Jacobs says this is not on the table.

On financial markets, Keys made some intriguing comments this week about the markets' failure to mobilise savings for huge capital projects and for small business. The system was not working in a way conducive to development, he said

He said the major corporations whose shares were the most popular should "in theory" solve the problem through their entrepreneurial activity "The best argument for the existence of the large groups in SA surely ought to be that they are able to bridge successfully the gap between the long wait for income from development activities and the portfolio investors' desire (they would say 'need') for immediate income. To the extent that these essentially venture capital operatives begin to see themselves more as administrators of large estates ... the mechanism will run down and the country's rate of growth with it."

Will this viewpoint be reflected in next month's policy package, or is it a problem that will be tackled in an informal, behind-the-scenes way as the Asian-style partnership between government and business develops"

Next month all the pieces of the puzzle will be in place Once Keys's ideas are finally on the table, the next question will be whether they can and will be implemented

LETTERS

Rosier outlook for Economic Forum

(49) CT 23/10/92

Own Correspondent

JOHANNESBURG. — The proposed National Economic Forum could be on track again following a meeting of Finance Minister Derek Keys and delegations representing employers and trade unions yesterday.

Amended proposals for the National Economic Forum (NEF) will be taken back to cabinet by Keys and to business' and labour's constituencies for mandating.

The meeting, which the Consultative Business Movement secretariat described as a "frank and open exchange of views", resolved to meet again next week to report back and to take decisions on the way ahead for the NEF.

Among those present were Sacob director-general Raymond Parsons, AHI past president Attie du Plessis, Barlow Rand executive director John Hall, Nactu delegate Tommy Olifant, Chamber of Mines president Bobby Godsell and Cosatu assistant general secretary Sam Shilowa.

The NEF has been hanging in the balance since late September when government refused to support a plan to launch it next month — citing Cosatu's support of a tax boycott as a primary reason.

Although Cosatu has now officially postponed the boycott, government was still concerned about launching the forum while Cosatu still pursued mass action — which both government and employers see as inimical to economic growth.

Government has also been concerned that the proposed structure of the NEF, and the planned plenary session, were too tight and formal. Government would prefer a more fluid process of discussion and negotiation under the umbrella of the NEF.

However, Cosatu has not wanted the NEF proposals and structures, which have all been thrashed out in previous meetings, to be watered down.

It is likely that yesterday's discussions were aimed at reaching some consensus on these issues, as well as securing commitments from the parties to the NEF.

Economic forum could resume soon

DIRK HARTFORD (49)

THE proposed national economic forum could be on track again after a meeting between Finance Minister Derek Keys and delegations representing employers and trade unions yesterday.

Amended proposals for the forum will be taken back to Cabinet by Keys and to business and labour constituencies for mandates. BDAY 23/10/92.

The meeting, which the Consultative Business Movement secretariat described as "a frank and open exchange of views", will meet again next week to report back and take decisions on the way forward.

Among those present were Sacob director-general Raymond Parsons, AHI past president Attie du Plessis, Barlow Rand executive director John Hall, Nactu delegate Tommy Olifant, Chamber of Mines president Bobby Godsell and Cosatu assistant general secretary Sam Shilowa.

The forum has been hanging in the balance since late September when government refused to support a plan to launch it next month — citing Cosatu's support of a tax boycott as a primary reason.

Although Cosatu has offi[illegible] postponed the boycott, government is still concerned about launching the forum while Cosatu pursues mass action — which both government and employers see as inimical to economic growth.

Government is concerned that the proposed structure of the forum, and the

☐ To Page 2

Forum BDAY 23/10/92 (49)

☐ From Page 1

planned plenary session, is too tight and formal. Government would prefer a more fluid process of discussion and negotiation.

Cosatu has been insistent that the forum proposals and structures, which have all been thrashed out in previous meetings, should not be watered down.

It is likely yesterday's discussions were aimed at reaching consensus on these issues, as well as securing commitments from the parties to the forum.

Government wants commitments on supporting economic growth, opposing illegal actions and stopping activities which could harm any parties to the forum.

Cosatu wants commitments that unilateral economic restructuring will not go ahead until there has been sufficient consultation with all the concerned parties.

Welcome to the Third World, SA

WMail 23/10 - 29/10 92 (49)

By REG RUMNEY

NEWS that South Africa is to become — officially — a developing country will cause consternation in some quarters. And it will be welcomed by the African National Congress.

That the government is negotiating with trade partners and blocs such as the European Community for such a change was revealed this week by Finance Minister Derek Keys.

ANC economic adviser Alan Hirsch says the organisation should take credit for the development. "The push for this first came from the ANC."

Conservative researcher Erich Leistner described the step in a South African Chamber of Business (Sacob) discussion document, released this week, as "retrogressive". The document is titled *South Africa's Options for Future Relations with Southern Africa and the European Community*.

Leistner wrote: "With an internationally acceptable government in power in Pretoria South Africa might be able to convince the member countries of the General Agreement on Tariffs and Trade (Gatt) that it should be ranked as a 'developing' nation. Such a retrogressive step, however — if it succeeded — might arguably cost it more in respect of international creditworthiness and foreign investment than it would gain by way of European Community development assistance."

The problem is not so much the reality as the perception, adds Leistner, of the Pretoria-based Africa Affairs Institute.

"It is the idea that South Africa is confirming it is turning into a banana republic. Maybe the government knows something we don't know," Leistner says.

Hirsch asserts this is the traditional government response to the drive to change South Africa's status, that it would send the wrong signal to investors. "This was always a foolish idea. There is no other reason for opposing the change than false pride." Some countries identified as developing, such as Taiwan, South Korea and Malaysia, receive more than enough investment.

"The ANC is saying that this is just a recognition of where we actually are." One advantage of the change in status, says Hirsch, is more flexibility in the pace at which South Africa conforms to Gatt.

Also, it puts South Africa in the same league as neighbouring countries and may make multilateral and bilateral trade arrangements easier.

Hirsch and Leistner agree on the limits to development aid flowing from a change in status.

Hirsch explains the introduction of a "least developed" category lessens the impact of South Africa changing its status to "developing". Least developed countries, many African, are first in line for aid.

Hirsch doubts the South African government will be able to achieve the change without the ANC's help.

"The whole process of changing status is a political one." Developed and developing countries can be expected to resist the change. An all-party diplomatic front should be formed to get the new status accepted, he says.

Spreading their wings - or fleeing SA?

W/Mail 23/10 - 29/10/92

49

Investment should begin at home, says the ANC. But South African business is pouring its money into offshore deals.

REG RUMNEY *reports*

THE African National Congress and many South African companies are both telling foreign firms to hold off on investing in South Africa. The warning signal sent out by businesses is unintentional. They are — for good financial reasons — falling over themselves to invest overseas while domestic investment languishes.

Finance Minister Derek Keys has hauled around the world a chart illustrating the plight of the South African economy through the headlong fall in gross domestic fixed investment.

At the same time, South African firms have taken advantage of the dwindling pariah status of the country to become involved overseas.

Latest example is the Royal Group purchase, with Anglo American aid, of European food giant Del Monte Foods International in a R2,4-billion deal. And in June this year Sappi acquired Germany's Hannover Papier. Numerous other companies have made investments overseas since the landmark February 2 1990 speech.

Using the financial rand is one of only two routes available for South African companies investing overseas. The other is to raise loans or sell shares.

All are in pure economic terms neutral. No capital flows out of the country through these deals.

Using the finrand, rather than "commercial" rands to invest outwards, is an expensive route, costing now around 33 percent more than if there were no exchange control. This shows the determination of South African firms to get hold of foreign assets.

The ANC Department of Economic Policy's Tito Mboweni says that firstly, the ANC has not called for the lifting of sanctions and so the countries where South African companies are investing should take heed.

"Secondly, our preference is now for South African companies to invest domestically, particularly in fixed assets, which would lead to a better labour absorptive capacity. It would improve the general performance of the economy."

He adds that a future democratic government cannot prevent companies expanding abroad, as long as this isn't capital flight. South African businessmen see nothing wrong with the current craze of investing overseas.

Anglo American spokesman Michael Spicer says South Africa, from the financial point of view of high inflation, high interest rates, a high cost of capital and high taxes, is not particularly attractive to invest. "The risk is high and is compounded by political uncertainty, violence and labour unrest."

Companies are investing abroad rather than here because they can't get a comparable return on their investment, he says. Besides this, South Africa is in deep recession and in many industries there is spare capacity, so why invest more money?

"In South Africa investment is talked about in moral terms rather than economic terms. The rules applicable in other countries are suspended."

Though no capital flight is involved in setting up a company overseas, an overseas presence could make it easier to export capital illegally, through hard-to-detect over-invoicing and under-invoicing.

In pure economic terms, Spicer and other businessmen are correct that business must seek the best return wherever they can.

But companies must know they operate in a world where economic considerations constantly vie with economic and ethical ones. Anglo is at least investing a sizeable sum domestically in job-creating ventures, albeit mainly in the commodity-exporting industries South Africa should be trying to wean itself away from. For instance, Anglo launched the R1,7-billion gold mining venture at Moab this week. It will create 5 000 jobs.

The Royal acquisition of Del Monte, too, says Spicer, will secure access of South African agricultural products to the essential core triad market. The resulting labour-intensive agricultural production in will create tens of thousands of jobs over the next five years, he adds.

That is commendable, but an estimated unemployment rate of 40 percent of the economically active population means more needs to be done.

Unless there is new investment, violence, unrest and hence uncertainty will continue — the familiar chicken-and-egg problem. Business owes it to the country to seek out new domestic investments.

BUSINESS

Bank chief forecasts end to three years of decline

(49) ARG 24/10/92

Weekend Argus Correspondent

RESERVE Bank Governor Dr Chris Stals this week provided the first official insight into the Bank's economic expectations for next year, forecasting modest growth of one percent.

While this is not enough to absorb all new entrants into the job market, "at least it will bring to an end three succesive years of economic decline".

In an address to the annual congress of the Afrikaanse Handelsinstituut (AHI), Dr Stals criticised the government's failure to limit the expected decline in the deficit before borrowing to seven percent of gross domestic product this year.

"At this stage this is already contributing to expectations that inflation will remain high, long-term interest rates will not fall and the business climate will remain depressed."

The high deficit before borrowing would enlarge the public sector's role in the economy, which was not consistent with stable growth, and undermine future growth potential.

Dr Stals said his 1993 growth forecast was based on expectations of a cyclical rise in demand, better agricultural conditions and an improvement in the world economy. An improvement in SA's political situation would provide further impetus to growth.

"The current political situation contributes to a large extent to the lack of business confidence and is preventing both local and foreign investors from committing capital to long-term investments," he said.

The Bank expects the following key developments next year:

- Private consumption expenditure will show a slight increase in real terms;
- Growth in public sector spending will rise more slowly than in the past few years;
- The decline in gross domestic fixed investment will stop;
- Exports will rise;
- There will be a slight improvement in the level of inventories.

Despite the slight upturn in demand factors, Dr Stals does not envisage a material change in monetary policy.

"Monetary policy must aim first and foremost at financial stability and the most we can afford over the next few months is a repeat of last year's neutral, but slightly expansionist, course," he said.

"There will be room for interest rate cuts only if the inflation rate falls further, if overseas interest rates decline, money supply growth does not accelerate and domestic credit extension remains under control."

Dr Stals said fiscal and monetary authorities should be wary of simply "pumping up" a weak economy without rectifying the structural impediments in the system.

☐ Dr Chris Stals

Cape shortfall 'depressing'

49

By BARRY STREEK
Political Staff

CT 24/10/92

THE government seemed incapable of proper, co-ordinated financial planning and indications of a Cape budget shortfall of millions of rands was cause for serious concern, the Democratic Party's national chairman, Mr Ken Andrew, said yesterday.

"The sorry state of provincial finances makes for depressing reading," he said in a statement after it was disclosed that provincial health and hospital services were expected to run R160 million over budget this year.

"What is happening while the crisis deepens? Are we simply waiting until financial disaster looms, as happened last year, and then the province will press the panic buttons once again?" Mr Andrew asked.

"Critical areas, such as hospitals, health and old-age pensions are threatened by the incompetence of the government and it will be particularly vulnerable people, the sick and the elderly, who will bear the brunt of the crisis.

"One has the uneasy feeling that the government has lost control and does not know what to do.

"People feel like passengers on a rudderless ship, watching the captain and officers muddle endlessly while the ship heads for the rocks."

Forum could focus on better living

(49) ARG 24/10/92

A Western Cape Economic Development Forum should be established to agree on strategies to increase employment levels and the quality of life of the people of the region.

Proposed areas of focus would include urban development and housing, improving the competitiveness of Western Cape business, and issues relating to black economic advancement, among others.

Proposals for the establishment of such a forum were made public in Cape Town on Wednesday by a committee of 22 nominated by regional labour, business, local authority, civic and other bodies.

The committee was established in April and follows the Growing the Cape workshop, which focused on the growth of the regional economy.

The inaugural meeting of the forum is scheduled for December 3 and organisations wishing to take part are invited to apply for participation, care of the Interim Steering Committee, PO Box 1678, Cape Town, from whom further information can be obtained.

The forum structure makes provision for three bodies, a plenary body which would be the highest decision-making body, a steering committee drawn from the plenary body and a number of commissions established by the plenary with responsibility for addressing substantive issues related to the growth of the Western Cape economy.

The forum is intended to address the Western Cape as a whole, but will focus on the Metropolitan core and is expected to interact with the various forums recently established at national level, such as the National Housing Forum and the National Economic Forum.

The convenor of the steering committee, Dr David Bridgman, said the agreement to establish such a co-operative structure demonstrates a clear recognition by the major regional economic players that growth of this economy must in future be sought through joint endeavour.

"We hope that this forum can help these players to agree on the strategies which will redress the effects of past policies and lead the Western Cape to a time of greater prosperity for all its inhabitants," Dr Bridgman said. — Sapa.

Dire time for SA, developed or not

ST Times (BUSS). 25/10/92. (49)

By TERRY BETTY

MOVES to have South Africa reclassified as a developing nation have sparked controversy.

Apart from concerns from business that the costs may outweigh the benefits, strong opposition is expected from developed countries, such as Australia.

Department of Trade and Industry director general Stef Naude says that, as a developing nation, SA would gain entry into trading blocs, such as the European Community (EC), on a preferential trade basis.

It would also have access to development aid.

But a South African Chamber of Business (SACOB) discussion paper on SA's future relations with southern Africa and the EC warns that the retrogressive step might cost the country more in terms of international creditworthiness and foreign investment than it would gain from EC development assistance.

A government source believes foreigners and local businessmen might be wary to invest in a country perceived as being a basket-case banana republic.

He says SA has to make a choice between increasing its exports or attracting foreign investment to SA. He says that even if SA had to reclassify, business would still be inhibited by the lack of foreign capital.

Negotiate

Being a developing nation does not guarantee any advantages. Dr Naude says that, even if it is reclassified, SA will have to negotiate the preferential trade agreements with each trading partner.

And this can be formally challenged by any member of GATT (General Agreement on Tariffs and Trade) whose trading interests will be damaged.

An EC paper under the title "Trade Preferences and Post-Apartheid SA", says that, of SA's top 10 exports, only one-fifth are set to benefit substantially from preferences.

But the benefits will be felt by those outside the top 10. Fresh and processed fruit and vegetables, fish products and clothing and leather goods could benefit.

The government spokesman sees opposition to this in every quarter.

The SACOB report says the African, Caribbean and Pacific (ACP) countries, who are part of the Lome Convention and receive preferential trade status from the EC, will probably oppose SA's membership because it might reduce their share of EC aid and investment.

It says non-ACP countries, such as Australia, New Zealand and Canada, would lobby forcefully against SA's membership as they compete with SA in many areas.

And even some EC countries may object to competition from our fruit, wine, steel and textiles.

SACOB has set up a committee to evaluate the rand value of the benefits and costs. SACOB deputy director general Ron Haywood says that it is essential for SA to negotiate with its partners in the interim so that it can be reclassifed immediately after a decision is taken.

He says the Lome Convention is to decide next year how to split up the development aid pie amongst its members, and SA will lose out if it does not take part.

Businessmen also say SA should take advantage of the fact that most countries are at present sympathetic to its cause but that this will not continue for ever.

Benefit

But few businessmen see aid as being the issue. They believe SA will only receive marginal amounts.

SACOB economist Ben van Rensburg says UN development agencies have put aside $75-million for the whole of sub-Saharan Africa. He says Namibia receives only R100-million from all the development agencies, while SA alone pumps in R800-million a year.

Nedcor chief economist Edward Osborn says SA must not become dependant on aid anyway. He says the benefit lies in the treatment accorded to SA by the industrialised countries, which are the primary markets of the world.

He says this will benefit SA industry that is up against stiff competition and is not internationally competitive.

Osborn says reclassification must be a long-term issue to be reviewed every 10 years.

However, a BMW spokesman says that as SA is going to have an interim government, it also needs an interim trade arrangement.

He says SA should downgrade just until it gets back on to its feet again. He says there is a tremendous danger SA will start to rely on preferential trade and cannot stand on its own feet.

'Developing' tag could help SA

MONEY TALK 49

NEGOTIATIONS taking place between SA and its main trading partners to have us reclassified as a developing country could have an important impact on our economic future. C/Pers 25/10/92

It would, for instance, make us eligible for assistance from the Organisation for Economic Co-operation and Development (OECD) – an organisation grouping the world's most important industrial nations. We will also – and this could be our most important benefit – be able to obtain political risk guarantees from the Multi-Lateral Investment Guarantee Agency.

This international agency issues guarantees to investors against risks such as nationalisation. Even risks associated with political instability which could impede the remittance of profits are covered.

SA is, unfortunately, increasingly being regarded as a high-risk area for nationalisation and political instability.

How crucial foreign investment has become to our future development is reflected by a recent economic analysis that shows that only about three out of every 100 job-seekers can be accommodated in formal employment at present.

Guarantees in respect of the repatriation of capital should help to calm the minds of many foreign investors who are already committed to SA. How sensitive capital has become to political developments becomes clear when one looks at the capital flight that occurred when Codesa 2 broke down and mass action began. An estimated R2-billion was withdrawn from the country in the second quarter of this year.

Finance Minister Derek Keys believes that SA's reclassification can be well advanced early in the new year. But a lot, of course, will depend on the attitude adopted by our main trading partners.

Apart from the aid that a new status as a developing country will confer on us, we should experience a resurgence of confidence. However, we should not fool ourselves that the outside world will solve our problems for us.

To get our economy moving again it is essential that ALL our political leaders make a concerted effort to rebuild local confidence. If our own businessmen remain afraid to invest, how can one expect foreigners to do so?

New role seen for development bank

ET 27/10/92 (49)

Own Correspondent

JOHANNESBURG. — A reconstituted Development Bank of Southern Africa could become a key development agent for the southern African region if an African Development Bank proposal made earlier this month is put into action.

An African Development Bank study on regional integration in a post-apartheid southern Africa suggested the Development Bank of Southern Africa should be restructured to play a new role in the subregion. But the study warned that SA should not dominate the new bank.

The main role of the new bank was seen as poverty alleviation and addressing social issues arising from apartheid. The study suggested the Development Bank of Southern Africa should help channel regionally sourced and foreign development resources to poorer member countries, while maintaining normal banking relations with other richer member countries.

The study, which sees trade expansion as the cornerstone to integration, was discussed at workshops in Abidjan earlier this month. The study also proposed that natural and human resources, infrastructural and public utility co-operation should work parallel to trade expansion.

A source said the final draft of the African Development Bank study would be released early next year and it would be delivered initially at symposiums in countries in the region. Countries would be involved in determining the costs and benefits of integration.

Thereafter, the report would be delivered to the pan-African institutions, the African Development Bank, the OAU, and regional institutions such as the Preferential Trade Area (PTA) and the Southern African Development Community (SADC).

Finally, the study would be delivered to donor countries at symposiums in key centres, such as Bonn, Brussels, Lisbon, London and Stockholm.

A source said the presentation to donor countries would be an important step because the process of integration depended on mobilising development assistance.

Recovery pinned on politics, agriculture

BDAY 28/10/92 (49)

HILARY GUSH

CHANCES of economic recovery early next year are slim and hinge on political developments and an agricultural turnaround, says the latest Old Mutual Economic Monitor.

The report says "the dividing line between continued recession and slow recovery will remain slender in coming months, and ... political developments may play a deciding role in choosing between them".

Sharply weaker consumer and business confidence, implications of the high budget deficit and a sluggish world recovery depress prospects for domestic economic revival in 1993, the report says.

By the third quarter of this year consumer confidence had dropped below levels recorded during the foreign debt crisis of 1985.

The review attributes plummeting consumer confidence levels to "the crippling drought, sharp food price hikes, continued violence, industrial unrest, political uncertainty and rising unemployment".

Business confidence — in the public and private sectors — also remained extremely depressed.

Consumers remained under pressure as a gradual decline in workers' salaries gathered pace and continued retrenchments resulted in the wage bill growing at a rate lower than inflation.

In nominal terms, farming and interest incomes also declined.

As a result, real disposable income recorded its fourth quarterly decline over the last five quarters. By the second quarter, real disposable income was about 2,6% below the peak recorded in the first quarter last year.

The report predicts a budget deficit of about R23bn — or 6,5% of GDP — for the current fiscal year, as against the budgeted R16bn.

"A sustained deficit of this magnitude has dangerous implications, particularly for inflation."

In spite of numerous signs of continued recession, encouragement can be drawn from an expected gradual relaxation of monetary policy — on the back of heightened prospects for easing inflation.

As drought contributed an estimated 1,8 percentage points to shrinking economic activity this year, the report says a more normal agricultural season will have a significant impact on economic recovery.

Capital outflow shows slowdown

BDAY 28/10/92 (49)

GRETA STEYN

SA's foreign capital situation held up well in the third quarter in spite of escalating violence, economists' calculations show.

Economists said early indications were there had been a marked slowdown in the capital drain. This would represent a turnaround from the second quarter of this year, when R1,9bn had left the country as a result of adverse political factors.

However, economists said an improvement could be expected once the third-quarter figures were released — this was indicated by the rise in foreign exchange reserves despite a small current account surplus and large foreign debt payments.

The Reserve Bank was not able to confirm or deny balance of payments projections as it was still compiling statistics. Gold and foreign exchange GM James Cross noted, however, that foreign exchange reserves had held up well over the period.

The current account surplus for the third quarter is estimated at about R600m — sharply down from the R1,32bn surplus notched up in the second quarter. Foreign debt falling due (more than R1bn) exceeded the current account balance.

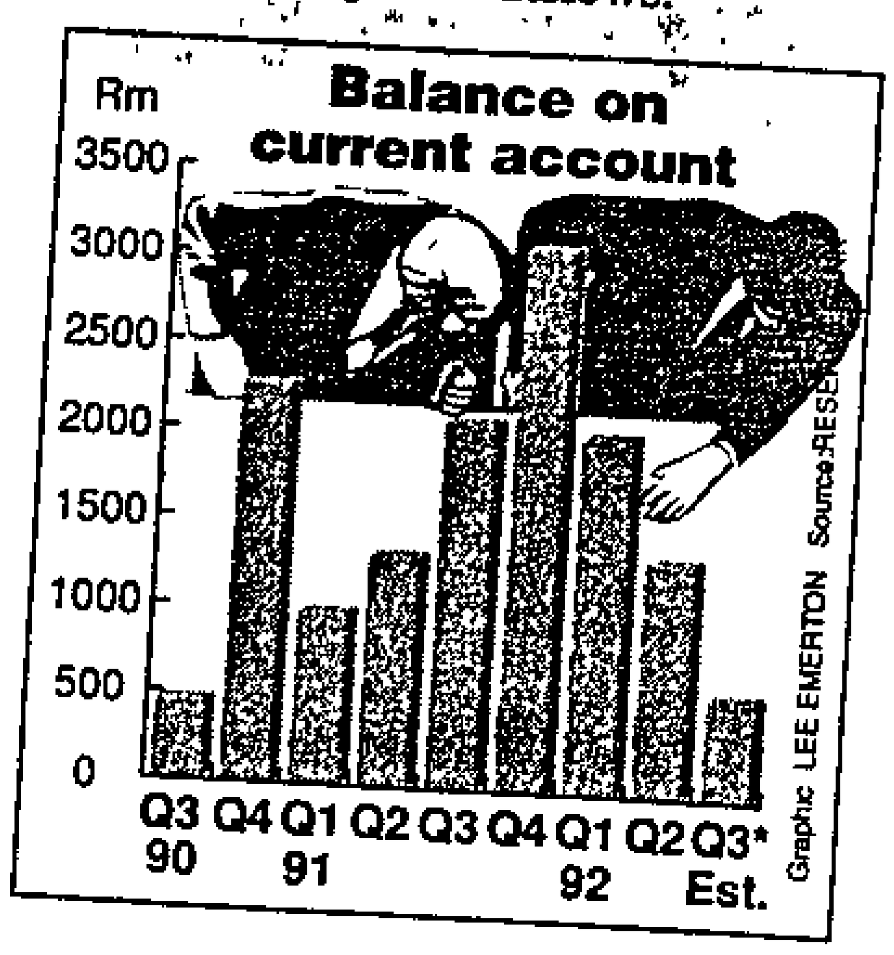
The current account is the trade balance less net payments for invisible trade.

Nedbank chief economist Edward Osborn said it was possible there had been a rollover of debt outside the standstill net falling due in the third quarter. Debt inside the net ($180m) had been repaid. He said it was possible a rollover of the remaining debt had been arranged at the beginning of the year, before the political situation had worsened.

Gold and foreign exchange reserves rose by R584m in the third quarter.

The difference between the current account surplus and the change in foreign reserves could provide clues as to foreign capital movements, AHI economist Nic Barnardt said.

The calculation indicated a small capital outflow during the quarter. However, Barnardt cautioned against drawing too firm conclusions from this calculation as the available figures for changes in foreign exchange reserves did not include those of the banking sector. Movements of currency between the Reserve Bank and the banking sector could be mistaken for capital outflows.



'Progress' on train violence

WILSON ZWANE

SUBSTANTIAL progress was made in Johannesburg yesterday at a meeting of two working groups set up last week to find solutions to train violence, sources said.

The sources said the working groups — on preventative and active measures of ending train violence — would meet again within days to continue deliberations.

Further meetings would have to be held, they said, before resolutions on how to combat train violence could be taken. BDAY.

They said it had been agreed a joint statement be issued only after the resolutions had been adopted.

The groups were set up in terms of the Train Agreement, which was signed in May by representatives of community and political organisations, police and the SA Rail Commuter Corporation. 28/10/92

Sapa reports that police said one man was killed and another seriously injured when they were attacked by a group of armed men on a train in Soweto early yesterday morning.

Fangelakha Cebakalu, 45, and Emmanuel Vilakazi, 31, were attacked on a train between Longdale and New Canada stations.

"They were stabbed with knives and thrown out of the train. Cebakalu died from wounds sustained and Vilakazi was taken to Baragwanath Hospital in a serious condition," the police report said.

Singapore moves to form SA links

(49)

LLOYD COUTTS

THE 10-year decline in SA's economy could not be reversed within one or two years, Singapore senior minister Lee Kuan Yew said in Johannesburg yesterday.

And in another development, the Singapore Trade Development Board announced yesterday that a trade delegation from Singapore was to visit SA next month to develop trade and investment links and to explore the possibility of using SA as a springboard for markets in Africa.

The board said the delegation of its senior executives and representatives of 11 Singapore companies would visit Durban and Cape Town.

Speaking after a meeting with ANC president Nelson Mandela, Lee said SA's industries had become "protectionist, heavy and slothful" because competition had been discouraged.

Lee said Mandela had told him the constitutional negotiations would probably lead to the institution of a transitional government acceptable to the majority of South Africans within a year. He had asked Mandela how long-term problems like unemployment would be resolved without capital development and manpower once "teething problems" like a transitional government had been resolved.

"SA will have to compete with many countries with large populations crying out for capital and expertise — like China and Vietnam — and it will have to compete against the rest of the world for capital," he added.

Mandela said he had been impressed with Lee's knowledge of political and economic developments in SA and that he was keen to engage Lee as an economic and financial adviser.

Lee, a former Singapore prime minister and the man credited with engineering Singapore's "economic miracle", said his country would be able to offer training and technical assistance, and infrastructure management skills.

He is on a 13-day official visit to SA and has already met Foreign Minister Pik Botha.

The board statement said the Singapore delegation arriving on November 1 would represent business interests such as packaging and printing, civil engineering, construction, ship building and repair, computers and computer peripherals, consumer electronics, engineering equipment and trading.

Meanwhile, a small delegation of businessmen accompanying Lee met black businessmen in Johannesburg yesterday. How Par International chairman Hong Hai and Scott Holdings chairman A Jumabhoy met the businessmen to discuss potential assistance to the black business fraternity.

28/10/92

World Bank funds waiting for talks (49)

GRETA STEYN

A KEY World Bank official yesterday indicated the bank could provide finance for education and urban development in SA once it felt comfortable with the political situation. BDAY 28/10/92

The bank's country officer for SA, Alun Morris, said in an interview in Johannesburg yesterday current studies — particularly on education and urban issues — would enable the bank to move immediately once it could provide finance. He emphasised that the provision of finance would take place only at SA's request.

Morris said the bank needed to be satisfied "consensus" had been reached politically. "We are not defining consensus," he said. Until then, the bank's role was confined to policy advice.

Monetary officials speculated the bank might be able to agree to a request for finance before an interim government was in place, but after a return to the negotiating table and some clarity on SA's future.

Morris is co-ordinating the bank's programme on SA and is in the country to obtain feedback on wide-ranging studies the bank has undertaken. The bank's director of the southern African region, Stephen Denning, was scheduled to arrive in SA next week to discuss current economic developments, Morris said.

He said the bank was intensifying its work on trade and industry and was looking into SA's "complex" tariff structure. The bank was also developing an integra-

☐ To Page 2

World Bank BDAY 28/10/92.

☐ From Page 1

ted quantitative model which would include a number of variables including investment, exports and imports, inflation and employment. (49)

The bank also planned workshops on land, agriculture and housing after what Morris described as two highly successful workshops on education.

Morris emphasised the bank was involving South Africans in its work, noting that sectoral studies were being done in a workshop environment. The main political and institutional interests were represented, including key academics, trade unions and urban non-government organisations. The bank had been impressed by the strength of SA's non-government organisations.

The bank hoped that by the first half of next year all the information would be brought together in a coherent view of the economy, providing a historical perspective and a basis to make projections.

Studies that had already been completed included the macroeconomy, unemployment and manufacturing.

Govt spending, taxes 'won't lift economy'

CT 28/10/92 (49)

By ARI JACOBSON

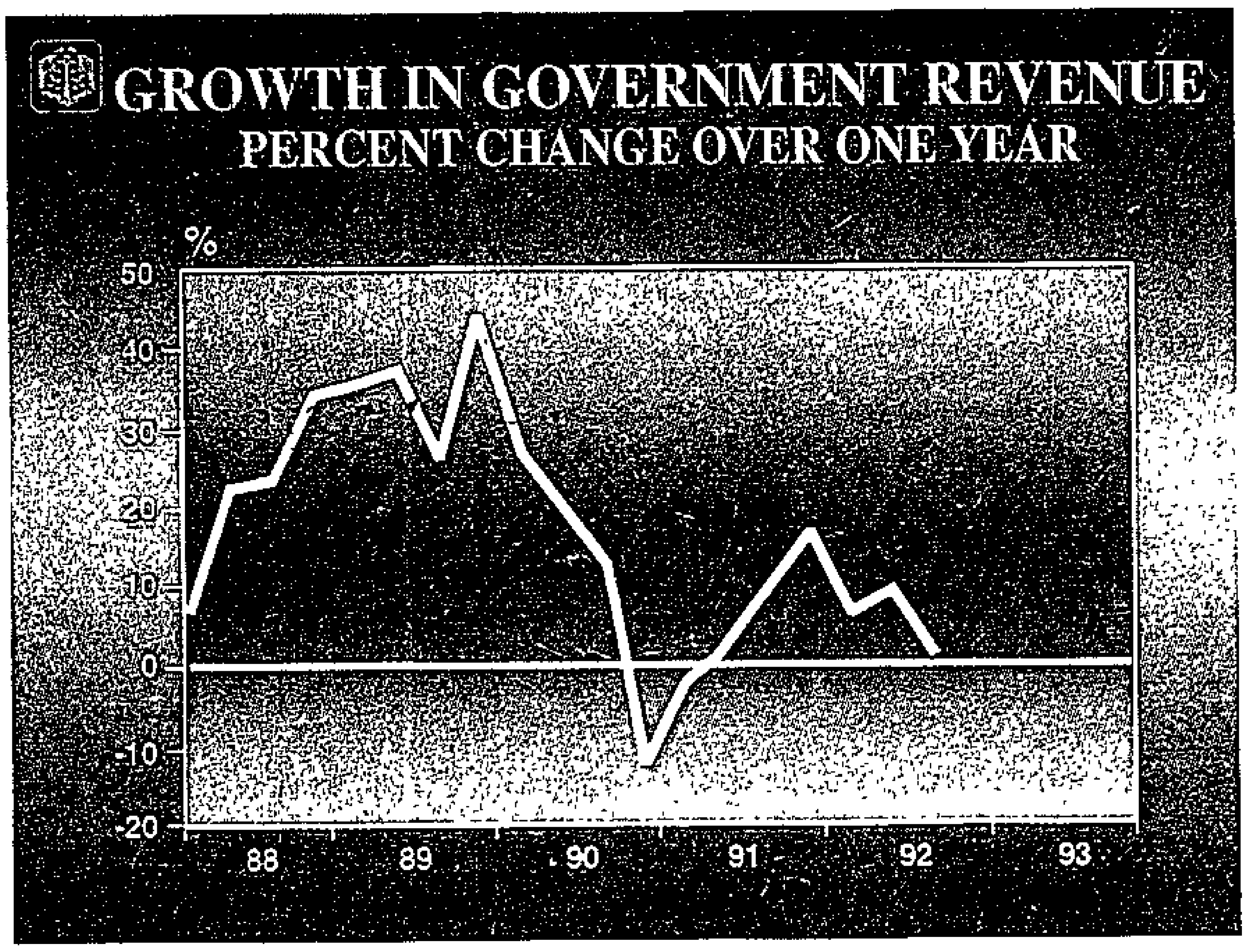
GOVERNMENT spending and taxes will not help the economy recover in 1993, according to Old Mutual's chief economist Dave Mohr.

Writing in the life assurers' latest Economic Monitor, Mohr said: "Tax cuts in the coming budget are unlikely and there is a good chance that certain taxes may be raised".

Mohr's views are based on the problematic state of government finances. Revenues, well-below budget, could lead to a soaring deficit of R23bn or 6,5% of gross domestic product (GDP).

Mohr points out that the government has already indicated that it planned to cut real government spending by 3% during the 1993/94 fiscal year.

"This constraint on government spending will make it even more difficult for the economy to break out of the recession."



On general economic trends Mohr adds that "by the middle of 1992 the economy was still firmly in recession and although the bottom should come in the next few months . . . there is a risk that the recession could spill-over into 1993".

He felt that political developments and the country's agricultural performance could decide the fate of the SA economy next year.

Even though the recovery may be delayed, he said that a moderate upswing next year is still possible with positive developments on these fronts.

Mohr says that the drought had reduced economic growth by 1,8% this year.

"Business and consumer confidence have been hammered by the lack of political progress — consumer confidence is now below even the levels reached during the 1985 foreign debt crisis."

Adding to negative factors, Mohr notes: "Although Old Mutual's economists are forecasting world growth to accelerate, it could be below expectations and lead to less support for the local economy.

"Closely linked to the indifferent prospects for the world economy is the slight chance of a strong recovery in international commodity prices."

But Mohr says that a combination of mildly stimulating factors should aid a bottoming-out of the recession and help to generate a slow improvement next year.

Alluding to positive influences that could support the economy, Mohr wrote of some stimulus to the local economy from foreign demand, inflation declining still further to ease pressure on the consumer and the rate of inventory depletion appearing to ease.

Capital inflows scarce, says Stals

BIDAY 29/10/92. (49)

SHARON WOOD

DURBAN — SA could not rely on any significant net capital inflows from the rest of the world over the next few years, Reserve Bank Governor Chris Stals said at the Sacob annual convention yesterday.

SA's precarious position in world capital markets made it impossible to rely on net capital inflows for funding of current account deficits, he said.

"For the time being, SA remains in the straight-jacket of having to retain a surplus on the current account of the balance of payments at all times," he said.

A surplus would be possible only if SA retained disciplined monetary and fiscal policies and retained exchange and interest rates that would enable the country to become more competitive globally.

The need for continued export promotion remained, but the emphasis should shift towards greater efficiency that will only be at the cost of the standards of living of the SA people."

Stals said SA's balance of payments remained vulnerable and would almost certainly not continue to be as favourable as it had been over the past eight years. It had already begun to shrink this year.

The fight against inflation would lend full support to protecting the balance of payments, he added.

Meanwhile, the Border Chamber of Commerce motion criticising the Reserve Bank's restrictive monetary policy was put on hold at the convention.

The delegates agreed the motion should be handed over to the Sacob economic advisory commission for review.

The motion called on the economic authorities to re-examine the appropriateness of the current policy of high interest rates, to address the government's deficit before borrowing, to look at the conflict between monetary and fiscal policies, to take steps to resolve inadequate competition and to deal with wages and salaries.

One delegate said it was important that real interest rates remain high to prevent inflation from rebounding.

The motion also called on government to formulate a coherent macroeconomic strategy. Another delegate said governemt was doing this already and the motion should rather call for government to reveal its economic plan as soon as possible and then to commit itself to rapidly implementing the plan.

FOCUS

BDay 29/10/92

Miracle man with lesson for SA

49

LLOYD COUTTS

AFTER Singapore senior minister Lee Kuan Yew arrived on Sunday on a 13-day visit, he put a "business school proposition" to Finance Minister Derek Keys.

Lee said: "I asked him 'what if?' "

What if the government had known 30 years ago how the world would develop by 1992? What would it have done to pre-empt change and anticipate the prevailing jostle for political position in SA?

Keys replied that there had been no national will to be a people.

Lee was puzzled.

"Then, after many a deep thought, the penny sank. I asked: 'Do you mean that if you had not been confronted with the apocalypse it would not have been possible to change people's minds and accept a multiracial democracy?' He did not challenge that, so perhaps it was the only way," Lee said.

The eloquent and erudite Lee has been described by Foreign Affairs Minister Pik Botha and ANC president Nelson Mandela as a man with deep insight who has much to teach SA.

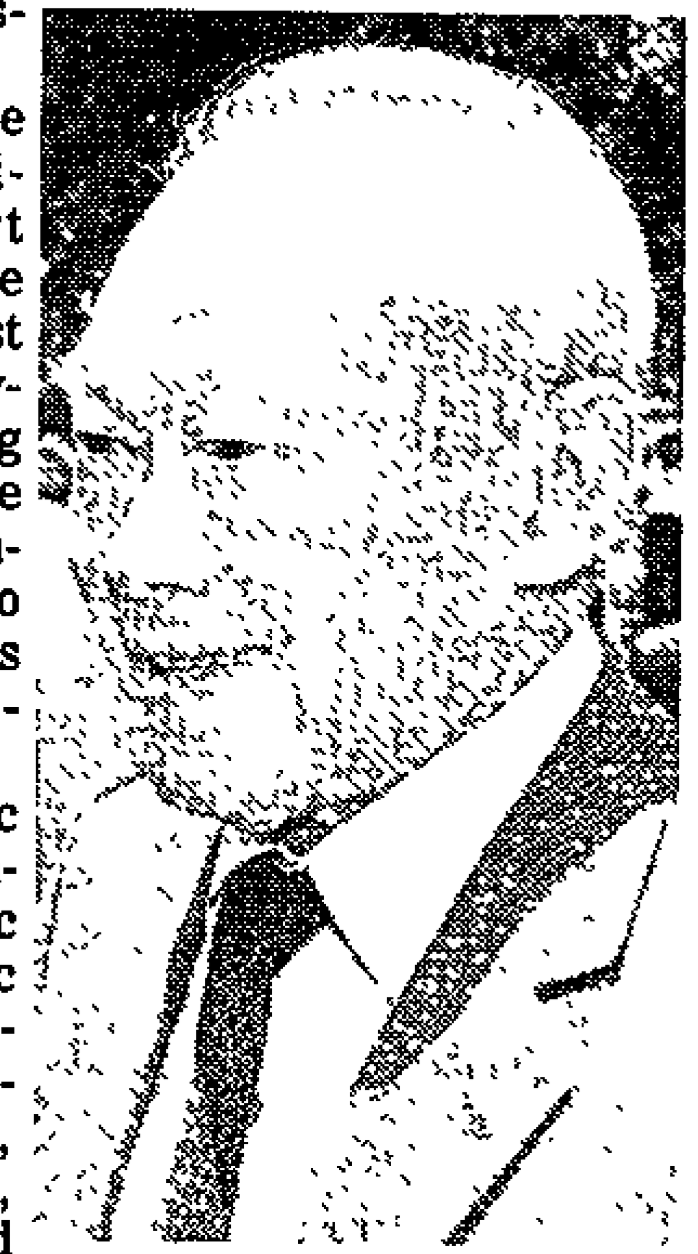
More important, Lee appears to have brought with him the tantalising promise of trade with Asian markets and investment in this country.

The former Singapore Prime Minister is accompanied by a small delegation of businessmen who have already engaged in talks with their local counterparts.

And the Singapore Trade Development Board announced on Tuesday it was sending a delegation of its executives and representatives of 11 top Singapore companies to establish trade links and investigate the possible use of SA as a springboard for markets in Africa.

Lee played an integral role in the "economic miracle" of Singapore — some say at the expense of political freedom — and its transformation from a struggling, post-war, post-colonial city-state into an international trading hub in southeast Asia.

His People's Action Party took power in 1959 and embarked on an intensive economic restructuring programme which engineered the country's industrialisation.



● LEE

By 1992, the World Competitiveness Report ranked Singapore the world's most competitive newly industrialising economy for the fourth year running, according to the country's trade development board.

The republic also won top honours for domestic economic strength, infrastructure, internationalisation, management, government and finance.

In 1991, Singapore's external trade in real terms showed a growth rate of 9,8%, compared with a 1,5% increase in world trade. Total trade increased by 5,4% to $216bn.

Total exports grew by 7% to $102bn and imports by 4% to $114bn.

The trade development board says Singapore's free trade policy is the key to its rapid growth in global trade. It was ranked 17th largest exporter and 15th largest importer by GATT in 1991.

More than 70 000 vessels called at the port in 1991 with a shipping tonnage of more than 537-million tons. The port's container throughput rose by 22% to a record 6,35-million 20-foot equivalent units.

Singapore's GDP per hour per worker of about $12 and wages averaging $3,20 an hour yield the world's highest relative productivity ratio, says the Washington-based Business Environment Risk Intelligence.

The city-state also boasts a sophisticated telecommunications network, an advanced manufacturing industry, an active banking sector free of exchange controls, and a successful tourism industry.

Through the sheer hard work Lee mentions so often, Singapore (Singapura, in Sanskrit, means Lion City), earned its status as an international trading hub.

Lee, however, has warned SA that the path to economic success will not be easy, and that there will be no quick solutions.

South Africans, he believes, will have to be convinced to ignore the slogans and appeals for immediate gratification.

It is not beyond the wit of man, he says, to realise that liberation, or independence, does not bring with it a magic formula that says: "I have given you the benediction. You are all now wealthy."

Grim warning on political violence

(44) ET 29/10/92

By AUDREY D'ANGELO
Business Editor

IF the level of political violence experienced during the third quarter continues, "the lower turning point of the economy could be pushed out into the unknown future," Southern Life chief economist Mike Daly warns in his quarterly Economic Comment.

Daly says continuing high food prices have masked good progress in the fight against inflation. He thinks the inflation rate as measured by the consumer price index (CPI) could fall to single digits by late next year.

But the upward trend in the producer price index (PPI) will continue, with the gap between the two measurements of inflation narrowing further.

He expects interest rates to come down as inflation falls. But he warns that these interest rate cuts will only be "limiting economic damage, not signs of stimulation.

"It is anticipated that when the inflation rate for September breaks through 14%, as we expect, a further 1% cut in bank rate to 14% will be triggered, with a further cut likely in the New Year.

"Given the expected weak economy in the first half of 1993 a further cut in official rates will probably occur, but the timing of this cut is uncertain.

"One painful lesson has been learned, however. Monetary policy will not be eased in any real sense in order to raise confidence and get a borrowing and lending cycle under way soon. The official rate cuts will merely follow progress in reducing the inflation rate."

Daly says the "alarming rate of job losses still occurring across most of the private sector as firms slash costs in the face of declining sales has been a major reason" for weakness in personal disposable income (PDI) growth.

"In addition the prevalence of shortened work weeks has increased. Another reason is the slowdown in average salary and wage growth as workers appreciate their good fortune to have a job at all.

"Consumer confidence, already battered by economic pressures, has also been affected by political violence, stayaways and intimidation which reached a crescendo in the third quarter."

He thinks total manufacturing production, which fell by 5,5% in the three months to July compared with the same period a year ago, "may well deteriorate further in the second half of this year".

Government's spending under attack

DURBAN — Speakers at the convention attacked the excessive levels of government spending yesterday.

Government's estimated expenditure (at all levels) of 30% of GDP came under fire during debate on motions on taxation, and fiscal and monetary policy.

Introducing the taxation motion, the Johannesburg Chamber of Commerce's Mike Cato said the country could no longer afford to waste its tax revenues on exorbitant and inefficient government spending.

A representative of the Border chamber, introducing the other motion, said the conflict between strict monetary policy and lax fiscal restraint was a prime cause of high inflation.

However, Finance Department director-general Gerhard Croeser attributed rising government expenditure to the poor performance of the economy. 49

Although he admitted high government spending was a problem, Croeser said a 4% to 5% real reduction in state expenditure could have severe consequences in an economy going through a long recession.

The motion on taxation, calling for slashed government spending, was passed unanimously. BDM 29/10/92

The motion on fiscal and monetary policy and its effects on the economy were referred to Sacob's economic committee for further analysis. — Sapa.

Economy 'should grow by up to 2% next year'

BI DAY 29/10/92 (49)

DURBAN — The economy should grow by between 1% and 2% next year because of an improved agricultural season underpinned by export growth, and a build-up of inventories as a result of increased political clarity.

JSE president Roy Andersen expressed this view yesterday at the Sacob annual convention in Durban.

Andersen said his forecast for GNP growth would be higher at 3,5% if there was a major breakthrough in constitutional negotiations.

However, if the drought continued, the global economic recovery was delayed and domestic political strife continued, there would be a further 1% fall in GDP next year, he predicted.

Andersen said one of the biggest challenges in increasing economic growth was to improve productivity.

Over the past 15 years, SA's productivity had increased by 18% while wages had shot up by a massive 595%. This did not compare favourably with other countries such as Taiwan, where productivity had increased by 112% and wages by only 110%, Andersen said.

To overcome this gloomy situation, he said, a partnership between government, labour and business was vital.

The decline in the economy since the 1960's was the result of an unfortunate concentration of circumstances, Andersen said.

"The need for structural change in the economy, due to a decline in readily exploitable gold deposits and the reduction in primary product prices, and the need for the abandonment of apartheid policies in response to a massive outflow of foreign capital and trade sanctions, have occurred almost simultaneously."

Andersen said the growth in manufactured exports and in the informal sector were both responses to this concentration of factors, and provided a powerful indication of the resilience and adaptability of the SA economy. — Sapa.

Local investment at alarming level

B(DAY) 29/10/92. (49)

HILARY GUSH

COLLAPSE of gross domestic fixed investment has grave implications for future output and SA's international competitiveness, says Southern Life chief economist Mike Daly in his latest Economic Comment.

Daly says it has shown a "pronounced decline" in the first half of the year of around 11%, and — net of replacement spending — investment as a ratio of gross domestic product has fallen to 1% compared to the average ratio of 14,5% in the 1970s and 8% in the 1980s.

"This has serious implications for future economic growth. The aging stock of capital in the economy could easily thwart the current policy initiative of raising the international competitiveness of SA and boosting the export of manufactured products," the report says.

Daly points out, however, that the international economic environment is not conducive to significant growth in export volumes, and hence prospects of an export-led recovery are slim. "The economic performance of the major industrialised countries continues to disappoint, and growth figures have been below forecasts made by the IMF and other prominent forecasters," he says.

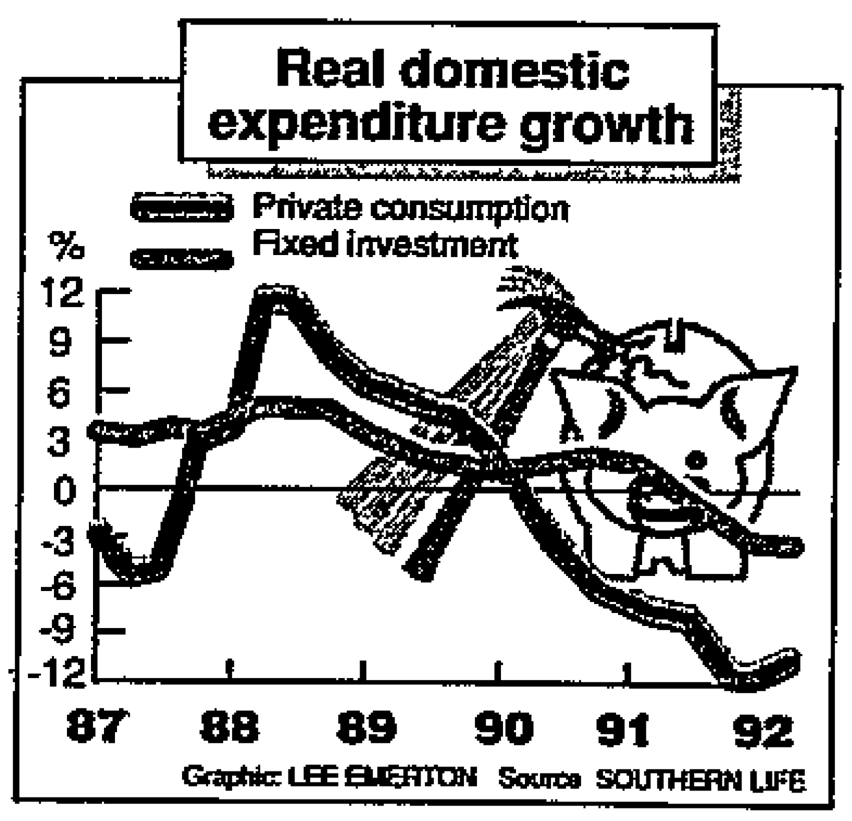
"Until the industrialised countries recover more strongly, commodity prices will make little headway and may even be reversed."

Daly stresses the need for political stability, an end to spiralling violence and the formation of a government of national unity to ensure an end to the recession. "If the level of political violence experienced during the third quarter continues, the lower turning point of the economy could be pushed out into the unknown future."

Amid numerous indicators of economic gloom, comfort can be drawn from the gradual decline in consumer inflation, evident for the past year. Daly expects inflation to fall to 12,5% by year-end, with a continuing decline in consumer price increases. Lower inflation hinges, however, on a number of factors.

"With a possible end to the drought, declining salary and wage increases, only a gradually depreciating rand and a good dose of luck, inflation may even flirt with single digits by late next year," Daly says.

He predicts a lowering of interest rates, but warns that lower rates "will bring some relief to the economy, albeit no genuine stimulus. In the absence of any growth catalyst on the horizon, a long, hard grind still lies ahead."



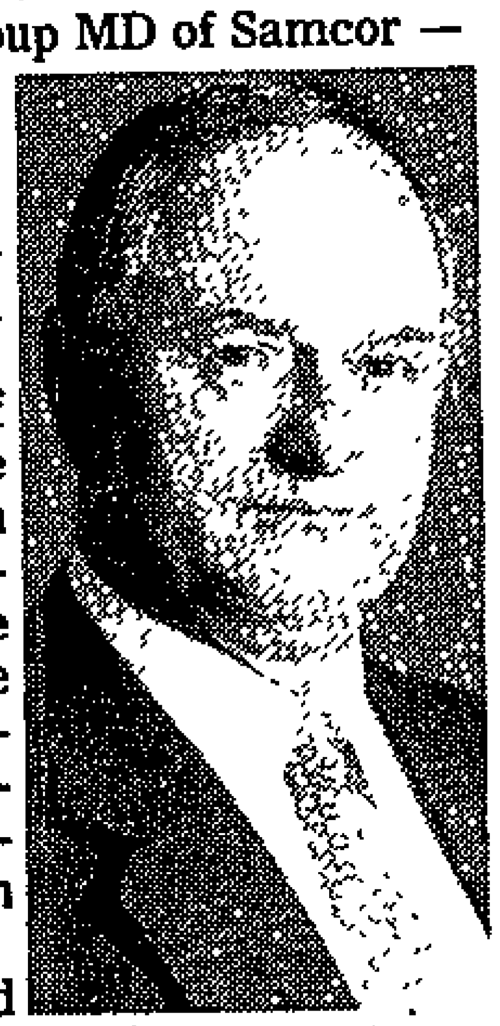
Economic forum 'will be back on track soon'

BIDAY 29/10/92 (49)

SHARON WOOD

DURBAN — Incoming Sacob president Spencer Sterling expects the economic forum to be back on track soon.

Sterling — also group MD of Samcor — was inaugurated as Sacob's new president at the annual convention yesterday. He succeeded Hennie Viljoen.



● STERLING

He said it was of utmost importance that the forum began soon because no economic policy could be formed until the three groups — business, labour and government — sat together and agreed on economic policy.

Government and Cosatu had already decided on their delegations, and Sacob was waiting to hear how many delegates it could send to the forum.

Sterling hoped Sacob would be allowed to send three delegates — its president, deputy-president Cedric Savage and director-general Raymond Parsons.

The business contingent would be drawn from Sacob, the AHI and Saccola. He thought Sacob would be the most important business organisation.

The economic forum would be an advisory body to government, not a statutory decision-making body, he said.

The annual convention had been very successful, he said. All motions, except the Border Chamber of Commerce's motion on monetary policy, had been accepted unanimously. Sterling said the motion on monetary policy would be debated and clarified by the Sacob economic advisory commission and would then be redrafted.

Failure to accept the motion had not indicated a division in business on whether current monetary policy was appropriate but was a result of confusion resulting from different interpretations of the way the motion was structured.

THE RESERVE BANK

FM 30/10/92

(49)

Independence may not be enough

The Reserve Bank's quest for independence now that SA may soon have a government even more profligate than this one, will become a topic of increasing controversy. It represents as great a metamorphosis in the Bank's thinking as the National Party's conversion from apartheid to democracy.

There is much to be said in favour of legally entrenching the independence of a central bank when fiscal profligacy is likely to be a problem. The enormous economic benefit Germany has enjoyed because of the Bundesbank's uncompromising monetarism is a salutary example of the advantage of central banking independence.

It persuaded UK PM John Major to place sterling within the confines of the Exchange Rate Mechanism in Europe, thereby subjecting it to the disciplines of the Germans. In the event, their austerity proved too much — and was indeed inappropriate — for the circumstances of the UK economy. Yet the unfortunate experience has prompted calls there too for the Bank of England to be given more independence.

There are drawbacks, of which former Chancellor Nigel Lawson was well aware when he periodically told Governor Robin Leigh-Pemberton what to do.

The first drawback is that any government that sees the need to surrender part of its sovereignty to its central bank is admitting that its own grip on State spending is likely to be weak and, therefore, it envisages inflation as a problem.

The second drawback is that there is no guarantee that future governors of central banks will always be uncompromising monetarists. It would, of course, be useful if all future central bankers could have the views and resolve of the Germans. But there is no such guarantee.

In the late Seventies, the Governor of the Reserve Bank, Bob de Jongh, showed rare independence of mind for an SA central banker. As the gold price approached US$800/oz and domestic money supply soared, he simply refused to relax exchange controls, despite the Finance Minister's pleas — indeed, entreaties and instructions — to the contrary. The result was entrenched inflation.

So perhaps it is not towards central bankers that geneticists should turn their attention, but to Ministers of Finance themselves. It is their resolve that is the most telling. ■

SACOB CONVENTION

SA 'has what it takes for success'

BDAY 30/10/92 (49)

SHARON WOOD

ORGANISERS and delegates at the Sacob annual convention in Durban this week walked away satisfied they had dealt with most central issues facing business in the year ahead.

These include a constitution, a social accord, global trade policy, market competition, monetary policy and taxation.

The most popular suggestion put forward at the conference was that politicians should be locked in a room until they resolved their differences and came up with a concrete plan for the future.

However, there was renewed optimism that SA had what it took for economic success, with JSE president Roy Andersen presenting a long list of SA's resources and competitive advantages.

One delegate pointed out that if properly utilised, these would turn SA from a losing to a winning nation. This would also involve turning around Andersen's frightening wage and productivity statistics.

SA's 18% rise in productivity during the last 15 years has been left in the shadows by the 595% increase in wages during the same period. Comparable statistics for Taiwan show productivity increased by 112%, higher than the 110% rise in wages.

The convention failed to pass a motion calling for a reassessment of monetary policy. This will be redrafted by the Sacob economic affairs commission.

However, there was a hint of uncertainty in the audience about whether relaxing monetary policy would be the right thing.

The revised motion presented on the day was toned down from the original version, and based its argument on the fact that structural rigidities in the economy, such as wage and salary increases, lack of competition and the government deficit, stood in the way of achieving lower inflation. Reserve Bank response to the motion was mild, with deputy governor Jaap Meijer saying the Bank had no argument with most points brought up in the motion.

Tensions ran high during discussion on the taxation motion — a regular one at Sacob's annual conventions. Not surprisingly, delegates heartily endorsed pushing for lower corporate and personal tax and for greater clarity and certainty in tax policy. But most debate was focused on the recent Jacobs committee report and the controversial proposal to tax pensions. A spokesman for the Jacobs committee, Piet Robbertse, stressed there was no need to get "hysterical" about the report and that it was merely a discussion document.

Political tensions appeared on the second day of the conference, when Inkatha national chairman Frank Mdlalose and ANC economics spokesman Trevor Manuel made individual contributions to the economic debate. Mdlalose made an impassioned speech about his roots as a South African and a Zulu, and vigorously defended Inkatha's history.

Manuel stood up a short while later and pointedly said it was regrettable that a speech of that nature had been made during an economic debate.

NEW HOPE FOR ECONOMIC FORUM

FM 30/10/92

The national economic forum, including representatives of business, labour and government, could be launched this week. The Cabinet was due to discuss the matter on Wednesday.

Feeling in business circles is that government is now close to approving the forum, which, though only an advisory body, could take on effective powers of veto against unilateral policy decisions.

Recession strengthens the view that the Cabinet will give the go-ahead. Since it is all too evident that no economic stakeholder can, on its own, address economic malaise, the forum could play an important role. It will boost confidence among potential foreign investors, local businessmen and workers and be the first tripartite attempt to tackle economic issues.

Moves by business and organised labour — primarily Cosatu — to launch an economic forum resulted in their first formal meeting on January 21. They put together a draft agreement at the end of March.

However, the idea seemed scuppered when, late last month, government rejected the planned launch of the forum by November because of Cosatu's mass action plans — in particular, its planned tax boycott. It had ~~a point~~; you can't conduct economic civil war while simultaneously seeking co-operative economic relations.

On October 22, Finance Minister Derek Keys launched into a long harangue against a Cosatu delegation (led by deputy general secretary Sam Shilowa) on this score. It was not clear whether this reflected lack of political skill or a deliberate attempt to sink the forum. Things did, however, calm down by the end of that critical meeting

The forum will have two working groups. One will tackle immediate, short-term issues, such as poverty alleviation, retrenchments, VAT, tax policy and budget matters. Cosatu seems keen on this group. The other will examine longer-term, macro-economic issues, which business seems keener on.

A process committee will integrate the work of the two groups and decide on plenary meetings. It will also formulate guidelines for other parties to make submissions to the forum.

The Consultative Business Movement will serve as interim secretariat. If the forum gets the nod, it hopes to produce results within months, says a spokesman.

Manufacturing 'has vital role'

BDay 30/10/92 (49)

EDWARD WEST

EXPANSION of the manufacturing sector would need to be the mainstay in the build-up to real GDP growth of about 4% annually by 1994, deputy Trade and Industry Minister David Graaff said yesterday.

Speaking at the opening of SA's first thin-walled aluminium tube-making plant at Haggie subsidiary Maksal Tubes, Graaff said that this would require the investment ratio of the manufacturing industry to increase to about 8% of GDP in coming years instead of just more than 4% at present.

A new round of investment in the manufacturing sector would also have to set the pattern for structural adjustments to obtain more rapid growth. Future wealth would have to be derived increasingly from export markets, he said.

New policy directions included a restructuring of tariff protection, adapting monetary and fiscal policy to be more supportive of industrial development, and maintenance of appropriate international exchange rates of the rand to promote industrial development.

Other policy directions included further deregulation where appropriate, production specialisation, especially basic resources beneficiation, activation of existing spare industrial capacity and optimal use of capacity on a long-term basis.

Increased technology development support was necessary, as was closer co-operation between government, employers and organised labour. New markets and an emphasis on closer synergistic relationships with African countries needed to be developed, as would the introduction of selective industrial development programmes to stimulate sectors with high growth potential.

SECOND THOUGHTS ON FORECASTS (49)

FM 30/10/92

As the international economic recovery fails to take off (see *Leaders*), and SA's political problems continue to undermine confidence, growth forecasts for the year are becoming more pessimistic.

In its *Monthly Economic Profile* for October, the Nedbank Economic Unit predicts GDP shrinkage of 1% in 1992; in its September *Quarterly Bulletin*, the Reserve Bank predicts a decline of 1,5%; in its October *Economic Survey*, Sanlam foresees a fall of 1,7%; and, in its October *Economic Monitor*, Old Mutual refrains from making any forecast and says only that "in the third quarter the tempo of decline may at best have slowed." This follows GDP declines in the first and second quarters of 2% and 2,6%, seasonally adjusted and annualised.

Forecasts are revised down from those made in January, March and June.

These were:

- ☐ Nedbank +1,5%, +0,75%, 0%; and
- ☐ Sanlam +2%, +1%, 0%.

Old Mutual and the *Quarterly Bulletin* made no forecasts earlier in the year.

The latest projections are based on the poor performance of a number of economic aggregates. Real private consumption expenditure, which makes up almost 60% of total spending on goods and services, is declining this year — for the first time since 1985. Though the downturn has now lasted 42 months, this aggregate proved comparatively resilient until recently. After growing by 0,2% in 1991, it fell 3,4% and 3% in the first two quarters, at seasonally adjusted annual rates

Real gross domestic fixed investment, which fell by almost 19% since the start of the recession in the fourth quarter of 1989 to the second quarter of 1992, shrank from 21% of GDP to only 16,5% in this period.

However, says Old Mutual, there are some positive cyclical factors at work: an expected relaxation in monetary policy, the absence of balance of payments constraints and good prospects for a further cyclical decline in inflation.

Nedbank refers to exports worth more than R6bn in September — "a most satisfactory outcome" — and says the trade balance in the nine months to September amounts to R12bn, compared with R10,2bn in the same period last year.

POLITICAL SURVEY (49)

Talking business

FM 30|10|92

Economic development holds a higher priority than political progress for most respondents in a survey of political, social and business leaders conducted by Stellenbosch University's Centre for International & Comparative Politics

A preliminary report shows that economic development is the first choice of 52% of black respondents, 61% of coloureds, 67% of Indians and 68% of whites. Most respondents across the board also favour a federal constitutional system, proportional representation and various checks and balances.

This is the first choice among 75% of whites, 73% of coloureds, 61,5% of Indians and 42% of blacks. A central system of majority rule is backed as first choice by 36% of blacks compared with 12% of whites.

The 999 respondents represent 44% of the sample of 2 282 leaders in 15 institutional sectors who were sent questionnaires this year. The sectors include business, labour, the civil service, parliamentary politics, extra-parliamentary politics, church and academics.

The report points out that the respondents are mainly white, Afrikaans-speaking males. Though care was taken to include a large proportion of "nonwhite" individuals it was impossible to include more because they were not in top decision-making positions.

The only respondents who opt for full State control of the economy are supporters of the PAC. Most ANC supporters prefer a mixed economy while most NP and IFP Party supporters tend to support a free-enterprise system.

Results of the survey relating to party support are skewed because respondents were not selected proportionately to the perceived strength of the different parties.

However, in the extra-parliamentary sector, 78 respondents indicate support for the ANC/SACP, 51 for the IFP and 32 for the PAC. Only 8,5% of blacks support the homeland parties (excluding the IFP) The NP draws 37,5% of coloured support compared to 32% for coloured parties such as the Labour Party. Nearly 10% of coloured respondents and 21% of Indians support the ANC/SACP.

Among whites the NP is supported by 59% of respondents, the DP 20% and the CP 7%. □ The full report is due to be published next month. ■

blacks in business

Company provides loans to buy taxis

Sowetan 30/10/92

■ Members will also be helped to start other businesses:

By Joshua Raboroko

THE Nafcoc-affiliated National African Federated Transport Organisation has launched a scheme involving millions of rands to help their members buy vehicles and start businesses.

The organisation has formed the Dewline Enterprise Long Distance Transport Company Ltd which will make loans available to potential taxi owners and shopkeepers.

The company already has R4 million in its coffers.

At a Press conference this week the company's managing director, Mr Lebina Mofokeng, said the company consisted of 28 Nafto associations in the Transvaal and Orange Free State who wanted to improve the standard and quality of the taxi industry.

Members were expected to buy the maximum of 6 000 shares. The money would be deposited in a bank and be used to buy vehicles.

About 150 of their more than 4 000 members had already benefited from the scheme, he said.

The company offered security and provision would also be made for old vehicles to be improved and be insured against theft, riot damage and robbery.

Lebina said that the association had built three large supermarkets in Petrus Steyn, Kroonstad and Vereeniging.

SA told to join Africa

Sowetan 30/10/92

■ Research shows this will create economic opportunities:

SOUTH Africa has been urged to enter into new economic pacts with the rest of the continent.

A study commissioned by the SA Chamber of Business and released in Johannesburg this week has outlined the crucial importance of co-operation with African States.

The Africa Institute of SA, which carried out the research, says progress towards full international acceptance will strengthen commercial and other bonds.

49

Researcher Dr Erich Leister says the African countries welcome these developments and look forward to South Africa joining regional groupings such as the SA Development Community and the Preferential Trade Area for Eastern and Southern Africa (PTA).

Western leaders and development agencies hope that South Africa will help to promote development and stability in the region.

Optimism over economic forum

(49) ARG 30/10/92

Political Staff

THE long-awaited National Economic Forum could be launched soon after successful negotiations last week between the government, business and trade union federations.

Sources close to the talks expressed guarded optimism that a "low-key" launch of a forum could be near.

The government has so far refused to participate in the proposed forum, most recently citing Cosatu's campaign of mass action and its strategy to boycott income tax as the reason.

Its view has been that these strategies are inconsistent with the proposed forum's putative aim — promoting economic growth.

Cosatu's decision to abandon the tax boycott has probably helped to coax the government back into talks.

The cabinet is understood to have considered a draft proposal for the forum this week, and an announcement is expected soon.

Growth rate will disappoint Keys

(49)

B/DAY 30/10/92.

HILARY GUSH

ECONOMIC activity could be expected to increase slightly next year, but growth would depend on external factors and would still fall short of SA's vast economic potential, Finance Minister Derek Keys said yesterday.

Addressing the Financial Mail investment conference in Johannesburg yesterday, Keys said after three years of shrinking GDP an economic growth rate of between 1% and 2% could be expected next year.

The predicted rise in economic growth would not be sufficient to create employment opportunities for the new entrants to the labour force and would represent "the same essentially static situation we have known for too long already".

He said growth would be dependent on further increases in the level of merchandise exports and comsumption spending.

"The growth in consumption spending, however, is expected to be lower than the growth rate of the population because households will probably be reluctant to make use of additional credit or savings to maintain living standards."

Investment spending was also expected to improve next year. Keys said social projects — including private sector investment in housing schemes — could provide some stimulus to present low levels of investment spending.

The Finance Minister added that gradual replenishment of inventories could also boost capital formation.

"As the economy starts to recover, a turnabout of the inventory cycle may well be a major characteristic of the expected economic upswing," he said.

Consumer inflation could be expected to fall to 12% by year-end — from September's 13,5% — and to single digits by the end of 1993, provided there were no negative external factors, such as a hike in indirect taxes and the petrol price.

A smaller surplus on the current account of the balance of payments could be expected in 1993, due to a stable value of net gold exports and the fact that merchandise imports growth would outstrip rises in merchandise exports.

"The surplus should, however, be sufficient to cover expected repayments on foreign loans, with the result that SA's gold and other foreign reserves will be increased slightly further."

He expected this to result in the maintenance of a relatively stable real effective exchange rate of the rand.

He stressed the need to remove all obstacles to growth. "This will probably only be achieved if government, business and labour start to co-operate to improve the production structure of the economy."

Keys said the priority of the government was to dramatically reduce the level of government consumption spending. To succeed, he said the "interested and involved parties" would have to get together and map out a solution.

'We have to develop a common vision, sufficiently attractive to carry us together across the rough patches where the sceptics expect to stop us dead."

'Business has role in talks'

B DAY 30/10/92 (49)

Business Day Reporter

BUSINESS and labour should be given the opportunity in a resumed negotiations process to make their rightful contribution to the economic aspects of negotiations, Sacob director-general Raymond Parsons told the FM conference.

With all its difficulties, SA remained a country with enormous potential if its political and economic problems could be sorted out, Parsons said.

"We must accept at the outset that it will be impossible to democratise SA with a weak economy. The GDP is not only the gross domestic product, but also the 'gross domestic politic'. Two sides of the same coin.

"Economic performance and political progress are highly interdependent — and a recognition of this reality is indispensable to our future. We also know that the economy is deteriorating at a more rapid rate than the pace at which the political players are getting their act together.

"Neither political progress, nor a return to social stability, seem possible without a positive per capita growth rate."

Parsons said despite handling its foreign debt rescheduling successfully, SA's need for foreign capital had intensified in recent years, the result of rising government expenditure, a falling rate of savings and a growing need for job creation.

Although harmed by international sanctions and racial policies, SA's modern economy could be revitalised readily through international trade and investment.

The SA economy had been hurt as much by sanctions as by a perception of "unfinished political business", he said.

"The perception of unfinished business is anathema to risk assesssment and investor confidence. Today apartheid is dead, or dying, and some variant of an open political system is virtually certain to emerge.

"Ironically, however, we have a wave of perceptions of unfinished business, the effects of which are quite as devastating as late apartheid.

"Without business there can be no lasting solutions, especially when we start talking about fundamental questions such as economic restructuring."

Pressure on Stals to cut Bank rate

BDAY 30/10/92. (49)

GRETA STEYN

PRESSURE is mounting on Reserve Bank Governor Chris Stals to cut Bank rate, after news of a further deepening in the recession, falling inflation and satisfactory growth in the money supply.

The depth of the recession was noted in the speech by Finance Minister Derek Keys at the Financial Mail Investment Conference in Johannesburg yesterday. He said indications were GDP in the third quarter had fallen at a faster annualised rate than the average of 2,5% in the first two quarters. The news came on the same day as September's inflation figure fell below 14% — the level widely expected to trigger a cut in Bank rate.

Speaking at the same conference, Stals gave the first hint of an interest rate cut after weeks of official statements promising tight policy. He emphasised, however, there was no trade-off between inflation and growth, and a fall in interest rates could only be in response to improved financial stability.

Stals said: "The economy is moving in the desired direction, and some relief in the form of a less restrictive monetary policy could already be justified over the past year. Hopefully, further progress will be made in this regard in coming months."

Dealers and economists speculated a cut could come before the end of November, possibly when the next inflation figures were released Old Mutual economist David Mohr said the money supply was under control, the balance of payments was not a problem and yesterday had provided further evidence of slowing inflation.

"These factors suggest a reduction in Bank rate would be justified."

Markets had been geared for the possibility of a cut in Bank rate after today's CPI release. However, rumours that the Bank had decided against a cut this month put upward pressure on capital market rates before the CPI release.

HILARY GUSH reports Stals warned against complacency and said any premature efforts to restimulate the economy could destroy progress made towards restoring financial stability.

In light of the burgeoning budget deficit, Stals said, caution should be taken in easing monetary policy.

Keys supported Stals's objectives of financial stability. But dealers and economists have latched on to the figures provided in his speech as further evidence that a cut in Bank rate was justified. It was not unlikely that gross domestic product could contract at a rate of about 2% in the full calendar year, he said.

See Page 8

Govt commits itself to economic forum

CT 30/10/92 (49)

Own Correspondent

JOHANNESBURG. — The long awaited national economic forum was launched yesterday at a meeting of delegates representing organised business, labour and government at Johannesburg's Carlton Hotel.

Spokesman for all parties to the forum — Finance Minister Derek Keys has dubbed it the "golden triangle" — were cautiously enthusiastic about its prospects.

Government, previously hesitant about involving itself fully in the forum's activities, would take part "fully and absolutely", said Keys.

He said unemployment, the Budget and the government's economic plan, to be released next month, would feature high on the forum's agenda.

Keys said the forum gave parties a place to discuss inputs from their constituencies. Consensus could then be identified and joint action taken to address economic growth and social development.

The first meeting of the forum's process committee would take place within two weeks. Working groups would meet by the end of November.

According to Chamber of Mines president Bobby Godsell, the process committee meeting would identify issues to be addressed, the terms of reference of each of the forum's working groups, the forum's agenda and those tasks where tangible results could be achieved reasonably quickly.

Delegates from Sacob, AHI, Seifsa, Fabcos and the Chamber of Mines made up part of the business forum contingent.

Cosatu's Jayendra Naidoo, the spokesman for the labour delegates from Cosatu, Nactu and Fedsal, said the challenge of the forum was to make sure it delivered results quickly.

All parties to the forum agreed with this view. There was consensus that programmes addressing the plight of the unemployed, like job creation and skills training, could take priority in terms of the local economy.

If consensus was achieved it was possible there would be breakthroughs in areas like bilateral contacts with the EC and direct involvement in SA by the World Bank, they said.

The parties said they had, as a matter of urgency, agreed to enter the process to encourage economic growth and social development.

This included addressing the imbalances in the present economic and social structure, they said.

"The purpose of the forum is to provide co-ordination and support for efforts to promote these goals at both industry and other levels.

"For this to succeed, both labour and business ought to be widely representative and the accession of further parties to the process will be welcomed," the statement said.

Business, labour and government launch national economic forum

DIRK HARTFORD

BDay 30/10/92

(49)

THE long-awaited national economic forum was launched yesterday at a meeting of delegates representing organised business, labour and government at Johannesburg's Carlton Hotel.

Spokesmen for all parties to the forum — Finance Minister Derek Keys has dubbed it the "golden triangle" — were cautiously enthusiastic about its prospects.

Government, previously hesitant about involving itself fully in the forum's activities, would take part "fully and absolutely", said Keys.

He said unemployment, the Budget and government's economic plan, to be released next month, would feature high on the forum's agenda.

Keys said the forum gave parties a place to discuss inputs from their constituencies. Consensus could then be identified and joint action taken to address economic growth and social development.

The first meeting of the forum's process committee would take place within two weeks. Working groups would meet by the end of November.

According to Chamber of Mines president Bobby Godsell, the process committee meeting would identify issues to be addressed, the terms of reference of each of the forum's working groups, the forum's agenda and those tasks where tangible results could be achieved reasonably quickly.

Delegates from Sacob, AHI, Seifsa, Fabcos and the Chamber of Mines made up part of a business forum contingent.

Cosatu's Jayendra Naidoo, the spokesman for the labour delegates from Cosatu, Nactu and Fedsal, said the challenge of the forum was to make sure it delivered results quickly.

All parties to the forum agreed with this view. There was consensus that programmes addressing the plight of the unemployed, like job creation and skills training, could take priority in terms of the local economy.

If consensus was achieved it was possible there would be breakthroughs in areas like bilateral contacts with the EC and direct involvement in SA by the World Bank.

The parties said they had, as a matter of urgency, agreed to enter the process to encourage economic growth and social development. This included addressing the imbalances in the present economic and social structure, they said.

Meanwhile Sapa reports President F W de Klerk said last night that government hoped the forum would develop practical programmes to create a business climate conducive to economic growth.

But he said government would resist the temptation to resort to populist policies as a means of reviving the economy. The benefits to be derived from such a policy would only be of a short-term nature.

And grind goes on

THE still disappointingly depressed world economy is not conducive to a strong South African recovery, says Southern Life economist Mike Daly. In his latest *Economic Comment*, Daly says although trade sanctions are now virtually absent, the international environment is not conducive to an export-led recovery. (49)

FM 30/10 – 5/11/92

'Severe limitations' in new DTI proposals

49

W/Mail 30/10 - 5/11/92

New state proposals on developing business don't go far enough, says an economic strategist. **By GAYE DAVIS**

GOVERNMENT proposals to encourage business investment in developing new products are welcome but limited, says a University of Cape Town economist.

The Department of Trade and Industry (DTI) proposals aimed at encouraging companies to spend money on developing their capacity for innovative production are "a significant step forward", says associate professor David Kaplan, in recognising the important role of government.

But, he adds, they have severe limitations.

Kaplan, a director of the Industrial Strategy Project (ISP), was speaking at a seminar this week on research into developing an industrial policy to make South Africa competitive in world markets.

Launched in January, the ISP sees itself as a catalyst in bringing together business, labour and the government to assess what's happening internationally and devise an effective policy for South Africa.

Kaplan said the proposals put forward by the DTI tried to encourage firms' investment in new product development by:

- Offering government support, such as cash incentives.
- The promise of government using its buying power to encourage local firms' product development.
- Government identifying and supporting key future technologies, such as bio-technology.

Kaplan said the proposals were flawed in that they were not selective, offering government support for new product development across the board.

Firms of different sizes would not respond equally to the measures, said Kaplan. Nor did they address what to do with declining industries or small, individual concerns.

The proposals were "stand-alone" measures and did not form part of a broad industrial policy. This would make them less effective: the market was so structured that some firms would benefit and others would not. What was needed was a centrally specific industrial policy, differentiated by sector, Kaplan said.

A further limitation was that the proposals focused solely on new products emerging from research and development programmes, denying the importance of the role of the entire workforce in ensuring high-quality production at source.

Kaplan said it was universally accepted South Africa needed marketing growth linked to sustained export growth. The dispute was over the mechanism to achieve this.

The World Bank view was that there should be wholesale trade liberalisation, with the same incentives offered for both domestic and foreign markets. This implied a passive government role: industrial policy would simply amount to "getting the trade regime right".

He argued for an alternative approach, hinging on selective trade and industrialisation policies. For example, certain industrial sectors protected for too long would have ~~to be~~ exposed to greater competition to encourage them to spend more on developing export markets.

There should be different tariffs and measures for each sector rather than the same for all. This meant government would have to play a more active role in determining industrial policy, Kaplan said.

Firms, left to face the winds of competition, would not necessarily improve their productivity. There was ample evidence that firms facing stiff competition would under-invest in innovation activities (their ability to increase their capacity to produce competitively).

"Countries succeeding in long-term growth of exports have relied heavily on selective trade and industrialisation policies," said Kaplan.

David Lewis, also a director of the ISP, said a coherent industrial policy would recognise failures in key factor and production markets, such as the manufacturing sector's "notorious incapability" of delivering in the important areas of job creation and increased exports.

Investment in infrastructure to sustain growth, create jobs and cater for developing skills and training was insufficient. Simply leaving everything to the market would not remedy these problems, he said.

South Africa's relations to the world economy and its domestic markets meant restructuring would happen "whether we want it or not". Failure to restructure would exacerbate the severe balance of payments problems which now hamstring South Africa's attempts to enter world markets.

"Our options are to leave everything to the market and see what comes out in the wash of a highly deregulated system; get into severe balance of payments problems and wait to be bailed out by the International Monetary Fund — or what we are advocating, which is a pre-emptive restructuring programme based on an industrial strategy guided by coherent policies," Lewis said.

Green light for economic body

(49) ARG 31/10/92

DAVID CANNING
Weekend Argus Correspondent

THE stalled National Economic Forum is likely to get under way soon, according to the Minister of Finance, Trade and Industry, Mr Derek Keys.

He told the SA Chamber of Business (Sacob) in Durban that, following successful negotiations, he hoped shortly to be able to announce that the forum would proceed.

Mr Keys said government participation in the forum had been suspended over two issues — the need to ensure that no party aimed to destroy any other party and, secondly, that each party was commited to the goals. He now believed these problems had been substantially solved.

The forum will have three main participants — organised business, labour and the State.

At the time of withdrawing the government was upset by the Congress of South African Trade Unions' decision to conduct an anti-tax campaign. However Cosatu recently decided against the campaign.

Mr Keys said the NEF progress had come at a very opportune time in view of the government's planned publication of its economic model. The forum would be an ideal place to discuss this government view of the economy.

He hoped, for example, that with the three interests involved, a real and short-term impact could be made towards overcoming the unemployment problem.

Mr Keys listed some of the ways in which business could make a contribution.

He said the country could not hope to grow without substantial additional investment in new productive capacity. Calculations — which would be passed through the forum — showed SA would have to invest twice as much in manufacturing industry than in the past. This would have to come from the private sector. He insisted that government could not make this investment.

For this investment to take place, SA would need to have the right entrepreneurs. "Do we have them?" he challenged.

In order to ensure it had the right entrepreneurs, SA would have to create an "entrepreneur-friendly environment". Business would have to push for this in the Economic Forum.

"To achieve an entrepreneur-friendly environment, you will have to legitimise, in this society, the persuit of private wealth."

In order to achieve this, business would have to convince other parties to the forum that this wealth would be won in a highly-competitive market-place. Business also would have to play a main role in making the work force economically-literate.

Mr Keys said he expected pressure for the state to reduce consumption expenditure — a goal which he shared. However the state would have to ensure there was a climate of stability in which the necessary economic growth could take place.

He said that to ensure equal distribution took place was a tortuous task for the state — "but, then, the whole thing is a tortuous task".

"When we have defined the problems, will we be able to come up with the right solutions?" he asked.

In discussions around the country he had been encouraged by the reaction of all South Africans.

They were shocked by the the nature of the problems. But their first question was: "What can we do to start correcting the situtation."

SA should not be put off by the size of the challenges. What it was trying to achieve politically was an extravagant ambition. "We should not shrink from the fact it will require an exceptional performance."

ECONOMY – 1992

NOV. — DEC.

FM 27/11/92

A bridge to legitimacy

(49)

As the two working groups of the National Economic Forum meet this week for the first time, there is broad support for the underlying concept — a social accord between capital, labour and government. During the prolonged period of political transition, government's ability to take decisive action on economic policy is inhibited by its lack of legitimacy. As the representative of three major players in the economy, the forum, formally launched last month, could fill the frightening power vacuum that has developed

But there is less consensus over its long-term future. There are many who question whether a social accord is viable, or even desirable. Says Merton Dagut, head of Wits Economics department· "An accord could eliminate one of the mechanisms that keep economies vibrant — the creative stresses which arise when various groups compete in their own interest."

The concept conjures up visions of prices and incomes policies and protectionist practices that create inflexible structures. It evokes images of a cosy cartel of powerful interest groups, with no representation for the unemployed, the rural workers, small businesses and consumers.

On the other hand, it is argued that a social accord is a way to reduce the distrust, which threatens to remain at high levels long after political negotiations are concluded and a new constitution is in place. It is seen as the only escape from the low-growth trap created by poor economic management and perpetuated by political instability.

These figures tell the story. Fixed capital stock in 1991, at R402bn in constant 1985 rands, was only 19% higher than in 1981 GDP has been shrinking for three years and, in the past decade, growth has averaged barely 1% a year. Yet, as a ratio of GDP, fixed investment has fallen from 27,8% in 1981 to little over 18% in 1991; and, by the second quarter of this year, to 16,5%. Between 1984 and 1991, the numbers of registered unemployed — the tip of the iceberg — has grown 272% to over 247 000. Yet the capital·labour ratio was lower in 1991 than it was in 1981.

This points to even lower levels of growth and employment in the future because, without expanding capital infrastructure, an advanced economy can only stagnate Even those who hope to foster labour intensive small businesses and cottage industries realise the truth of this.

The way to rebuild capital stock is to inspire confidence in potential investors. It is the trade-off between risk and reward that determines investment decisions. As it will be a long time before the long-term deterioration in the economy can be reversed, SA cannot offer much in the way of rewards The best that can be done for investors is to significantly reduce the risks.

At risk

Workers have similar incentives because, as long as economic growth is negative, jobs are increasingly at risk Unions recognise that, by helping to reduce production costs and improve profitability, they can increase job security and, as the economy grows, income But workers asked to hold back on wage demands now must be assured they will get a slice of additional future growth And it is the accord, with government acting as guarantor, that will ensure this

There are many examples in other countries of close co-operation between two or more of the main players in the economy But the record of success is chequered; the evidence ambiguous. In SA, the chances may be reduced by the diversity of the population Co-operation is easiest to achieve where the population is homogeneous or where cultural and political objectives are shared Says Dagut· "There is little agreement on the nature of the society we would like to have or its goals "

However, there seems little alternative As in other countries, the attempt at an accord emerged in reponse to a major crisis. The concept gained currency after an agreement, in September 1990, between two union federations, Cosatu and Nactu, and employer body Saccola on labour law amendments legislated in February 1991

A formal meeting was held in January between organised labour and organised business to decide on the role of the forum, its structures and processes After long negotiations, government became involved and is represented on the forum by special economic adviser to the Minister of Finance Japie Jacobs, Deputy Finance Minister Theo Alant and Deputy Trade & Industry Minister David Graaff

Forum members concede the problems. Raymond Parsons, Sacob director-general says: "It's true there are risks and it could arrive at the wrong decisions But it's an alternative to confrontation And as long as the forum works openly and its discussions and decisions are transparent, it will not go against the democratic grain "

Seifsa representative David Brink says the compromises required by both sides would have to be made anyway "They can be most constructively achieved in the forum. It's the optimal solution."

Dagut argues that its limitations must be recognised. "You can agree, for instance, that you won't pass on more than your costs to the next in the production chain, or on no increases higher than the inflation rate, or that people would not be laid off after a strike But the parties involved can't agree on ultimate goals."

However, he says, "It may be that if differences were hammered out and specific agreements successfully reached, this could inspire confidence here and overseas." The forum is not a panacea and an accord may not survive into a new dispensation. But it is a means of moving forward when political agreement is not yet in sight

Certainly, the economy can't afford to wait another minute. ■

Forum gets down to job provision

S/Times (Bus) 22/11/92. (49)

By ADRIAN HERSCH

HISTORY will be made tomorrow when business, government and labour meet for the first time in a working group of the National Economic Forum (NEF) to thrash out a short-term job creation scheme.

Public works programmes, large-scale electrification and housing are some of the issues to be discussed.

Cosatu spokesman Neil Coleman says: "The NEF — through its short- and long-term interest working groups — presents the opportunity for all of us to find a way of averting the crisis we are facing and establish a programme of national reconstruction.

"We want to see jobs created, economic stability and confidence restored."

Small Business Development Corporation (SBDC) head Ben Vosloo says the NEF must also look at the vital role that small business has in job provision.

Business, labour and government have independently conducted extensive research on public works programmes.

Chamber of Mines president Bobby Godsell says it is important that projects undertaken are economic or they will be self-defeating.

"Rigorous cost-benefit analysis will have to be done," he says.

Benefit

A problem which public works programmes tend to pose is that when workers complete their stints they are not equipped with skills which are in demand.

Mr Coleman agrees, saying: "In many countries these programmes have had a one-off benefit. On completion workers are unable to find jobs.

"Our aim is to provide some form of career path in these programmes."

This could be difficult, given the nature of some of the work. But Mr Coleman says there is scope for career development in electrification and provision of housing where a fairly wide range of skills are required.

Dr Vosloo says that in most prosperous countries 70% of the labour force is employed by small business.

"Most of those employed in this sector are not highly skilled and workers are trained on the job. These enterprises can be started with limited capital and when running tend not to be capital intensive.

"These businesses serve their markets efficiently — they are quick to identify opportunities in their own areas as opposed to centralised ones far away from areas they hope to serve.

"Small and medium businesses offer reasonable returns. Bureaucracy grows with the size of the business. The law of diminishing returns ensures that as the organisation gets larger, so efficiency decreases."

Dr Vosloo says the Government has a major role to play in stimulating these businesses by doing several things, including providing easier access to capital.

Cosatu research indicates that public works programmes could provide a million jobs at "below-subsistence wages" (R10 a day). The total cost would be R6-billion a year.

The same number of jobs at "subsistence wages" (R30 a day) would cost R18-billion — about 21% of the 1991 national Budget.

Dr Vosloo says that since 1981 when the SBDC was established, the organisation has granted 40 000 loans totalling R1,5-billion.

This has created and supported 330 000 jobs to date.

Dr Vosloo stresses that the capital base is R800-million — where interest on money is returning and from where more loans are made.

Mr Coleman says Cosatu is open to discussion on anything that could achieve results.

"We're not going into the NEF with a dogmatic approach. Discussion in the forum about the contribution small business could make would be welcomed by us," he says.

BEN VOSLOO: Vital role for small business in job provision

The Government's five-year economic restructuring plan is expected to be released at the end of the month.

The main thrust of the report is that consumption expenditure will have to be cut.

Government consumption expenditure is about 22% of gross domestic product. It should be reduced to 16%, says Japie Jacobs, special adviser to the Minister of Finance.

"Kickstarts will not deal with the fundamental problems of the economy. But this does not mean that the Government is necessarily opposed to a huge housing strategy or public works programmes because they may offer certain benefits."

Dr Jacobs will not say what government research on these issues disclosed.

"Our position will become clear in the discussions," he says.

Difficult to boost economy, says ANC

(49)

STAR 26/11/92

By Esther Waugh
Political Reporter

It will be difficult for a new democratic government to resolve South Africa's economic crisis, according to Tito Mboweni, head of the ANC's department of economic policy.

While a political settlement could end the capital flight, Mboweni warned there might be other reactions resulting from a democratic government doing things the international capitalist world did not like.

He said $177 billion (about R530 billion) was available for investment according to the 1991 annual report of the Bank of International Settlements. About $155 billion (R465 billion) was invested in Western Europe, the US, Canada and the Far East, leaving little for developing countries.

"Therefore, major capital inflows into South African cannot be expected," Mboweni said in the December issue of the ANC mouthpiece, Mayibuye. He advised that productivity of labour and management should become a major focus and this would offset some of the cost factors in production.

Mboweni warned that the country's productivity levels were falling, while those of its trading partners were increasing.

It was critical for the country to develop its own capital-goods sector which would mean less reliance on the importation of intermediate capital goods.

Gloomy 1993 is predicted

• ST Times (Buss) 22/11/92 (49)

GROWTH prospects for the South African economy are likely to remain limited next year, says Sanlam chief economist Johan Louw.

He foresees an increase in real gross domestic product of 0,6% after an expected fall of 1,7% in 1992.

By ZILLA EFRAT

He says in Sanlam's economic survey that he hopes 1993 will be a time of consolidation in preparation for faster growth from 1994.

SA should not expect much assistance from outside. Mr Louw says: "Indications are that we will not be able to rely on a strong revival in the international economy.

"We will have to depend on our own efforts."

Mr Louw says a comprehensive economic restructuring programme is needed and the authorities are working on it.

"Everybody who wants the best for the country should support this effort."

For 1993 he foresees further rises in unemployment, a steady worsening of the financial position of consumers and a listless stock market. The good news will be lower interest rates.

Mr Louw says an analysis of several economic indicators shows that the downswing is not bottoming out yet.

A marked recovery is not expected before late in 1993. One reason is the poor state of government finances, making fiscal support for an upswing unlikely.

This is also bad news for taxpayers. Mr Louw says tax increases appear inevitable.

He expects an inflation rate of 11% to 12% in 1993, down from 14,3% in 1992.

Salary increases of 12% outside the agricultural sector are expected in 1993.

Business told to speak out

BDAY 10/11/92

SOMERSET WEST — There was an urgent need for organised business to make its voice heard in the debate on the future economic dispensation in SA, Standard Bank Investment Corporation executive director Conrad Strauss said yesterday.

He called for a grouping of organised business that could speak out on policies that promoted maximum economic efficiency.

"Concerns about the future direction of economic policy and the credibility of future policymakers are currently a major impediment to decision making by companies and individuals. We must reach clarity on the future business environment and play our part in establishing the future economic policy framework."

Organised business was being wooed by both government and left-wing political groupings, but it was in its best, long-term interest to avoid political alignments, Strauss said.

There were some serious misconceptions about the role business could play. For instance, there was an assumption that it could somehow conjure up prosperity, he said. (49)

"One of the major problems facing us is the lingering belief in SA that a privileged private sector is the consumer, not the creator of wealth, and that economic development is a function of persistent and intrusive government intervention in the market."

Business could not be expected to solve SA's political problems.

Sacob economic policy director Ben van Rensburg believed the National Economic Forum could help restore business and community confidence and that organised business was in the best position to be the voice of business.

"Those with a broad base of interest . . . as opposed to the narrow focus of a body representing a sector or an industry, can best be trusted to promote policies which will benefit the wider community," he said.

Economy 'needs broader ownership base'

BDAY 10/11/92 (49)

WILSON ZWANE

TO COUNTER destructive options for economic change, business should be working to broaden the ownership base of the economy, says a senior Consultative Business Movement (CBM) official.

Writing in this month's edition of the Institute of Personnel Management's People Dynamics, CBM executive director Theuns Eloff says it is inevitable that the country's majority will obtain political power.

"When the majority finds it is not given an equal stake in the economy of the country, there is real danger that it will seize economic power — possibly through crude means such as nationalisation of mines or banks."

An economic ownership development trust and a black-owned financing and insurance venture are among vehicles for broadening the economic power base of the economy, he says.

However, such moves ought to be coupled with the development of effective management and skills resources in the black community.

"It will not help for black people to own part of the economy while whites still manage it. What is required is a massively increased thrust towards training ... and the development of management culture in the black community."

Symbols of black success in a market economy stand a chance of winning the confidence of South Africans in a market-orientated economy. If this is not achieved, the credibility of the market economy is jeopardised.

Multi-billion platform for growth in SA

S/Times (Buss) 29/11/92

AN ambitious R10-billion-a-year private-sector plan to rescue the SA economy by restoring investor confidence was unveiled yesterday.

Platform for Investment (PFI), a project co-sponsored by Sanlam, Frankel Kruger, Ernst & Young and the Human Sciences Research Council (HSRC), aims to stabilise and improve perceptions of the likely investment climate in SA.

It calls for an annual R10-billion programme, financed in the main by the private sector, to provide 460 000 new jobs through promoting small and medium business and providing services such as water, sanitation, housing and electricity.

"Downstreaming 3% of GDP could develop 500 000 jobs a year among lower-income sectors in three years and push real growth rates to 5% a year," says the PFI team. These measures will be essential to combat unemployment, which PFI estimates at 30% of the active labour force.

By KEVIN DAVIE

The programme could raise SA investment spending to 21,7% of GDP from the unacceptably low level of about 16%.

The net investment rate, taking inflation into account, is 1,5% of GDP at present, "placing SA firmly in the Fourth World".

Finance Minister Derek Keys has identified the goal of dramatically increasing investment in the economy as the cornerstone of his economic model, which is due for release.

"Our prognosis is not doom and gloom," says PFI committee chairman Sydney Frankel.

Research by the team has found that a strong preference exists for political accommodation and that there is a marked convergence on economic issues.

Roadshow

The team interviewed 30 key South African decision-makers, conducted 100 technical interviews, including some with IMF and World Bank experts, and used survey data from interviews with 12 000 representative South Africans.

PFI was launched yesterday at the Lost City before an audience of several hundred businessmen. The Cabinet is expected to see the roadshow this week with briefings for the ANC, Inkatha and other interested groups to follow.

The team says the most likely scenario is a forced political marriage with either separate bedrooms (stressed power sharing) or separate beds (co-operative alliance).

Unification of parties, regression to minority rule, majority domination after capitulation and fragmentation are ruled out as likely scenarios.

So are the possibilities of SA becoming a wasteland and mass action being used to ruin any political settlement.

PFI says domestic funding sources will have to be largely used for the reconstruction process, although it estimates that up to R3-billion a year will be available from the World Bank, African Development Bank, International Finance Corporation and other official agencies.

The Government would commit financial suicide by taking on additional burdens, says PFI.

Investment spending set for 21,7% of GDP

"Future governments should explore the more attractive option of leaving such developments to the broader and more efficient canvas of the private sector."

SA should not rely on foreign capital for its salvation.

"A realistic target in due course would be to look for a combined total (official plus private) of R6-billion. This would amount to 2% of GDP."

Frankel Kruger economist Mike Brown says that this year the domestic capital market has shown itself capable of financing a central Government deficit of between R25-billion and R28-billion.

Funds flowing to the life offices, pension funds and deposit-taking institutions amounted to R68-billion in 1991.

"Allocating a small proportion to development projects would contribute substantially," says Mr Brown.

PFI suggests that between 5% and 10% of savings under control of the life offices be made available voluntarily for development spending.

It calls for the creation of two statutory bodies, a national housing fund and a business development fund.

They would issue marketable stock, attract grants from governments, raise international loans, run lotteries and enjoy an income stream from their loans and investments.

PFI supports megaprojects such as Alusaf and Columbus which are set to benefit from the 37E tax breaks. It says the envisaged job creation programme will increase imports, putting a strain on the balance of payments.

PFI says current expenditure of about R800-million on small-business development is inadequate and should increase to R4-billion to provide 200 000 jobs a year.

This will need to be backed by spending of R6-billion on housing, electrification and water provision, providing another 260 000 jobs, or 460 000 in total, each year.

Team members include Mr Brown, the HSRC's Lawrence Schlemmer, Sanlam's Ronnie Masson and Andries du Toit and Ernst & Young's Ian MacKenzie.

Nationalisation out

Sowetan 24/11/92

■ PAC's for 'socialisation programme' aimed at empowering Africans:

(49)

By Mzimkulu Malunga

NATIONALISATION cannot address South Africa's economic problems, says the Pan Africanist Congress.

According to the head of the organisation's economics department, Mr Sipho Shabalala, the PAC had never advocated nationalisation as an economic option for South Africa.

At its economic seminar held in Gaborone this weekend, the PAC stunned many observers when it ruled out nationalisation as an alternative to address the country's economic problems.

Officials said this position was consistent with previous stances whenever the organisation voiced its policy on future economic options.

The PAC had always strived for what it termed a "socialisation programme" aimed at empowering Africans, said Shabalala.

The programme entailed the redistribution of the shares of the companies to the workers and community-based trusts. The introduction of anti-trust legislation would be geared towards breaking down conglomerates.

The organisation called for the democratisation of the corporate world in which workers would have increased participation including voting rights. Companies would have to decentralise power to enable African managers to play an enhanced role in the decision-making process.

Also, the PAC advocated the promotion of entrepreneurship among the African majority in all sectors of the economy in this country.

In many countries where it was applied, nationalisation had only benefited the state bureaucracy while the majority of the people remained poor.

Scheme to create black capitalists

Sowetan 19/11/92 (49)

By Hugh Roberton
Sowetan Foreign News Service

■ SMALL BUSINESSES

Giving a boost to the economy of a future SA:

WASHINGTON - A meeting of ANC-supporting groups in the United States decided at a series of weekend meetings in New York to launch two new initiatives aimed at boosting the economy of a future democratic South Africa and creating a new group of black capitalists.

One calls for a lobbying effort to ensure passage of legislation in the United States Congress aimed at providing "seed capital" to promote small business activity among disadvantaged groups in South Africa.

The other calls for the creation of a close and vigorous relationship between a future government in South Africa and the black American business community - a potentially controversial proposal, parts of which may face strong opposition in the US itself.

The meetings also endorsed the Platform of Guiding Principles drawn up by the ANC and Cosatu as a guide for future foreign investment in the country which calls for equality of opportunity, the recognition of unions, training and education for workers, job security and working conditions of the highest quality.

With few exceptions the guidelines parallel existing practices by those US companies which still operate in South Africa but the two new initiatives represent a significant acceptance by the ANC of some of the basic principles of capitalism in future relations with the US.

The legislation envisaged under the "seed capital" initiative is based almost entirely on the East European Democracy Act of 1986 - a multi-million-rand US legislative move specifically aimed at stimulating small business capitalism in former communist economies. Since the initiative on South Africa would be intended to benefit disadvantaged groups, for all practical purposes its effect would be to create a black capitalist class along the same lines as the small business capitalists now being funded with US "seed capital" in countries like Poland, Hungary, Czechoslovakia and the Baltic Republics.

But there is potential for controversy in proposals made for a close and vigorous relationship between a future South African government and the black American business community since some seem to skirt perilously close to what might be considered in the US to be discriminatory and monopolistic business practices.

One proposal, accepted at the New York gathering, calls for action to "support the development of a definitive policy statement by the democratic forces in South Africa that will serve as an invitation for direct involvement by the African-American business community, including such mechanisms as set-aside programmes for African-American businesses".

Some critics claim that any "set-aside" agreement would introduce a form of racial bias in relations between the countries, by restricting certain transactions or funds to black Americans, or denying other American entrepreneurs access to business deals which would be largely funded by US taxpayers, or possibly even South African taxpayers. The weekend's meetings were attended by leading ANC figures, including foreign affairs spokesman Thabo Mbeki, and economic spokesman Trevor Manuel but drew little attention from major potential US investors although some US business observers and officials of the World Bank attended.

Requiem for liberal capitalism a bit premature

BDAY 12/11/92

(49)

SAMUEL BRITTAN

THE majority of people who operate in the media have never been slow to pronounce the doom of competitive liberal capitalism. This majority includes many of those who write for financial institutions, admittedly in more guarded style, but whose views are regarded by politicians as representative of the markets. Indeed, market participants themselves are often bad at making the case for what they are doing, and too often give the impression of turkeys celebrating the coming of Christmas.

The combination of prolonged recession, boom and bust in financial markets, and above all Bill Clinton"s victory in the US presidential election, have put new heart into the anti-capitalist forces, and the sound of their celebrations will go on awhile.

Let me not begrudge people their moments of happiness. Those of us who take seriously the adjective "liberal" before capitalism will not shed any tears over the failure of George Bush's campaign, with its mobilisation of intolerant religious fundamentalism and its near-McCarthyite search for dirt against those who opposed the Vietnam war and who experimented with stimulants other than tobacco and alcohol.

The best antidote to anti-capitalist triumphalism, as to most fads, is a little history. The present swing of the pendulum is mild indeed compared with the permanent state of opinion up to a decade or two ago. Go into any library and pick up at random political or economic books written between the wars or in the first postwar decades. Until then most political and economic books assumed that some form of collectivism — in the shape of more government intervention, ownership and control — was the wave of the future and the only argument was how quickly and by what route it would arrive.

Today, the great shadow over comprehensive planning and state ownership is the ignominious collapse of the Soviet Union and its satellites. Only a fool would have expected a successful capitalism to emerge from the ashes in a couple of years. The fact that a carefully nurtured system of law, legislation, customs and habits and of course infrastructure is required should surprise no one except a few equilibrium economists.

There is, moreover, no beckoning "third way" between communism and capitalism. The country which most nearly offered this, Sweden, is busily dismantling many of its most interventionist institutions, reducing public spending and tax percentages, and is suffering from the recession and unemployment usual in an attempt to squeeze inflation out of the economy.

The one large country enjoying successful growth appears to be China, which combines an emergent capitalism with a ruthless political dictatorship reminiscent of the Pinochet regime in Chile. It may appeal to those capitalists — certainly not liberal ones — who put measured economic growth above personal liberty and civil rights. Moreover China's success is so far merely relative. It is growing rapidly from a low level.

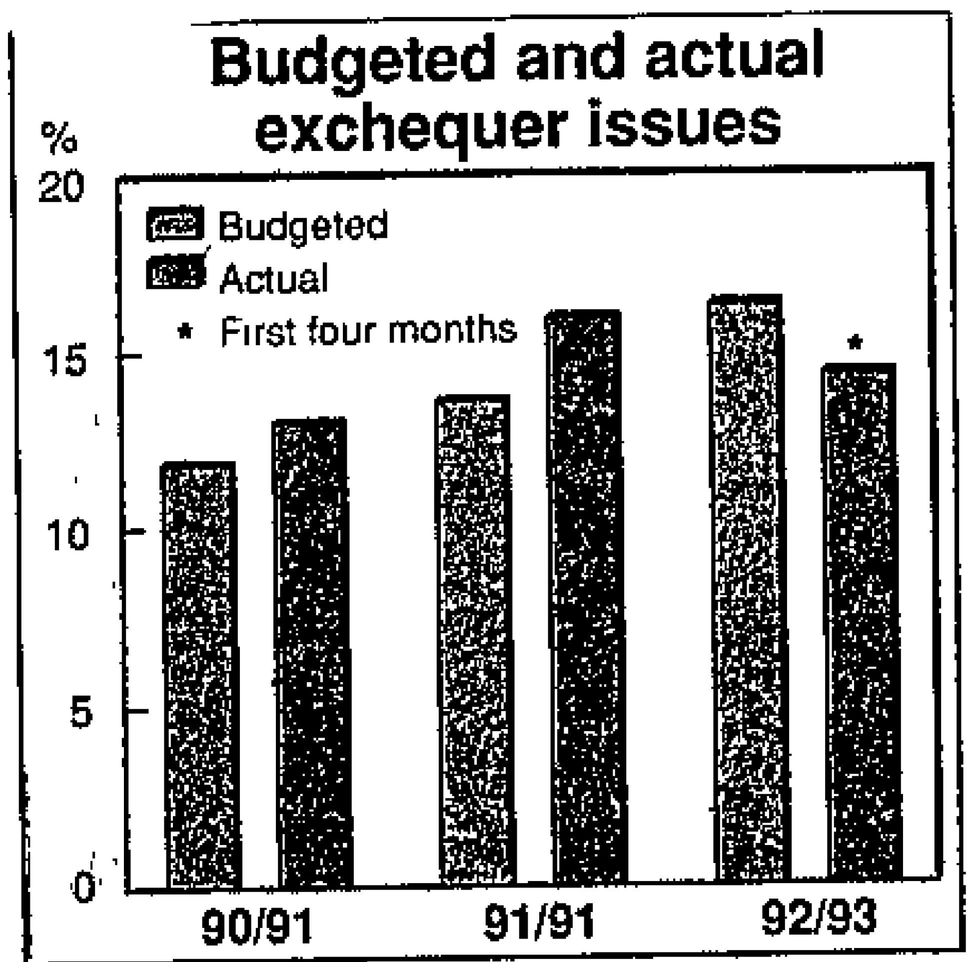
Too many capitalist supporters allow their views to be guyed by opponents. For instance, the taxation of the bulk of the population to help the least well off or the victims of change is, of course, part of a civilised capitalism. Ideally, redistribution should take the form of cash — which respects the choices of the recipient. But when, as in the case of medical services, cash transfers do not work well, a publicly funded system does not take us along the road to serfdom. The fatal stage is later, where in the name of preventing that most British of crimes — queue jumping — the provision of private alternatives is prevented.

When it comes to evils such as environmental pollution, remedies which use the price mechanism or redefine property rights are infinitely better than the top-down approach that has caused such havoc in eastern Europe. The US has been unable to afford a decent safety net, not because of capitalism, but because of interest group democracy that purloins an excessive share of resources for the middle-class welfare state and the military-industrial complex. If Clinton can roll back these interest groups I shall be the first to go to Washington as a humble and penitent pilgrim.

The most recent war cry of those who realise that old-style socialism is dead is to say that the supposedly planned Japanese and German variants of capitalism are better than the more buccaneering Anglo-American variety. (How about the Italian, which is the most buccaneering of all?) These slogan-mongers seem not to have noticed the hash which the German social partnership has made of reunification, or the financial collapse in Japan.

It is no longer so fashionable to praise the French system. Yet what aspects of it are threatening the GATT round? It is not the more competitive spirit in industry and commerce, but state support for French farmers.

If there is to be a requiem it should be for knee-jerk and producer-driven interventionism. — Financial Times.



Graphic: RUBY-GAY MARTIN Source SARB

Continued decline in govt spending

SIMON WILLSON (49)

GOVERNMENT spending adjusted for inflation was continuing to decline and fell 3% in the third quarter, Reserve Bank Governor Chris Stals said yesterday.

While cautioning against drawing conclusions too soon from the trend in a single calendar quarter, economists said the decline was another indication that overall inflationary pressures in the economy were abating. BDAY 26/11/92

Speaking at the Sanlam Financial Reporter of the Year Award presentation in Johannesburg, Stals cited the dip in real government spending as further evidence of the deepening of the recession.

"At this stage production is declining in all major sectors of the economy and all the main components of gross domestic expenditure are contracting. Even government expenditure declined in real terms in the third quarter.

"As a very pessimistic businessman said the other day: 'Even those who don't pay aren't buying any more'," Stals said.

The further confirmation that expenditure by general government is falling in real terms verifies hints dropped in the Reserve Bank's September quarterly bulletin that the pace of state spending was beginning to slow appreciably.

The bulletin said exchequer issues — that is, budgeted disbursements — were rising at an annual rate of 14,5% in the four months to July.

Although this rate of increase in issues exceeded the increase in government revenue over the same period, the bulletin

□ To Page 2

Spending BDAY 26/11/92

(49) □ From Page 1

conceded that it was nevertheless "fairly low" compared with corresponding increases in previous years and well within the increase budgeted for fiscal 1992/93.

The Bank's December bulletin, to be published in the next few days, is expected to show an annualised third quarter decline of 3% in real government consumption expenditure. But Stals said the decline was unlikely to be repeated in the fourth quarter, when a higher level of government spending was likely.

AHI chief economist Nick Barnardt said the drop in real government expenditure confirmed that the rate of increase in state spending was no longer an inflationary factor.

"The size of the fiscal deficit is still a major problem, but the rate of increase in government spending is now below the average over the past 10 years," Barnardt said.

The contribution of the curb in state spending to overall disinflation would emerge in the AHI's quarterly inflation barometer to be published today.

Absa senior economist Pierre Morgenrood said most of the impetus in the third quarter state spending slowdown would have been supplied by the non-exchequer component of general government spending. "Exchequer spending will still be rising in real terms but we are probably seeing evidence of cutbacks in expenditure by the local authorities, who are reducing capital spending to very low levels.

"This could be a sign that the ratio of government spending to GDP could be levelling out, which is comforting."

Focus on reviving economy

Clinton starts work on US rescue plan

B|DAY 5|11|92 (49)

SIMON BARBER

WASHINGTON — Recession-weary American voters have given the Democratic Party undivided power in Washington for the first time in 12 years in the hope that President-elect Bill Clinton will push through a sweeping programme of economic stimuli and social reform.

Between now and his inauguration on January 20, Clinton is expected to put together a series of dramatic initiatives to exploit the end of the deadlock between the Republican executive and Democratic-controlled legislature.

The Arkansas governor cruised to an easy electoral vote victory over incumbent George Bush, although his 43% of the national vote was lower than the 46% achieved by the Democrats' disastrous Michael Dukakis in 1988.

Dallas billionaire Ross Perot garnered a larger share of the poll — 19% — than any third candidate since 1924.

As for the state-by-state count that actually decided the race, unofficial television projections showed that Clinton won 33 states with 370 votes — he only needed 270 electoral votes — to Bush's 18 states worth a combined 168 votes.

The congressional results were also mixed, suggesting that Tuesday's outcome may have been more a repudiation of Bush personally than of his Republican party.

Although still in opposition in the 435-member House of Representatives, the Republicans gained at least nine seats. In the 100-member Senate, the Republicans suffered at worst a net loss of one seat but survived with enough, 42, to filibuster Democratic initiatives.

An unprecedented number of women joined the Senate, hitherto a predominantly male preserve. Chicago's Carol Moseley Braun became the first African American woman senator.

The Voting Rights Act, which for the first time allocated voting districts on an ethnic basis, helped significantly increase the numbers of blacks, Hispanics and Asian Americans in the House. The Congressional Black Caucus will have 13 new members next year, for a total of 38.

Meanwhile, Clinton is expected to announce his transition team as early as today to start putting together a cabinet, and to name more than 1 000 other political appointees including a new assistant secretary of state for Africa.

Sapa-Reuter reports Clinton said yesterday that his first priority would be an economic stimulus package anchored by road, bridge and other projects designed to create jobs quickly.

He also promised legislation providing health care for all Americans within 100 days, and pledged to push for a family leave law and finance reform.

Clinton made it his first post-victory order of business to put out statements of reassurance both to the world at large and to the financial and business communities.

"It will not be easy but we will spare no effort to restore growth, jobs and incomes to the American people," he said. "The Cold War is won. Now we have a chance to build a new peace."

● See Pages 5 and 12

(337) (3069) (49)

US aid 'if transition on course'

(??)

STAR 26/11/92

By Michael Sparks

The United States would encourage and mobilise resources for South Africa once an interim government was in place, the new United States Ambassador, Princeton Lyman, said last night.

Speaking to the Institute of International Affairs, at the University of the Witwatersrand, Lyman said President-elect Bill Clinton had already stated his support for assistance. to South Africa once the transition process was irreversible.

He said bilateral aid from the United States to South Africa was unlikely to increase, though America would play a leading role in mobilising multilateral assistance.

But he emphasised the importance of returning to negotiations and a speedy transition, not only because the international community would otherwise become frustrated, but because the same would also happen to South Africans.

Lyman said the status of negotiations at the time of Clinton's inauguration on January 20 was significant. If things were going well then, the new administration would offer immediate support.

But if negotiations were stagnant, the reasons for that would need to be analysed and a response formulated which would all take time and detract from the real issues.

Keys makes move to safeguard the finrand

49

STAR 30/11/92

By Derek Tommey

The financial rand should rise sharply against the dollar in the wake of moves at the weekend by Finance Minister Derek Keys to limit its use for foreign investments.

The confidence-inspiring move is expected substantially to reduce the flow of financial rands to overseas markets in the weeks ahead.

No detailed figures are available on how many financial rands would have gone abroad to conclude transactions already in the pipeline were it not for Keys' intervention.

But estimates are that the total could easily have exceeded R1 billion.

Curbing this outflow should result in a strong rally in the currency because a restoration of confidence in the financial rand's future worth, together with any short-covering that might be necessary, is likely to trigger an upsurge in foreign buying.

Keys at the weekend requested South African companies which already have permission to make investments overseas to use foreign sources of finance instead.

They would also have to make arrangements to stagger the repayments of their foreign financing.

He said the exchange control department of the Reserve Bank had been instructed to handle requests by local companies for permission to make new foreign investments with circumspection.

Approval could still be granted for those investments which might be seen to be of immediate benefit to SA in the short term.

But investments with a longer-term benefit only will have to be held in abeyance.

Keys said the financing of most new approved investments overseas would have to be done through foreign loans, with repayments being met out of the income generated by the new investments.

The curbs on the use of financial rands are, in a way, good news for companies now making investments overseas.

The slump in the financial rand has meant that they are having to pay almost 70 percent more for their investments than would have been the case had they bought them with commercial rands.

By giving them permission to raise finance overseas — something the Reserve Bank has not been keen on — to make foreign investments, they will at least save the extra expense, providing, of course, they can find foreigners to lend them the money they need.

For the past month or so the value of the financial rand has been steadily falling.

Last week the currency's discount to the commercial rand widened to more that 40 percent — the largest figure since 1986.

This has been interpreted by people overseas to mean South Africa is in serious difficulties.

Consequently, the need to strengthen the financial rand is a matter of both political and economic importance.

Death by diktat

S1Times (B455) 22/11/92.

CHRIS Stals's refusal to print money to treat the ailing SA economy is exposing its many deficiencies. But the cry is still for treatment of the sympton rather than the disease. Comment by KEVIN DAVIE

A SPECTRE often raised is that a new government will introduce minimum wage legislation like Robert Mugabe did in Zimbabwe, bringing new inefficiencies, slowing economic growth and killing jobs.

But take a close look at South Africa and you will find that such legislation is alive and well and destroying jobs.

As we report today, an industrial council and wage board system sets minimum wages and regulates much of the formal economy.

Hundreds of thousands of South Africans are prevented from working for less. Regulation of the labour market kills jobs, lowers output and pushes up prices.

So only the informal sector has experienced any growth in recent years.

Regulation suffocates the labour market. It prevents people from working for their social cost.

It leads to idle hands and hungry stomachs, fuelling the violence which is keeping investors at bay.

Where people are prevented from earning a living they have to turn to the State for support or to another well-entrenched SA institution, theft.

Subsidies normally go hand in hand with regulation. So a growing lobby of economists and unionists want a public works programme subsidised by the taxpayer to provide hundreds of thousands of jobs for the unemployed.

This is the South African way: first regulate and then bill the taxpayer for the costs which flow from the inefficiencies which regulation brings.

Then, as the system begins to strangle itself, cry for cheaper money. It is easier to print money than tackle vested interests which are artificially boosting prices in the first case.

Reserve Bank Governor Chris Stals says the restrictive monetary policy is exposing the numerous deficiencies of the economy.

He says distortions stem from the fact that the economy is overly protected from foreign competition.

High tariffs on imports, unrealistic regulation in labour and other markets, exchange controls and monopolistic practices all put pressure on prices.

These deficiencies have led SA to be one of the few remaining countries in the world which has unacceptably high inflation.

Simply put, SA becomes less and less competitive every year. Key industries, says Dr Stals, could disappear in about three years.

He noted in a recent speech that little progress has been made in the past year in freeing SA markets.

He has also said that the IMF believed that South Africans did not have the will to restructure. Dr Stals believes that a country which has the courage to create a new nation could also reform its economy.

Drastic economic reform will come. Whether it comes from domestically produced consensus and on SA's terms, or on IMF-imposed conditions when overregulation has strangled us near to death, remains to be seen.

SA up for sale at 40% discount — no takers

STAR 26/11/92.

(49) (480)

By Derek Tommey

Foreign investments by South African companies are being blamed for the slump in the financial rand to more than five to dollar from less than four to the dollar only eight weeks ago.

But this is only part of the cause of the finrand's decline, say analysts.

The sluggish growth of the economy and unrest must also be held responsible.

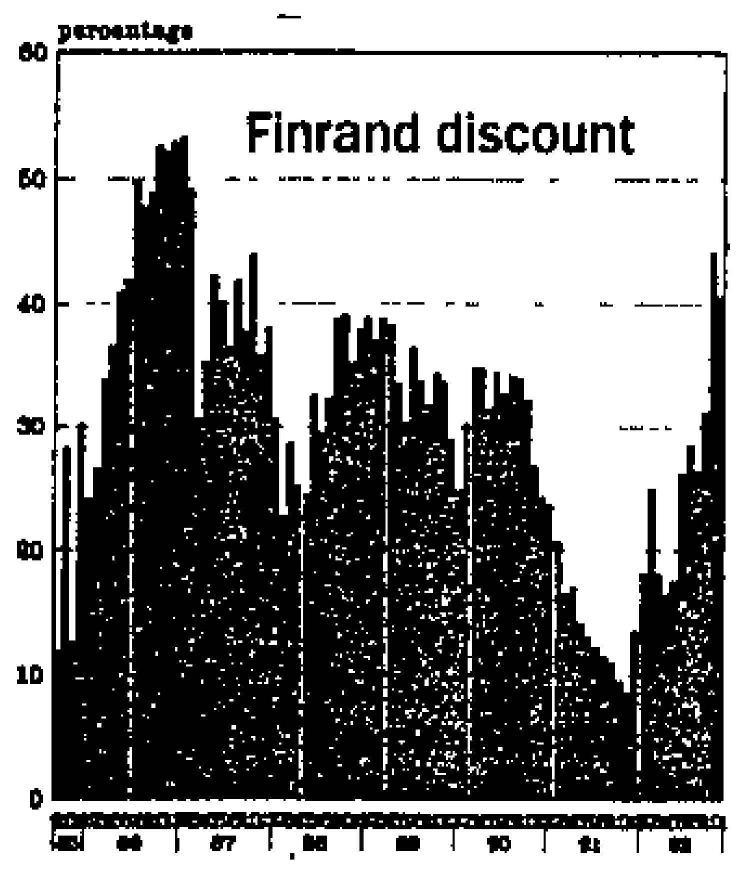
The slump in the finrand has resulted in its discount to the commercial rand growing to more than 40 percent — the biggest discount since 1986 when the country was also plagued by violence.

Portion

Analysts say this means a substantial portion of South Africa is up for sale at a 40 percent discount.

Perhaps not surprisingly, it seems there are few takers.

The fall in the finrand has led Minister of Finance Derek Keys to order an investigation into the currency and its uses, and to ask the private sector for suggestions on how the situation can be remedied.



The finrand can be used by foreign investors to buy shares in listed companies and, provided Reserve Bank consent is obtained, it can be used to make investments in non-listed companies.

Not only does the finrand allow foreigners to buy South African assets cheaply, but it also assures them of a large return.

A foreigner using finrands to buy a share yielding 5 percent gets a return of eight percent.

And if he invests in Eskom 168 stock at the current yield of 14,46 percent, the use of finrand will boost his return to 24 percent.

However, the continued high finrand discount suggests that there are few people wanting to buy it, which is an indication that not many people want to invest in SA right now.

Analysts say that if this situation were reversed and foreigners were willing to invest in SA, the finrand would be far stronger than it is.

Analysts admit that part of the weakness in the financial rand might be the result of SA companies investing overseas.

But there is also a feeling that some of the finrand's problems can be placed at the doors of speculators.

According to Reserve Bank figures, there is something like R6 billion worth of finrands in circulation.

With no market maker to give the currency some stability, it is fairly easy to manipulate.

Suspicion

Bearing this in mind, there is more than a faint suspicion that part of the finrand's recent weakness is the result of speculators taking advantage of the uncertain outlook for SA and selling the finrand short whenever there is a report of a local company investing overseas.

At the moment they woul seem to be getting away wit short-selling — and making lot of money.

There is no doubt that th finrand is used for speculation.

Much of the loudest complaints about its fall are comin from Britain where many people bought the currency in th expectation that it would firr and give them useful capita gains.

● The Governor of the Reserve Bank Dr Chris Stals yesterda called on South Africa to allocate as high a priority to understanding the country's economic problems as it was giving to the polical reform process.

He told journalists attending a Sanlam award ceremony that perhaps 1993 would not be the year which saw South Africa's economic problems being solved.

But it would be an extremely important year as it would see the foundations laid for economic development for the rest of the decade.

He said the authorities should not keep saying the solution to economic problems lay in the political sector.

The authorities must find the necessary economic solutions and zealously apply them, he said.

Inflation on a downward trend

Banks set to follow suit as Stals cuts rate

BIDAY 18/11/92.

(49)

HILARY GUSH

THE Reserve Bank yesterday signalled a one percentage point cut in interest rates by announcing a one-point drop in its Bank rate to 14%, effective today.

The Bank rate — the rate at which the Bank finances the banking system — had stood at 15% since the last one-point reduction in June. The drop represents the fourth reduction in the official interest rate since March last year.

Reserve Bank Governor Chris Stals associated the cut with the more stable financial situation in general and to expectations that inflation would decline further in the near future.

He expected commercial banks to follow suit by announcing a cut in prime and other lending rates. However, he warned: "Deposit-taking institutions are ... requested to exercise caution in the further reduction in their deposit rates, and to maintain a sound and competitive margin between their deposit and lending rates."

Detailing the further progress made towards greater financial stability, Stals said year-on-year growth in the broad money supply had remained below 10% in July, August and September; producer inflation had kept below 10%, while consumer inflation had moved steadily downwards in the past few months; and growth in the level of bank credit extended to the private sector had fluctuated "on a relatively stable basis" around the 10% mark.

He said the latest GDP figures showed continued weakening of real economic activity in the third quarter — pointing to a further decline in inflation.

Stals warned that the deterioration in the balance of payments, the growing Budget deficit and the continued rise in average salaries and wages — above the inflation rate — could not be ignored in deciding on monetary policy.

"SA will have to tackle these economic problems in deadly earnest before the country can embark again on a path of sustainable and durable economic growth at a higher rate, with financial stability."

Standard Bank senior GM Dennis Matfield said the market had anticipated the cut and proposed a cut in home loan rates.

FNB MD Barry Swart said there was "no doubt that banks will follow suit by dropping prime, and give consideration to a cut in home loan rates".

Stals's move had been well timed and the Governor had been "absolutely consistent" in carrying out monetary policy, Swart said.

Nedbank MD Richard Laubscher said it was likely that the prime rate would fall in the wake of the Bank rate cut. "The exact timing of the cut in prime will be finalised tomorrow." He said the drop was appropriate as money supply was "well under control" and lower consumer inflation pointed to an easing in the prime rate.

Stals gives hope

CUTS in interest rates before the end of the year cannot be ruled out, says Reserve Bank Governor Chris Stals.

"Key economic indicators such as inflation, gold and foreign-exchange reserves, and money-supply growth are moving in the right direction. But I cannot say when we will announce a further cut," says Dr Stals. (49)

Economists expected a drop in the Bank rate after last month's fall in the consumer price index to below 14%, but the Reserve Bank failed to follow through.

The growing deficit between Government revenues and budgeted expenditure is cause for concern, says Dr Stals, but it is uncertain if this is of a temporary or permanent nature. S/Times (Buss) 15/11/92.

"If it is temporary, then it is not a serious problem. The best solution is for the Government to reduce spending and the Minister of Finance is committed to dealing with this problem."

Overnight accommodation to the banking sector has fallen from R5-billion three weeks ago to R3-billion as money-market rates continue to anticipate further cuts in bank rate.

"There are a lot of positive indicators pointing to further drops in interest rates," says Dr Stals.

R20bn interest bill ahead

S/Times (Buss)

By TERRY BETTY 8/11/92

THE GOVERNMENT'S interest bill — the largest single item of expenditure — is set to jump from R17-billion to R20-billion next year as borrowings increase to fund the growing Budget deficit.

Absa senior economist Pierre Morgenrood says the interest bill has grown to 16,3% of total State spending and is due to worsen.

"This places the Government in a predicament because the high interest bill leaves less money for socio-economic spending."

The national debt has grown to R172,5-billion — 44,2% of gross domestic product.

Schools

(49)

Democratic Party leader Zach de Beer says the Budget deficit could be as high as 8% of GDP, further inflating the interest bill.

Dr De Beer says it is unacceptable for money to be borrowed to finance current consumption. It should be used to build schools which would yield a more productive population.

"Our children will bear the brunt of the interest bill as the borrowings are 20- and 30-year loans." Dr De Beer says the solution would be to sack half the public service, which has been increasing every year.

The other root cause for the deficit is the miserable economy — low corporate profits and high unemployment resulting in low tax collections. VAT will bring in about R5-billion less than expected.

Economists say there is no other way for the Government to finance the deficit without seriously impeding the economy other than to increase VAT.

The Government is expected to increase VAT and give certain foods a zero rating.

Bureau for Economic Research (BER) economist Nils de Jager says this will yield more revenue than any other tax, but it will be inflationary.

He rules out a wealth tax. Tax on interest and salaries is already high and it would be unwise to reduce the wealth base. Such a system would be costly to implement.

Money supply growth still within guidelines

STAR 27/11/92

(49)

By Sven Lünsche

The year-on-year growth rate in the broad money supply measure, M3, increased slightly in October but remained well within Reserve Bank targets for the year.

The bank reports that M3 grew by an annual 9,34 percent in October, compared with an 8,73 percent rise in September.

M3 growth has now remained below the 10 percent level since May this year — evidence of the negative economic growth rates and an indication that inflation could fall further in the months ahead.

Growth in M3 from mid-November 1991, which is the base of the bank's target range for this year, at 9,14 percent remained well within the seven to 10 percent guidelines.

The comparative figure in September was 9,23 percent and in August 8,4 percent.

The bank's figures also show that total domestic credit extension slowed in September to 8,53 percent year-on-year from 9,07 percent in August.

'Jobs for pals' won't do says SACP chief Hani

Sowetan 28/11-2/12/92 (49)

AFFIRMATIVE action is vital to redress past political and economic wrongs — but it should not breed a culture of "jobs for pals" or a culture that insists on a reward for being black.

Instead affirmative action should be an integral part of an overall economic reconstruction programme, South African Communist Party general secretary Mr Chris Hani told the Black Management Forum annual national conference at UWC last week.

"We need affirmative action in management, just as we need it in the security forces, and in state administration, or, for that matter, in the administration of sports and culture.

"This is because many of the present incumbents in positions of authority are simply incompetent. It is not just because they are nearly all white, and, in many spheres, Afrikaans-speaking.

"It is not just because they are nearly all male. Some of them might have skills, but mostly these skills are absolutely inappropriate for the challenges and requirements of the massive programme of nation-building and reconstruction that lies ahead," Hani said.

The reconstruction programme should be based on sustainable growth through redistribution.

There will be no quick fixes, no miracle cure.

The reconstruction programme would involve:

- giving priority to housing, electrification and education;
- empowering communities economically through their own formations, which meant that managers would have to work in partnership with the trade unions;
- job creation and appropriate technology. (A few high-tech export-oriented growth points hoping to be Singapore dotted around South Africa were not going to solve the country's massive structural problems.)
- having managers with vision, a sense of patriotism and a responsibility to the people of South Africa.

— Lynda Loxton

Restructuring 'will set economic growth back'

BDAY 20/11/92.

GERALD REILLY

PRETORIA — SA's economic growth will be set back many years if existing development agencies are replaced with new structures, says the CEO of KwaNdebele's National Development Corporation Charl du Toit.

In the corporation's 1991-92 annual report he said no matter what shape SA's political future took, development would remain a major concern.

Existing agencies had a workable framework for the upliftment of the most underdeveloped areas.

They had invaluable local knowledge and to replace them would amount to reinventing the wheel, Du Toit said.

In the report Finance and Economic Affairs Minister V S Mahlangu said past policies and the ravages of worldwide recession had left SA and KwaNdebele economicallu crippled.

As a government, however, the homeland had adopted a policy of aggressively promoting economic growth throughout the region.

(49)

SA would be naive if it believed international investor hesitancy was due only to the present depressed state of the world economy. Investors were afraid of losing their investment because of large-scale labour unrest and strikes.

SA's future lay squarely in a strong and growing free market economy, Mahlangu said.

Industrial development, according to the report, was injecting more than R36,5m into the KwaNdebele economy every year in the form of salaries and wages, and 50 000 people had benefited.

The corporation's strategies had attracted R519,1m into the homeland for industrial growth.

Since this year's referendum. investor interest in the homeland had surged.

Economy 'needs good agricultural season'

Econ 30/11/92 (49) S.Times

GERALD REILLY

A GOOD agricultural season would make a significant contribution to the bottoming out of SA's stalled economy and the climb back to positive growth, Nampo chief economist Kit le Clus said at the weekend.

Last summer was a disaster for farming, and expectations that the economic recovery would start in the third quarter had been destroyed. Instead the economy slid back further into recession.

Le Clus said this season had started well and prospects for at least an average crop appeared good However, January-February rains would be crucial.

Meanwhile, Agriculture Minister Kraai van Niekerk stressed the important role of international marketing for agricultural products.

Speaking at the Lowveld Agricultural College in Nelspruit he said on average 25% and more of the industry's production, in terms of value, was exported annually.

A number of sections of the industry were more than 50% dependent on exports for their earnings. The citrus and wool industries were more than 90% dependent.

Van Niekerk said in 1991 agricultural exports earned R5,5bn — 8,2% of total exports, excluding gold. Against this, only R2,3bn — or 4,9% of total imports — was spent on agricultural imports.

When the going was tough in the industry, the impact rippled through the entire economy. In 1988 it was estimated about 58% of agriculture's sales volume went to the manufacturing and processing industries.

The industry provided jobs for a million workers and a means of living for about 6-million.

"When things go badly with agriculture the same can be said of the whole rural community, as was strikingly demonstrated in the disastrous drought," Van Niekerk said.

Kiejman to back investment

BIDM 25/11/92 (49)

TIM COHEN

FRENCH Deputy Foreign Minister Georges Kiejman left SA yesterday promising to encourage investment to boost SA's "enormous" economic potential, and expressing confidence that negotiations would resume.

Kiejman, who has been on a three-day official visit to SA, said he discerned positive undercurrents beneath the forceful political rhetoric.

He said that during his meeting with KwaZulu Chief Minister Mangosuthu Buthelezi, the Inkatha leader had said he felt he was being excluded from the heart of the negotiations process.

Kiejman felt it was natural that the negotiations process should be led by the ANC and government, but it was clear the large Zulu community could not be ignored.

However, he was convinced, he said, that there would soon be reconciliation between Buthelezi and ANC president Nelson Mandela.

Kiejman said the immense poverty in black communities proved that apartheid was still very much in evidence and still had to be destroyed.

He would advise the French government to increase its level of official co-operation with SA. A French cultural institute was on the point of being set up in Johannesburg.

Move to free billions for borrowers

GRETA STEYN (49)

IN A move that could free up billions of rands for borrowers, the Reserve Bank was expected to reduce banks' cash and liquid asset requirements, bankers said yesterday. BDAY 18/11/92

The Reserve Bank confirmed it was reviewing the system of compelling banks to keep cash and liquid assets against liabilities or deposits, but declined to confirm a reduction. Bank Governor Chris Stals said yesterday he would discuss changes to the financial system, including cash and liquid asset holdings, at a bankers' meeting on Friday.

"We are working at improving the financial structure and markets and making policy more efficient," he said.

Bankers said a discussion paper being circulated suggested a reduction in the cash requirement from 4% of liabilities to 1%. There was also a suggestion that liquid asset holdings be reduced to 12% from 20%. A banker said this would free banks' asset structures and encourage more efficient credit and securities markets.

☐ To Page 2

Borrowers

BDAY 18/11/92 (49)

☐ From Page 1

Bank Deputy Governor Chris de Swardt said the cash reserve requirement was a monetary policy instrument and would be moved from the Deposit-Taking Institutions Act to the Reserve Bank Act. He said changes to the system were not intended to ease money market conditions and that the amount of cash banks had to hold would not necessarily be reduced.

The cash held against liabilities would depend on a definition of liabilities, which was still up for discussion. However, bankers said even if a broad definition of liabilities were used, their activities would be less restricted if the suggestions were implemented. The removal of constraints on assets could enable a more aggressive move into home loans or any other area.

Also up for discussion on Friday was the simplification of the Bank's system of putting cash into the banking system. The changes proposed would provide a boost for the capital market, as gilts would no longer be exchanged for cash at punitively high interest rates, a banker said.

ANC policy guidelines need clarification — foundation

LLOYD COUTTS

ANC policy guidelines released in May reflect an outdated view of the nature of SA society, say Urban Foundation analysts.

In the December edition of the Urban Foundation publication Development and Democracy, development strategy and policy unit executive director Ann Bernstein and political economist Charles Simkins say there is a need for greater clarity and consistency in the underlying principles and values that would guide ANC policy discussion, formulation and decision.

"It would seem as though it is only on issues where the ANC has been challenged by loud outside voices that the policy is carefully scrutinised and its practical impact is thought through."

The uneveness of the document emphasises the need for the organisation to identify its constituency and determine the trade-offs that will need to be made on its road to power.

They say many of the ANC's plans for improving the quality of social services will have to be deferred, even if there are substantial cuts in spending on benefits for the affluent.

The trouble is that the most urgent requirements need counterpart institutional change and policy development which have been, and will continue to be, relatively slow to emerge.

It is clear the ANC wants an interventionist state, but a critical question is the ANC's ability to guarantee as much protection as possible against their kind of state for the individual.

Ultimately, revival of SA investment needs an act of faith

B/DAY 26/11/92.

GRETA STEYN

(49)

FINANCE Minister Derek Keys has described effective fixed investment as "the cornerstone" of economic growth. When is investment effective, and will SA have effective investment in future?

Partly as a result of Keys's focus on investment, economists have turned their attention to trends in SA's fixed investment performance. The downward trend was highlighted by the Reserve Bank when it reported that net investment had slumped to only 1% of GDP from an average 14,5% in the '70s and 8% in the '80s. While economists caution against making too much of net investment figures — because the way in which depreciation is accounted for creates distortions — the gross figures tell the same story. Gross fixed investment fell from 28% of GDP in 1977 to 16,5% this year.

While private fixed investment has been falling, public investment has been falling at a much faster rate. Public corporations' capital spending will fall 35% in real terms this year. Much more than just statistical noise, the reasons for the decline tell a story about the SA economy and may hold pointers for the future.

One of the main reasons for the collapse is the completion of the Mossgas project. The slump illustrates the extent to which investment in projects based on SA's isolation underpinned fixed investment spending.

The end of these isolation-inspired, "old SA" investments has been an important reason for the declining trend in fixed investment. In the years when the statistics looked better, the figures masked the fact that much of the investment was not effective. A major push came from investment that is proving to be inefficient in the new international environment.

Another reason for the slump in public corporations' investment is Eskom's surplus capacity — the result of over-investment when economic growth rates, and hence demand for electricity, were over-estimated. A decade of economic stagnation has meant the power utility has not needed to build new capacity. Hence the decline in the investment trend reflects economic stagnation and a miscalculation of demand.

The fall in public corporations' investment has already freed up capital which, ideally, should be used for private sector investment. This could be a way of achieving "effective" investment, as the investment excesses of the past were in the public sector, or had huge state support.

Instead, the capital has been used to finance government consumption spending. Keys has already taken measures to ensure that this changes. But even if he succeeds in freeing more capital for private fixed investment, there is no guarantee that the private sector will spend. A climate conducive to investment would have to be created.

The relationship between investment and growth is a two-way street. From the Eskom experience, it is clear that growth is a prerequisite for new investment. A growing economy means there is demand that will provide a return on investment. This applies even more to the private sector; a decade of local economic stagnation while world demand has been sluggish does not provide a rationale for private investment spending.

But while growth is needed for investment, investment in itself can be the trigger for growth. Major investment projects boost incomes and raise overall demand in the economy, generating growth and eventually leading to more new investment. It seems Keys sees investment as the trigger for the next upswing.

He also obviously sees a role for government in targeting specific investments, as Alusaf has illustrated. On purist free-market grounds, the Reserve Bank has apparently argued against specific tax breaks such as Section 37E of the Income Tax Act, saying an overall reduction in the company tax rate would be preferable. But 37E allows government to target huge projects that might not get off the ground, even if the overall tax rate was lower. The involvement of the IDC and Eskom in the deal are further evidence of the state's role.

Given the uncertainty that demand will live up to expectations, and a past history of state support for investment that did not turn out to be effective, is the support the right move?

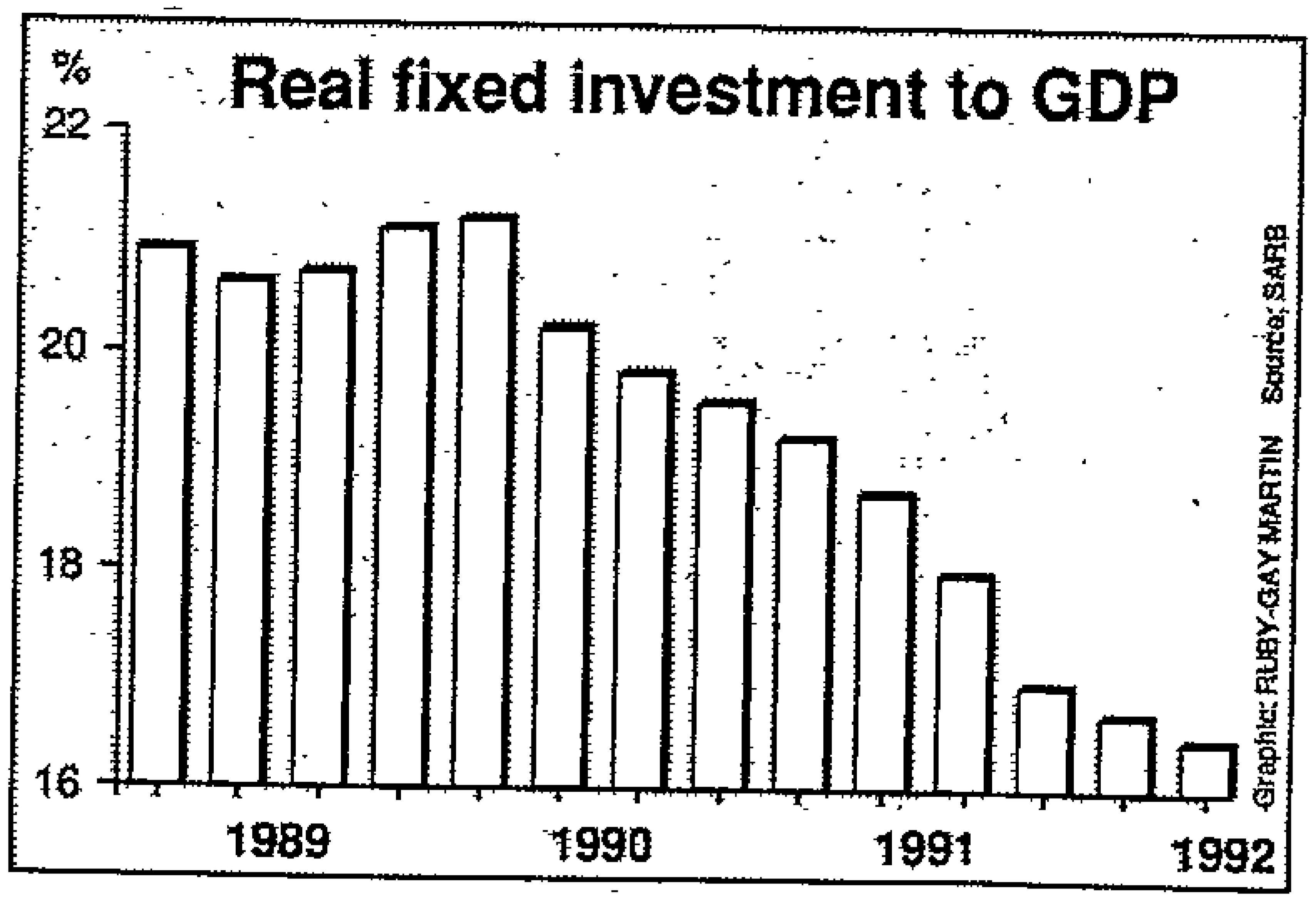
John Maynard Keynes answered the question in 1936: "We have to admit that our basis of knowledge for estimating the yield 10 years hence of a railway, a copper mine, a textile factory, the goodwill of a patent medicine, an Atlantic liner, a building in the City of London amounts to little or sometimes nothing; or even five years hence. In fact, those who seriously attempt to make any such estimate are often so much in the minority that their behaviour does not govern the market."

Keynes's message was that the decision to invest depended on "animal spirits" — it was an act of faith. There is no way of knowing now whether these projects will provide only a fleeting boost or whether they will be part of strategy towards a sustainable growth path.

When Japan's international trade and industry ministry decided in the '50s to go into the motor vehicle industry, it was advised against this by the Japanese central bank and by international experts such as the World Bank. Korea was similarly criticised for its move into heavy industry in the '70s. In both cases, governments assisted major private sector ventures.

But the East Asian countries knew when the handouts had to stop. Unlike SA, where "infant industries" have never grown up, these governments knew when to call it a day. In some cases, such as Mossgas, time has shown the investment was clearly not effective. But it might be difficult to quantify afterwards, and even more difficult to forecast beforehand. To a certain extent it will always remain an act of faith.

But the effects of different types of investment on job creation and the balance of payments can be gauged and should be taken into account before taking a leap of faith. While not arguing that state support for Alusaf was the wrong move, there would be merit in government also taking action on other, more labour-intensive investment. The suggestion in the Nedcor/Old Mutual scenario of homebuilding springs to mind, or a labour-intensive road-building plan. When Keys's plan is released in the next few weeks, SA will see how big a leap of faith its economic policymakers are willing to take.



From revolution to reconstruction — Singapore style

B/Day 2/11/92

LEE KUAN YEW (49)

SA AND Singapore are very dissimilar. The only similarity, in a terminological sense, is that we are both multiracial.

You have had more than a decade of strife and violence. Your country has suffered from UN imposed embargoes and economic sanctions. This has spawned many ingenious but economically uncompetitive import substitution industries.

Singapore, smaller than any of your big cities, is an island with a population of 3-million. Chinese make up 78%, Malays 15% and Indians 7%. For over 140 years of British rule until 1959, we had a relatively simple entrepot trade economy with little agriculture and no industry.

We have strived and been able to maintain interracial harmony since independence in spite of the one man, one vote system which makes the Chinese vote decisive. We ensure minority representation in our single-chamber parliament through group representation constituencies. They require a group of four candidates for each constituency to include at least one candidate from a minority racial group.

In SA power lies in the hands of a white minority. This will soon change. The crux of the problem is how to bring about change without undermining the economy. A settlement must result in one man, one vote producing a government which represents all races, with the most able and competent in positions of authority and responsibility.

Thirty years ago, Singapore suffered from political unrest, very high unemployment and low economic growth, not unlike SA today. We had a communist insurrection with strikes, go-slows, arson, political assassinations and general disorder.

When I became prime minister in June 1959, our first priority was to establish stability. Then we had to restore social and work discipline. This took several years to achieve. Only after that did we achieve economic growth, through trade and investments.

After more than a decade of strife from 1948 to 1959, it was not easy to reverse the habits of society. The people had become used to disruptive and destructive behaviour. These were in part the result of what my party, the People's Action Party, working together with the communists, did during the years of agitation against colonial rule.

It was not difficult to get people worked up, and they became good at making life difficult for the government. After 1959 we had to do a U-turn, from agitation and disruption to a restoration of law and order, to establish stable conditions so that learning, hard work and constructive endeavour became rewarding. The tragedy of many anti-colonial movements is that the leaders and their followers could not or did not make this U-turn.

It is not easy to do. It is not as easy to enthuse a people when the prospect offered is not quick political victory and a sharing of the wealth the colonialists had monopolised, but a long hard slog to create conditions for investment and growth. But unless this change is made, the opportunities that independence has won will be wasted.

In Singapore we had to battle for the hearts and minds of the people against the communists who were still intent on continuing to destroy. They did not want stability restored, claiming that our independence was not complete and that neo-colonialism still prevailed. We won. We got the people to relearn the habits of learning, working, co-operating and succeeding. It took about 10 years to complete the U-turn.

However, by the mid-1960s, investors were convinced that the Singapore government was determined to establish the preconditions for economic growth. So some big investments started to flow in. We had set

□ LEE KUAN YEW

up the Economic Development Board with offices in Europe, US and Japan to woo and assist multinational companies to invest. We offered tax holidays and incentives. But the real incentive was Singapore's stability, with our formerly militant labour force becoming an industrious and keen partner of management in the pursuit of skills, knowledge and higher productivity.

This was no sudden conversion on the road to Damascus. It was a painstaking and sustained effort, as we quietly spelt out the lessons to the workers and re-educated the union leaders, managers and government officials.

We set up tripartite bodies of labour, management and government in a National Wages Council to set guidelines on what wages the economy could bear in each sector, and a National Productivity Board to get workers and management to learn productivity techniques and to build up the spirit of co-operation so that productivity can improve and so increase profits and wages.

Once economic growth had got going in earnest, we launched a massive programme of public housing to give each worker a stake in the country's progress. A compulsory savings scheme was built up to which employers and employees each initially contributed 5% of wages and increased to the present 20% of wages from each side. Workers can borrow from this fund to buy their own homes and still have a retirement nest egg. Today nearly 90% of workers own their own homes bought with these savings.

Our key strengths in fostering growth have been meritocracy and an efficient and corruption-free administration. A person earns his place on merit. Race, status, connections or influence of his parents or friends are conscientiously screened off or filtered out. This was not easy to achieve. In the aftermath of victory in the elections followers wanted to be rewarded for their loyalty and support, the only virtues they believed merited recognition.

SA has a different past. Its future will be influenced by this past. A new government must expect difficulties in getting the African majority to accept the virtues of meritocracy. In the first flush of victory at the ballot box, supporters will expect to be rewarded, immediately. Moreover there is a lost generation of Africans with minimal or no schooling. They are now disadvantaged and meritocracy can have little appeal.

A new government needs to have African leaders willing and able to moderate or temper expectations.

The African political leaders will have to resolve the contradictions between the aspirations of their supporters and the realities of the economy. There are bound to be enormous pressures to redress the inequities of past distribution of wealth. The art of government in such a situation is to redress grievances in a manner and at a pace that do not turn the rules of economics upside down.

The most painful adjustments will be those expected of the whites. Their status as sole rulers will be gone. Any privilege, better rewards, homes, schools, hospitals or clubs will have to be justified by an individual's greater contribution to the economy arising from better education or knowledge or skills. A truly free and colour-blind market must determine rewards. Whites can make things easier if they genuinely accept the others as equals. But it is not easy to build a new equal relationship when the levels of education of the two groups are so unequal and the cultures so dissimilar.

The SA revolution is unique in that the colonisers are not leaving, but are staying on as a minority willing to compete on equal terms. It will also be difficult for African leaders Africans will question the right of whites to superior lifestyles. They must convince their followers that the whites have the right to live, work and compete, and if they win more because of their greater contribution to the total wealth of the country, it has to be accepted. They have to be persuaded that only the free market can be the arbiter, and not majority power alone.

□ This is an edited version of the Singapore senior minister's address to the FM Investment Conference last week.

Why Stals must go on singing the same song

(49)

BDM 10/11/92.

GRETA STEYN

A RECENT speech by Reserve Bank Governor Chris Stals drew the unkind comment from a businessman that conference organisers may as well just play a recording of the previous one. But there are some variations on the theme — recent public speeches and private meetings with bankers have placed increased emphasis on the fiscal deficit as a reason why he cannot relent on interest rates.

But the deficit reflects a collapse in the tax base in a deep recession rather than an expansionary surge in spending. Spending is widely expected to end the fiscal year only about 1,5 percentage points above the budgeted 16,5% increase — some would say a laudable performance in a drought year. Revenue, however, is only expected to rise by a single-digit percentage compared with budget estimates of almost 16%.

The question must be asked whether present fiscal trends represent a valid reason for keeping interest rates where they are. Why should a deficit that is a symptom of economic stagnation, and problems related to the implementation of VAT, be a reason for policies that could prolong the stagnation? One could even argue that tight monetary policy caused the recession and is therefore partly to blame for the weak revenue situation.

Or is the fiscal situation fundamentally flawed, and could failure to recognise the implications for monetary policy spell economic disaster in the long run?

Finance Minister Derek Keys has proved helpful to Stals in painting an awesome picture of an effective deficit near 9% of GDP. The figure is far enough away from the 3% benchmark and near enough to Latin American shock-horror levels to have caused deep concern. Senekal Mouton & Kitshoff analyst Louis Geldenhuys recently warned the fiscal situation had the potential to spark a crisis worse than the Rubicon disaster, which plunged the country into years of economic hardship.

But there is an important difference between SA's deficit and the Latin American fiscal problems — SA's deficit is financed with available savings and not by printing money. While the links between deficits financed by bank credit and inflation have been established beyond doubt, the question can be asked if a deficit financed by savings is inflationary — and therefore a reason for restrictive monetary policy.

The connection between a savings-financed deficit and inflation is indirect, but in SA's case undoubtedly a factor that could cause demand-pull inflation.

Most of the finance is used for consumption spending, adding to demand in the economy without adding to potential supply by increasing productive capacity.

But while government consumption spending — mainly on salaries and wages — could "demand-pull" inflation, there is no clear evidence of this force working on inflation now. In a year when the depth of the recession and the shadow of retrenchment in the public sector have restrained spending, the demand-pull from civil servant spending power would have been minimal.

Another problem economists often raise about savings-financed deficits is "crowding out" the private sector. Huge government absorption of the available savings "crowds out" private sector borrowers from the capital markets and generally raises the cost of capital in the economy. A cut in interest rates would artificially reduce the cost of capital, leading to inefficient investments.

But there is no evidence that the private sector has been crowded out; on the contrary private sector demand for capital has been virtually non-existent. Instead of pushing up interest rates in the markets for long-term funds, the capital market has experienced a major bull run.

This fiscal year's huge deficit, seen in a strictly short-term context, has not been a major inflationary factor and has not crowded out private sector borrowers. It is not a reason why the long expected cut in Bank rate should be delayed any longer.

How does the picture change looking ahead to next year?

Ironically, when government takes action to reduce the deficit by raising VAT and the petrol levy next year, this will have a direct cost-push impact on inflation. In spite of a smaller deficit, inflation would rise and monetary policy would have to remain tight. Hence, Stals is not stating a that smaller deficit is a signal for easing policy. What is required is a cut in spending: "It is only with severe constraints applied to the escalation in government expenditure that room will become available for a meaningful reduction in the restrictive monetary policies now in force."

While the deficit is no reason to further delay a cut in the Bank rate, it is undoubtedly a reason why the next cut should be the last, or close to the last. Once the upswing starts, the demand-pull effect on inflation emanating from government consumption would only be strengthened by cutting rates further. Once private sector demand for capital picks up, the "crowding out" effect will become an important factor. Geldenhuys calculates the shortfall between current spending and revenue absorbs 35% of gross domestic savings. The "crowding out" effect will see money supply increase rapidly as government continues to absorb the nation's savings.

Stals has no choice but to hammer home the message, otherwise the next cut in Bank rate will immediately be followed by pressure for another cut in interest rates. He must go on singing the same song.

LETTERS

Gloom over latest economic figures (49)

SOUTH 21/11-25/11/92

ECONOMISTS expressed both gloom and rage last week when the Central Statistical Service (CSS) released its latest economic figures for the four months to the end of September.

The figures shocked many by showing that because of a massive 63,7 percent drop in agricultural activity, real growth in the economy as a whole slipped 5,7 percent.

According to some calculations, this could mean that the slowdown for the year as a whole could be as much as three percent compared to the previously estimated one to two percent.

It was claimed that the CSS had got its numbers wrong so many times this year that it was obvious it had slipped up again.

The real situation will only emerge after a lot more number-crunching by the country's army of economists attached to banks, life assurance companies, universities and research institutions.

But in the meantime, all we have is another dose of doom and gloom after what has been, after all, a tough year for everyone — be they farmers or graduates looking for jobs.

There was some consolation, though, in the fact that the decline in the manufacturing sector eased in the third quarter. It fell by only 1,6 percent compared to 1,8 percent and 2,5 percent in the previous two quarters.

That this was achieved despite strikes and stayaways is seen as an indication that perhaps the decline in this sector has bottomed out. Anticipated interest rate cuts in the next few months can only help.

The bad news did not affect the Johannesburg Stock Exchange, where investors boosted the overall index as they looked around for bargains after weeks of watching developments at home and abroad.

Keys' model for growth

S/Times (BUSS) 21/11/93 (49)

By KEVIN DAVIE

FINANCE Minister Derek Keys' economic model — due soon — to restructure the SA economy will be guided by six principles.

Mr Keys says the cornerstone will be to create sufficient and effective investment in capital goods through mobilising internal and external resources for investment.

The next crucial principle for growth is sufficient and effective investment in labour to improve skills.

The other four guiding principles identified by Mr Keys are:

- More macro-economic price, interest-rate and exchange rate stability.
- Fiscal responsibility, discipline and greater freedom of action through tax and expenditure policies.
- Responsible trade liberalisation to strengthen the competitive position of SA producers in both domestic and foreign markets.
- Improving the functioning of markets for goods and services through the promotion of effective competition and the strengthening of markets.

In an interview published by RSA Policy Review, Mr Keys says the economic model "will scientifically quantify the resources available for development and evaluate the effects of alternative policy options with the aim of finding ways to put our resources to the most productive use".

Flight

Mr Keys says provision of employment is one of the main objectives of the economic model.

He says the only jobs created in recent decades have been in the public sector. Money spent on maintaining the government machine has risen from 10% of gross domestic product since the 1960s to the current 22%.

Central government is responsible for 60% of total State spending. Mr Keys says he has started discussions with the Transkei-Venda-Bophuthatswana-Ciskei and self-governing states to persuade them to reduce spending.

He says these states may be reincorporated in SA, but because they comprise lesser-developed and poverty-stricken areas they will remain dependent on the central government for fiscal transfers.

Every effort should be made to reduce the comparatively high levels of direct tax.

"However, progress in this area will depend on the ability to create fiscal scope by way of a reduction in government spending on the one hand and an increase in indirect tax on the other."

Mr Keys rules out wealth and land taxes as part of his economic model.

"Wealth and land taxes are not very productive because they have unfortunate consequences, such as capital flight.

"Experience in other countries seems to indicate that the introduction of additional forms of these taxes does not provide the scope for meaningful lowering of individual and company taxes."

He says the Government is considering an agreed definition of basic foods.

"This will guide our decision on the future tax treatment of basic foodstuffs."

Mr Keys says the SA Customs Union is "very costly for us (Business Times reported these costs to be about R5-billion) and no longer seems to be the appropriate instrument for economic cooperation in the subregion."

Expert weighs up funding options

6/0 AJ 30/11/92

49

JONO WATERS

SA COULD raise foreign funding worth R1bn a year to finance an economic recovery programme, Frankel Max Pollak Vinderine chief economist Mike Brown said at the weekend.

Brown told the Platform for Investment conference at Sun City at the weekend: "This is a realistic target that can be raised from abroad, but there are some problems."

He said these included the fact that money from abroad was conditional and often had strings attached.

Money could be raised domestically as SA had a "massive capital market" with more than R70bn held in long-term savings.

The conference called for R10bn to be invested in the country annually to provide about 460 000 jobs a year by promoting small and medium-size enterprises, services such as water, housing sanitation and electricity, and large capital projects to keep SA out of balance of payments difficulties.

Job creation in small businesses was low-cost, with the capital cost amounting to about R18 000 a job, compared with R50 000 a job in the formal sector.

The Industrial Development Corporation had indicated it intended to invest in export projects to the value of R29bn over the next five years and should generate export earnings amounting to R10bn, he said.

"Upstreaming" into higher value-added export products would provide the best short-term solution to a possible balance of payments constraint in the absence of the rise in gold, precious metals and other commodities prices.

An investment target of 25% of GDP should be set. The figure was currently about 16% which, said Brown, was just above the inflation rate. If the R10bn was spent, it would bring investment to 21,7% of GDP.

"The greatest threats to monetary stability are no longer excessive money supply growth, a falling rand or extreme inflationary expectations, but rather a lack of fiscal control."

It appeared that exchange control and the financial rand were here to stay, which were detrimental to investment and gave private and public foreign investors cause for concern when studying SA as a recipient for their capital.

"Making the best of the situation will require that exchange control regulations are applied uniformly, are transparent and allow free entry and exit."

ANC rejects land grants

BDAY 4/11/92 (49)

RAY HARTLEY

A FUTURE ANC government would not feel obliged to honour government efforts to restructure SA's economy and re-allocate land before an interim government took power, ANC secretary-general Cyril Ramaphosa said yesterday.

Ramaphosa told a media conference the recently gazetted transfer of 380 000ha to Lebowa and 52 000ha to QwaQwa could be reversed by a future ANC government.

"Any form of unilateral restructuring by a discredited government should stop forthwith," he said.

Ramaphosa said the matter would be discussed at the November 22 summit between the ANC and government.

Speaking at the same briefing, ANC local government spokesman Thozamile Botha said the ANC believed central government should retain control over defence, foreign affairs and finances, among other areas of government.

"Where there is conflict between central and regional government, the central government should prevail," he said.

The ANC did not support regional control over any aspect of government, but joint control over education, housing, health and related issues was desirable.

The ANC's latest draft document on regional policy, released yesterday, said regions should be allowed limited fiscal powers to help them "carry out their functions effectively and efficiently.

"A permanent Advisory Fiscal Commission structured on a non party-political basis, in which certain powers for advising on the structure and mechanism of fiscal decentralisation would be vested," would have to be established.

The document said the ANC was not "too concerned with the labels 'unitary state and federation' ".

Between 10 and 16 new regions should be considered for a future SA, according to the document.

Mixed economy 'the only way' (49

BIDAM 25/11/92.

LONDON — Monetarism was finished as a way of running a nation's finances and should be followed by an age of "pragmatic thought and action", veteran economist John Kenneth Galbraith said yesterday.

The 84-year-old Harvard guru, whose liberal views have influenced many Western politicians, said right-wing and socialist politicians had to realise that a mixed economy was now the only way forward.

Galbraith told the Institute for Public Policy Research in London that monetarists and socialists had to bury their ideological differences to get the world out of recession.

"The broad outlines of the modern mixed economy are here to stay. What remains is the task of making the system work better, and for all the people." — Sapa-Reuter.

Drought and strikes sink SA economy deeper into recession

(49) ARG 12/11/92

Business Staff

JOHANNESBURG. — The economy reeled under the impact of the drought and organised labour's mass action campaign in the September quarter.

The economic downswing accelerated sharply in the third quarter, with real gross domestic product (GDP) plummeting by a year-on-year 5,7 percent.

The drop, the largest in over a decade, follows on decreases of 2,1 and 2,9 percent in the first and second quarter this year respectively, the Central Statistical Service said.

The sharp fall-off in economic activity was caused mainly by a 64 percent plunge in the value of agricultural production due to the severe effects of the drought.

In the second quarter agricultural GDP fell by 31,8 percent.

However, GDP in the non-agricultural sector also continued its downward trend declining by 1,2 percent in the third quarter compared with 0,7 and 0,6 percent in the preceding quarters.

Reserve Bank Deputy Governor Dr Jaap Meier said yesterday that the authorities were not considering a drop in interest rates despite the fall in GDP, which he described as "very disappointing".

"We are constantly reviewing money market conditions but at present a less restrictive monetary policy is precluded by the worsening government finance situation," Dr Meier said.

He added, however, that a significant drop in the inflation rate, "which could happen later this year" would encourage an easier monetary policy.

The sharp quarterly GDP drop was far worse than anticipated by economists and could cause economic growth for 1992 to contract by more than 2,5 percent in real terms.

Apart from the poor agricultural condition Econometrix economist Tony Twine told Sapa it was in the third quarter that the economy reeled under the impact of organised labour's mass action campaign.

The mass action campaign resulted in a two-day stayaway and other industrial action which contributed to lower production output and declining consumer and business confidence.

There is also little evidence to suggest that the economic recession is over.

"Consumer and investment spending remains depressed and I don't think the economy has bottomed out yet — that will only happen in the first half of 1993," UAL economist Denis Dykes says.

Some relief is, however, expected from a return to normal agricultural conditions.

Good rains this week have largely broken the drought in many parts of the country and Mr Dykes says agricultural activity is expected to pick up substantially early next year.

From a statistical point of view an improved agricultural season should allow the economy to return to positive growth rates in 1993 after three successive years of negative growth.

Both the Department of Finance and the Reserve Bank have forecast GDP growth of one percent next year and Dr Meier said the latest GDP figures had not changed this outlook.

Recent statistics suggesting a slowdown in the rate of decline in manufacturing production were also supported by the GDP figures.

The drop in quarterly GDP in the manufacturing sector was limited to 1,6 percent in the third quarter against 1,8 and 2,5 percent declines in the previous two quarters.

Labour supply outruns economy, says forecast

Story 4/11/92 (49)

DUMA GQUBULE

A MEDIUM-term macro-economic forecast by Stellenbosch University's Bureau for Economic Research (BER) expects an average 2%-3% annual economic growth rate for the country over the next five years to 1997.

BER economist Nils de Jagger said the gloomy scenario implied the growth in employment in the formal sector would not match that of the labour force over the same period. Consequently, the growth in domestic demand would be insufficient to stimulate economic growth.

Gross domestic fixed investment (GDFI), expected to fall to 16,5% of GDP this year (from 22% in 1989), was not expected to reach 1989 levels by 1997 due to uncertainty that would prevail even after a successful political transition.

The country would have to rely on exports to boost growth prospects over the next five years, he said.

De Jagger said an economic kick-start, in the form of a Marshall Aid plan or a surge in foreign investment, would prevent the gloomy forecast from becoming reality.

The root of the country's low-growth problem was the low levels of GDFI — itself a function of low levels of confidence.

Meanwhile, SHARON WOOD reports that the SA bond market does not appear to offer tremendous value at current price levels and value will re-emerge only if inflation drops to 10%, Investec Asset Management's Guy Toms says in the bank's latest Economic Focus.

But he adds the "fundamentals supporting a decline in inflation to 10% are largely in place." The foreign balance is in a healthy position, the exchange rate is stable, and the depressed economy and rising unemployment are limiting wage awards to single digit figures.

"One cannot, however, be confident of inflation falling to 10% in the course of 1993. Inflation inertia is still a critical and often underestimated factor in the inflation equation."

He concludes while the balance of supply and demand should continue to ensure an excess demand for bonds at the short end of the yield curve, the large fiscal borrowing requirements next year suggests a more cautious view on long-term bonds.

Business mood 'still vulnerable'

BIDAY 10/11/92

(49)

HILARY BUSH

A DEPRESSED world economy, declining consumer spending and political uncertainty continued to erode business confidence, the SA Chamber of Business (Sacob) said yesterday.

The business confidence index (BCI) — a short-term barometer of business mood — dropped slightly, by 0,1 of a percentage point in October to 90,1 on the back of a deterioration in seven of its 13 sub-indices.

Sacob director-general Raymond Parsons said: "In addition to the adverse impact which uncertainties generated by the political process have continued to give rise to, the business community has yet agian been battered by the combined effects of a depressed world economy and declining consumer spending.

"As a result business sentiment is still vulnerable," he said.

He said following a downward revision of growth prospects in the industrialised economies, the prospects of a local export-led recovery had faded.

Rising unemployment, relatively expensive credit, negative real wage and salary increases and the effects of the drought had dampened domestic demand.

Despite an "encouraging drop" in inflation in September, Parsons said the depreciation of the rand and the burgeoning government deficit had contributed to the delay in the long-anticipated Bank rate cut.

"As a result, the real cost of credit has increased, and the pressure on disposable incomes remains high."

Given expectations of wage and salary increases of between 5% and 10% in 1993, Parsons said inflation would have to fall to around 7% before pressure on disposable incomes started to subside, and consumer demand picked up.

"Despite the many negative factors there is some glimmer of hope," Parsons said.

Lower inflation and softer interest rates in the months ahead, as well as higher-than-expected turnovers over Christmas could help bolster business sentiment.

Early summer rainfalls had heightened chances of a speedy end to the drought, while recently announced measures aimed at reducing the level of violence boded well for an improved business mood.

However, Parsons cautioned that "progress on the political front remains the dominant factor in shaping business and consumer confidence".

Negotiators 'need a fiscal briefing'

49

BDay 11/11/92

GERALD REILLY

PRETORIA — Immediate attention should be given to practical aspects of intergovernmental fiscal relations and revenue sharing to ensure that constitutional negotiators on all sides were properly briefed, Finance director-general Gerhard Croeser said yesterday.

He told delegates at the SA Institute of Public Administration conference it was important not to wait until a new constitutional dispensation was negotiated before assessing its implications.

He said the financing of government in a new dispensation would create many demands, particularly in the light of massive backlogs in services.

A sound economic policy to create the climate for growth would be of cardinal importance in giving a future government the means to provide community services.

Effective allocation of funds was vital and this could be achieved through greater community involvement.

The success of a future constitutional dispensation would depend greatly on the fiscal relationship between the different levels of government, Croeser said.

Sapa reports that Small Business Development Corporation MD Ben Vosloo told delegates government's wage bill of between 61% and 66% of its current expenditure since 1984 was the prime reason for the growth in state consumption and general administrative expenditure.

He said government's administration expenditure now amounted to R37bn or 11% of expected GDP.

"The government sector has been a very active creator of 'employment' during the last decade. Most business sectors, including government businesses, were net losers of employment opportunities in the 10 years prior to 1991."

Vosloo said one in four people in the formal sector worked for government.

He said government activity had grown faster than any other important index in the national accounting system, namely the population growth, inflation, the GDP and private enterprise. Government expenditure at all levels had increased from 16% of GDP in 1960 to 32% in 1991.

He said government's increasing domination of the economy was the underlying problem behind declining investments and the consequent lack of economic growth.

"In spite of the increasing amounts of money spent by the SA government sector, its investment activity significantly reduced during the last decade."

Vosloo proposed cutting the numbers of civil servants and said the public sector would have to be governed more by a competitive market process.

BDay 11/11/92

Govt criticised over staff cuts

PRETORIA — The Public Servants' Association is dissatisfied with the manner in which government is reducing staff in the public service.

An editorial in the latest edition of The Public Servant said the 700 000-strong Central Public Service was the largest single target for affirmative action.

Although affirmative action had been anticipated, there was dissatisfaction over government's reluctance to communicate with employees.

The editorial said the Commission for Administration had introduced affirmative action under a veil of secrecy. — Sapa.

Public servants 'concerned'

BDay 11/11/92

GERALD REILLY

PRETORIA — The tempo and intensity of political change in SA had caused concern among public servants, Transvaal Administrator Danie Hough said yesterday.

Speaking at the SA Institute of Public Administration conference, Hough said critics of the public sector claimed government and municipal officials opposed change. He said there were such officials, but most were coping with change in a positive manner.

In the process of change senior officials had a responsibility to see that government decisions, whether at central or local level, were carried out.

He stressed that public servants should not see themselves as potential victims of change because with their experience, insight and initiatives they could play a leading role in bringing about a new dispensation.

He said change had to be handled with the minimum of disruption in order to avoid chaos.

The uncertainties among government workers could only be alleviated if those involved were briefed on the reasons for change.

Concerning the 1,6-million public sector employees, Hough said a balance had to be maintained between government and the private sector as employers.

The swift population increase, however, had resulted in greater demands for public services such as health, infrastructure, housing and security services.

Since 1950 SA's population had increased by 206% and by the year 2025 SA would be one of the 23 most densely populated countries in the world unless the increase was slowed.

To provide an expanding population with work an annual economic growth rate of 6% was needed. The reality was, however, that the real growth rate over the past decade had been only 1,8%.

AIDS epidemic 'at crisis levels'

KATHRYN STRACHAN

THE AIDS epidemic had reached crisis proportions in SA, but health authorities had failed to respond effectively, a Baragwanath Hospital doctor said recently. BIOM

Heamotology Department head Prof Alan Fleming told the Township Aids Project that SA was seven years behind other African countries in the spread of the epidemic, but, he added, health authorities had wasted the "period of grace". 11/11/92.

Fleming said more than 4% of women in antenatal clinics were HIV positive and the epidemic had now reached the stage where figures would increase dramatically.

The only effective responses to the epidemic locally had been the national surveillance programme and the universal screening of blood.

Important measures which were presently not in place included AIDS information and education centres in black townships, and a national strategy for health care delivery.

This was essential because the predicted numbers of the sick would overburden the existing health care system.

Fleming said government had established its AIDS training and information centres only in locations where they would serve almost exclusively the white population.

The highest priority should have been given to an AIDS educational programme in primary and secondary schools, he said.

Budget problems behind jail releases

BIOM 11/11/92

RAY HARTLEY

BUDGETARY difficulties had prompted government to announce the early release of 7 000 prisoners during the first six months of 1993, Correctional Services spokesman Lt Bert Slabbert said yesterday.

Correctional Services Minister Adriaan Vlok announced yesterday that the prisoners — none had committed violent crimes such as rape and murder — would be released at a rate of about 1 000 a month.

Slabbert said the prisoners would be drawn exclusively from those whose release had already been approved by the Prisons Release Board.

He did not elaborate on the extent of the department's budgetary difficulties, but said the freeing of the 7 000 prisoners would not "solve the problem on its own".

Other mechanisms had to be developed to deal with the overcrowding of prisons, which would, according to the department's figures, still hold 19 000 prisoners too many.

Sapa reports Vlok will consult police before finally authorising the releases.

Prisoners already selected for release would be given their freedom a few months earlier to ease the overcrowding.

"I want to make it clear that this process of additional releases will definitely not be implemented during the remainder of this year.

"We foresee that it could be applied during the first half of 1993," he said.

Vlok said the question of imprisoned children would be addressed urgently.

There were 2 656 convicted juveniles between the ages of 14 and 18 years in prison, and 6 485 between the ages of 19 and 22 years, he said.

Meanwhile, government and the ANC are expected to meet today to draft a final list of political prisoners who will be released by Sunday in terms of agreements they have reached.

A short list of 48 prisoners, 10 of whom had been disputed by Vlok, had been drawn up for discussion at the meeting, ANC legal department official Matthew Phosa said yesterday.

He said additional motivation had been faxed concerning the 10 disputed prisoners and there were "a few" other names that could still be added to the list.

The release of the 48 would bring the total of ANC-aligned prisoners released this year to 339, with 141 being released prior to the September summit on violence and 150 as a result of the record of understanding agreed on at the summit, Phosa said.

Originally, the ANC submitted a list of 520 political prisoners for release.

Slabbert said a process of identifying further political prisoners with other political parties would begin in weeks.

SA told to do more for health

BIOM 11/11/92

KATHRYN STRACHAN

THE spending of 6% of GNP on health in SA was a great achievement, but considering that SA's GNP was about seven times higher than China's or Sri Lanka's, SA still had a life expectancy of less than 80% of those two countries, says a health expert.

Speaking at a conference of the National Association of Pharmaceutical Wholesalers in Bophuthatswana yesterday, the head of the University of the Western Cape's School of Pharmacy Peter Eagles said SA's lower life expectancy could be attributed to the unequal distribution of health resources locally.

To improve health care significantly and to eliminate poverty over the next few decades, SA would need an annual economic growth of about 10%.

Since that was impossible, attempts would have to be made to improve health care provision by other means — particularly in the field of pharmacy.

The training of health professionals in SA had almost no bearing on the health needs of the country.

It had also not taken into account the emergence of a massive peri-urban settlement and its implications for health, Eagles said.

There was an urgent need for more information on factors such as access to sanitation and water supplies, and the disadvantages of rapid urbanisation. Innovative new health promotion strategies focused on those who exhibited "risk-taking behaviour" — violence, alcohol and substance abuse, and unsafe sex — were also needed, he said.

France to host management trainees

BIOM 11/11/92

GAVIN DU VENAGE

THE French government would host six South Africans on a two-week visit to France, French embassy cultural councillor Georges Lory said yesterday.

The six are top participants in the French government's joint management development programme, which it cosponsors with the Paris Chamber of Commerce and Industry, and several SA organisations including Nafcoc, the Urban foundation, the Black Management Forum and Clive Acton and Associates.

Since the programme was launched in 1985, French financial involvement has risen to R600 000, and this year eight additional bursaries were given to participants from non-profit organisations such as Operation Hunger.

Participants from SA companies study towards a diploma which leading French business schools, including the Paris School of Business and the European School of Management, endorse and award.

Lory said the increased involvement was a result of the positive results achieved so far, and that a recent survey of more than 300 candidates had shown that 74% had received promotions and advanced in their jobs.

Each year participants received training from senior professors drawn from French and local academic institutions

Surveys had shown that trainees were instrumental in building bridges between management and the shopfloor, and had improved management quality in general, said Lory.

ANC acts against rogue elements

ADRIAN HADLAND

INDIVIDUALS claiming to be members of the ANC in the Vaal Triangle had ignored the policies and mandates of the organisation and were involved in violence, rapes, killings, harassment and extortion, it was announced yesterday.

At a news conference in Vereeniging, regional leaders of the ANC, Cosatu and the SACP, and civic representatives, said a code of conduct "to end all undiscplined acts" would be developed by the end of the month.

A monitoring committee was created to end conflict between organisations in the region, facilitate reconciliation and draw up a binding code of conduct. BIOM 11/11/92

An ANC PWV region statement said rogue members had "found their way into legitimate community structures such as the self-defence units", where they had caused havoc, chaos and dissension.

This situation had been exploited by "criminal elements", the statement said. Primary blame for the escalation of violence, however, was placed at the feet of government.

"Through its low intensity conflict strategy, the state has unleashed a number of proxy forces to visit violence on our people in an attempt to undermine and discredit the ANC in particular and the democratic movement in general," the statement said

"We distance our organisations from acts of criminality meted out against members of the community by elements who claim membership of the ANC, SACP and Cosatu".

Council 'reneges' on pay rise

2264

THEO RAWANA

THE Diepmeadow City Council — one of the three Greater Soweto councils in a financial crisis — had reneged on a pay rise agreement, an SA Municipal Workers Union (Samwu) official said on Friday.

Samwu regional organiser Reggie Dubazana said about 1 500 council were chased away by police at the council's New Canada offices after they had found that there had been no increment in their pay cheques.

"Samwu and the Municipal Employers' Organisation had agreed on a 10% across-the-board increase in August, effective from July 1. But the council kept on delaying the implementation of the accord," Dubazana said. BDAY 9/11/92

"When employees went to collect their cheques today they found that again there was no increment. Town Clerk David Mabalane told them that the council could not pay," Dubazana said.

Mabalane could not be reached for comment.

Five-year economic proposals delayed

BDAY 9/11/92

(49)

LINDA ENSOR

CAPE TOWN — Finalisation of government's five-year economic "restructuring" package had been delayed and would probably be placed on the table only by the end of November instead of mid-month as originally hoped, special economics advisor Japie Jacobs said in an interview.

He said progress with the report had not been to his satisfaction as the production of various chapters had not been on schedule, although there were no specific obstacles.

He stressed that the document would not be a blueprint but would be the basis for discussion, inter alia, with the National Economic Forum, the structure of which would be decided on in the next two weeks.

The document would be a quantified programme spelling out alternative policy options and their economic consequences.

Jacobs said the central theme of the report was that SA's economic problem was not cyclical but structural, and that this ruled out kickstarts as a solution. Unless structural problems were addressed there would be no chance of success.

The first focus would have to be on government expenditure.

"A country giving preference to both private and public sector consumption expenditure and having at the same time a net outflow of capital can go only in one direction, and that is towards stagnation," Jacobs said. Such a country would not be capable of improving its productive capacity, whereas in SA both new and existing investment would have to be improved.

Fundamental to addressing these structural problems was an attack on government consumption expenditure, Jacobs said, but ruled out reflationary policies as a way of driving the economy. He said there was a great deal of determination to cut down on government expenditure, emphasising that, contrary to what some economists believed, this was possible to do in a recession.

The priority in improving the availability of savings for investment would be to look at the public sector. Public sector "dissaving" in this fiscal year could amount to as much as 5% of GDP, or R18bn.

In the post war years, even in recessions, the ratio of government consumption expenditure relative to GDP had increased, pointing to a failure to make fundamental structural adjustments.

"We cannot proceed on this path. It is self-destructive," Jacobs said.

Business is speaking 'with too m…

ECONOMIC OUTLOOK

Breaking out of stasis

FM 6/11/92 (49)

Finance Minister Derek Keys, a hard-headed businessman with a proven track record, spoke of the role of vision in investment decisions (see *Leaders*). While executives cannot be expected to invest as an act of faith, they often arrive at decisions through a leap of logic — "looking ahead to see things that the ordinary person could not spot or even perhaps imagine," said Keys.

But before they can give free rein to intuition, investors must have reason to believe fundamental problems can be addressed. One that Keys raised at the *FM Investment Conference* last week, was the long-term and accelerating deterioration in government finances.

In the current fiscal year, Exchequer revenues have fallen considerably short of budgeted amounts, while Exchequer issues remain high. The deficit before borrowing and debt repayment of the Exchequer rose sharply, from 1,6% in fiscal 1989-1990, to 4,7% in fiscal 1991-1992 and could reach 7% in the current fiscal year.

"Such large deficits generate concern for many valid reasons. Other things being equal, government borrowing leads to increased interest rates, which deter productive private investment and slow economic growth. This disadvantage is not as painfully apparent in our current low-growth condition as it will be when an upturn begins. What is, however, presently of concern is that such a deficit increases interest payments government has to make on its higher loan commitments, precluding expenditure on much needed social and other essential services."

The problem then is one of rising government consumption and Keys believes it is soluble. He suggests:

□ Getting the facts on the table. "We're well advanced with this;"

□ Bringing the "interested and involved parties together in a focused way." This means, of course, both present and potential members of government as well as lobbies capable of influencing spending priorities. "I hope we will soon be able to report progress here," he said; and

□ Developing and nurturing "a common vision, sufficiently attractive to carry us together across the rough patches where the sceptics expect to stop us dead."

On the first point, Keys was presumably referring to economic expositions to colleagues in the Cabinet, to organised business and to ANC economists and other extra-parliamentary organisations. He may also have had in mind the "integrated normative economic model" now being formulated by, among others, Reserve Bank Governor Chris Stals and Keys' special economic adviser, Japie Jacobs. This model is to provide the basis for future consultations between all interested parties, on the most productive policy choices.

The second point was clearly a reference to the National Economic Forum. This was formally launched on Thursday with government as a participant as well as employer organisations and major trade union federations. Keys is now obviously optimistic that decisions can be made on State spending priorities which will see government consumption falling to more realistic levels. The same may apply to other controversial issues.

THE ECONOMY (49)

FM 6/11/92

Finance Minister Derek Keys referred to "a number of favourable developments during the past few years which could form a springboard for future growth."

These include:

□ The aggregate current account surplus during the past seven-and-a-half calendar years amounted to nearly R40bn;

□ Improvements on the capital account of the balance of payments. The availability and cost of new funds on international capital markets have improved;

□ Foreign debt as a ratio of GDP, amounted to 1,7% at the end of 1991, compared with more than 40% for Australia and about 35% for developing countries in the western hemisphere; and

□ The Reserve Bank has repaid all its reserve-related loans and the country now has substantial credit facilities available to support foreign reserves, if needed.

On the domestic front:

□ The 12-month rate of increase in the broadly defined money supply (M3) was down from about 27% in the last quarter of 1989 to around 10% in the first eight months of 1992. The 12-month rate of increase in total credit extended by the monetary sector declined from 29% in October 1988 to below 10% in June 1992;

□ The year-on-year rate of increase in the producer price index decreased from its peak of 14,6% in November 1990 to 6,7% in the first two months of 1992. A rise in import prices and the effect of the drought increased prices to a moderately higher rate of 9,5% in August; and

□ Provided there are no negative external factors influencing prices during 1993 — such as dearer petrol or indirect tax increases — inflation could move to a single-digit figure by the end of 1993.

There are also more concrete things going right in the economy (see box). But Keys stressed that we have "only the same essentially static situation we have known for too long already." This raises the third point, referred to above by Keys. What is required to break out of stasis, he said, is vision (see *Leaders*).

If the business community is to be drawn into the economic process, then Sacob director-general Raymond Parsons's suggestion that the economic dimension must be included in future negotiations must be taken seriously. Economic policy did not form part of Codesa 1 or 2 debates. Certainly the Economic Forum could be one of the participants in future formal discussions.

Keys suggested that SA's economic outlook is heavily dependent on the level of adrenalin in the business community. But it is also dependent on reaching agreement on certain sound economic principles ■

MONEY SUPPLY FM 6/11/92

Government moves

Domestic private credit extension grew only slightly in August but total domestic credit extension was boosted by a large increase in net claims on the government sector, according to the monthly credit aggregates released by the Reserve Bank.

Private credit extension rose 0,36% in the month (9,43% year-on-year) to R201,8bn. But balances of the government sector changed from a positive R1,5bn in July to a net debt of R5bn to the banking sector in August. This pushed up total domestic credit extension for August by 3,64% (9,57% year-on-year) to R206,9bn.

The Bank says the jump was caused mainly by a decline in government deposits with

continued

LEE KUAN YEW FM 6/11/92

Tiger, tiger, burning bright (49)

Former Prime Minister of Singapore Lee Kuan Yew visited this country last week as the *FM*'s guest. He is a man of manifest achievement, great wisdom and firm conviction. He came with such solicitude that he endeared himself to the business community and to the ANC's Nelson Mandela.

For 30 years Lee presided over a multiracial country that is now the second most prosperous nation in Asia, the leader among the Little Tigers. His country's prosperity is firmly based on meritocracy and free enterprise — concepts inimical to the redistribution and retribution that the ANC sees as its primary mission in a new SA.

So it was extraordinary that, after their first meeting on Tuesday last week, Mandela said he would have liked Lee as his economic adviser. We would not for a minute doubt Mandela's conviction, and we certainly applaud his spontaneous enthusiasm for economic pragmatism, but will it stick?

Mandela's enthusiasm at the World Economic Forum at Davos earlier this year for free enterprise was short-lived. It is not the only example of his recidivism, once he has had time to reflect on the high expectations his more ardent followers have for the spoils of apartheid.

But most sensible people, tired of seemingly endless violence and an inexorable drift towards poverty, will appreciate Mandela's seemingly fleeting sentiments and harbour a keen hope that, after all, they will prove durable.

Of course, Mandela also faces the problem of a proletariat (in the modern sense) that in its educational deprivation is probably unlikely to be able to make rational choices between the romantic illusions of socialism, despite potent examples close by, and the seemingly harsh utility of free enterprise. That is the greatest challenge confronting Mandela and the ANC leadership.

It is not one to which Lee is a stranger. When the island state of Singapore was rejected by the Malaysian Federation (which feared its Chinese majority) and became independent in 1965, Lee had a formidable task. He was faced with the necessity of creating democratic institutions credible to a poorly educated proletariat and, without natural resources or special skills, constructing an economy capable of sustaining about 2m people.

He had first to overcome a destructive communist element that saw anarchy as a means to domination and claimed, whatever reforms were instituted, that neo-colonialism prevailed. That is precisely what the SA Council of Churches and its Marxist allies cry in SA today.

In those circumstances, it would have been extraordinary if there had not been an authoritarian element in the government of Lee's People's Action Party. So a fledgling economy was directed as much as the activities and aspirations of emerging democrats.

But Lee, a consummate pragmatist, moved Singapore's economy swiftly towards a market determination as the literacy and numeracy skills of its citizens rose to levels competitive with those in other Asian economies. Success was so manifest that it hardly bears repeating: an average economic growth of 9% annually over the past 25 years and a per capita GNP of US$10 500 today.

Prosperity of that order, born of free wills in an unregulated market, would not have been possible if the majority of those participating had been starved of the information they needed to make rational decisions, or precluded from enjoying the fruits of their efforts by a harsh and repressive government.

Lee's government moved away from market intervention as it perceived the need to do so. Likewise, if the authoritarianism needed to restore order after independence had been maintained, it is unlikely that its level of prosperity could have persisted for so long.

In short, Lee's authoritarianism is far short of our own here, certainly less than that of the dictators that surround us in Africa, or those that existed in eastern Europe; probably less than the welfare dictates of the Swedes and modest next to the bureaucracy of the Common Market. In any event, the level of regulation in Singapore is a matter for Singaporeans.

The observations that Lee offered at the *FM*'s annual Investment Conference this week were:

Turn swiftly from pre-colonial agitation to responsible and orderly government; prefer meritocracy to affirmative action (even if past loyalties go unrewarded); retain skilled whites; adhere to the principle of free enterprise; avoid corruption; and exercise wisdom in leadership and compromise in negotiation.

Nothing in that would conflict with liberal democracy. Only the malevolent or mischievous would believe otherwise. Certainly Mandela was drawn instinctively towards Lee's views, as would most of those who value democracy. That is why he would like to have Lee as an economic adviser.

If only Mandela would allow more rein to his instincts and have the confidence to lead without mass action — where too often are sown the seeds of violence — this country would move more swiftly towards peace and prosperity.

No other country is going to be a perfect example for the new SA: no such country exists. But Singapore's courage and competitiveness, its freedom from corruption and uncompromising meritocracy are worthy of emulation. ■

FM 6/11/92 (49)

Continued from page 28

But that's some way ahead and it will be a while before economic activity creates new jobs on anywhere near the scale needed to provide real stability in the country.

Unfortunately, we can no longer hope for windfalls. From the time the gold price started sliding at the start of 1988, until its only transient recovery before the Gulf War, analysts and optimists regularly predicted an improvement in price prospects. But, for nearly two years, it has seemed increasingly clear that gold's investment and monetary role is limited.

The good news from Timothy Green, chief consultant of Gold Fields Mineral Services, was that the gold price is unlikely to fall further because the US$340-$350 range "is well sustained by physical offtake ... Be thankful that there is real, genuine demand for your product, around the world, which now easily exceeds new output."

He conceded that the price is vulnerable to central bank sales, but quoted the Bank for International Settlements: "Large holders are just the countries which have the greatest interest in fostering the stability of the international financial system ... they will not disrupt the gold market."

Stuart

Czypionka

That's as good as the news gets. "It doesn't mean no more sales are forthcoming — central banks have been net sellers of nearly 2 500 tons since 1965 — but they will be measured and probably well absorbed in today's market." Looking ahead, Green said: "I do not see the catalyst to bring back into the gold market the real driving force of serious investment money that could translate to a higher sustained price. As a gold miner, certainly, you still have to operate on the assumption that there will be no increase in the price in real terms, perhaps even for the rest of this century."

Nor is the value of gold likely to be boosted by a return of inflationary forces, says John Chalsty, president of US investment bank Donaldson, Lufkin & Jenrette Inc. He believes that, regardless of the outcome of the US election this week and the subsequent direction of economic policy, "structural change has been such that inflation in any historical sense of the word, is under control."

Shabalala

Green

His view is not commonly held among US investors. He points out that while rates on short-term US Treasury bills have gone from about 7% in January 1990, to present levels of under 3%, long-term rates have not declined at the same pace and the gap between the two is wider than it has ever been. "One has to conclude from that, that investors are not yet convinced that we have licked the problem of inflation."

Whatever the future brings, the lower rates of inflation in the industrialised countries in the past decade have diminished gold's investment attractions. Its prospects are at least partly responsible for the declining role of gold shares in the JSE Industrial index. Simpson McKie's Peter Trengove Jones, talking on the outlook for industrial shares, pointed out that 10 years ago, industrial shares made up less than 27% of the JSE Actuaries Overall index. Two years ago they represented about 40% of All Share index market capitalisation at the end of September, 48%.

However, Trengove Jones describes the Industrial index as an "expensive and vulnerable area of the JSE. The global economic climate we are anticipating is not going to be conducive to a material firming of industrial commodity prices" which, "as they account for close to 80% of our total exports, remain key determinants of our overall economic growth prospects."

Jean-Antoine Cramer, senior partner of Cramer et Cie, Geneva, dealt with some of the constraints on international economic growth, created by flows in the financial system. "The Mexican crisis, averted thanks to the prompt action of the Bank for International Settlements in Basel, was the first menacing crack in the system. Since then, the financial situation has worsened considerably due (partly) to an ever-increasing debt load."

In the US, he said, consumers owe $7 trillion, corporations $5 trillion and the government $5 trillion.

World demand for investment capital is increasing:

☐ The ex-USSR nations' most urgent financial needs should amount to a minimum of US$100bn over the next four years; and

☐ The needs of all eastern European countries amount to $100bn a year for the next 12 to 15 years.

On a more positive note, Sir Keith Stuart, chairman of Associated British Ports Holdings Plc, Britain's privatised harbour company, told of a "real success story from the UK with considerable relevance to SA

"In 1978, a major US consultancy rated the UK lower than Iran in terms of future stability for business investment purposes — you will remember this was about six months before the Shah was toppled." Today, "the UK is more successful than any other country, except the US, in attracting inward investment " The reasons include:

☐ The abolition of exchange controls;

☐ Reduction of direct taxes; and

☐ The removal of "the dead hand of bureaucracy" from large sections of industry through privatisation.

All would be controversial moves in SA but, if the ANC sticks to its present commitment to fiscal discipline, privatisation may once again return to the drawing board — despite Transnet MD Anton Moolman's firm message to the conference that "parastatals will be very much part of the new SA."

But the ANC's opposition to further privatisation may not be set in stone. A new government will be presented with a terrifying legacy of debt. Standard's Czypionka estimates that the Budget deficit, originally put at R15bn, will amount to R25bn by the end of the current fiscal year, 7,3% of GDP. Current spending to be financed by borrowing, budgeted at R9,14m, will be about R18,5bn. And, if for no other reason than to service its debt, government's borrowings will rise each year. It may eventually be recognised by all political players that only a huge cash inflow — not funded by further

Chalsty

Trengove Jones

debt — can solve the spiralling problem. In these circumstances the ideological dimensions of privatisation may become less problematic.

"It is difficult now," said Sir Keith, "to recall fully the intensity of opposition to privatisation (of British ports) from the unions and Labour Party and our predominantly left-of-centre academics. But a combination of political determination, enthusiastic support from directors and managers, and the widespread expansion of employee share ownership within all privatised companies, led to the collapse of all this opposition and a position now where the UK is acknowledged as the world leader in privatisation."

For each option offered, there is an obstacle, political or economic. Lee and Keys, in different ways, exhorted the participants to eliminate them.

Said Lee: "It requires big men who are able to rise above their prejudices and the predilections of their contemporaries to solve this problem. If they fail, the world will be the poorer."

Said Keys: "Investors, you — my audience — are distinguished by your ability to look ahead and to see things that the ordinary person could not spot or even perhaps imagine. Whether you are a resident or a foreign investor or merely an interested by-

Sachs

Cramer

stander, you are part of the community I need to involve in building the common vision, the driving force to take us out of the rut we are in."

Encouragement also came from the ANC's Albie Sachs. "I have believed in many things in my life and I have been very wrong.

"Certainly in relation to economic questions and the role of planning. I didn't learn that because of what I read in any of your newspapers or because of eastern Europe. I learnt that from my own experience in Mozamibique."

Sachs continued "I remember some friends of mine saying to me, 'Albie, we are going to produce shoes. And they are not going to be fashion shoes, but sturdy shoes for the masses, involving no waste whatsoever.' The problem was the masses didn't like sturdy shoes made for the masses. They wanted choice They wanted sturdy shoes, but they wanted the right to choose sturdy shoes. That pointed out to me that governments are not good at making shoes. They are not good at producing goods cheaply, efficiently, attractively. Let government keep out of that."

This is encouraging because it points to a narrowing in the philosophical gap between members of the ANC, once committed to central planning, and those who would prefer to operate through markets. And it is inspiring because it is more evidence that the main players are prepared to admit they have been wrong. The NP tacitly did that on February 2 1990, when President FW de Klerk announced a policy U-turn and, later, more explicitly. And the changing tone of ANC economic policy documents since 1990 has shown realism and flexibility. ■

adrenalin in the business community. But it is also dependent on reaching agreement on certain sound economic principles. ■

MONEY SUPPLY FM 6/11/92

Government moves (49)

Domestic private credit extension grew only slightly in August but total domestic credit extension was boosted by a large increase in net claims on the government sector, according to the monthly credit aggregates released by the Reserve Bank.

Private credit extension rose 0,36% in the month (9,43% year-on-year) to R201,8bn. But balances of the government sector changed from a positive R1,5bn in July to a net debt of R5bn to the banking sector in August. This pushed up total domestic credit extension for August by 3,64% (9,57% year-on-year) to R206,9bn.

The Bank says the jump was caused mainly by a decline in government deposits with

continue →

FM 6/11/92 (49)

the Bank in the month, when around R3,8bn was transferred from the stabilisation account to the gold and foreign exchange contingency reserve account, to repay forward cover losses incurred on behalf of government.

Money supply growth in September remained within the guideline range for growth, of 7%-10%, for the second successive month. Over the 12 months to September M3, the broad aggregate, grew a provisional 8,88%, down from a revised August figure of 8,99%. In the month it grew 0,93% to R195bn. Measured from the base of the current guideline year, seasonally adjusted and annualised, the figure for September is a provisional 9,51%, up from August's revised 9,07%.

Other monetary aggregates for August were as follows:

- ☐ M0 declined 0,1% in the month, growing 16,6% year-on-year;
- ☐ M1A rose 3,74% in the month, 10,27% year-on-year;
- ☐ M1 went up 7,05%, 14,92%; and
- ☐ M2 rose 1,24%, 13,18%.

M0 is the narrow aggregate representing notes and coins in circulation and deposits of deposit-taking institutions with the Bank. It is not published by the Bank. ■

INTEREST RATES FM 13/11/92

High pressure (49)

Interest rates are an emotive issue — particularly in an economy with a combination of high inflation and low growth. Reserve Bank Governor Chris Stals's policy is aimed at stabilising prices. But it can be argued that what monetary policy actually influences is growth in nominal GDP — that is, changes in output as well as prices.

By keeping real interest rates (nominal rates stripped of the inflation effect) high, he holds down growth in nominal GDP. By allowing real rates to fall or become negative, he can stimulate this growth. But outside his control are:

- □ The proportion of growth which represents real value added in the economy; and
- □ The proportion which simply reflects rising prices.

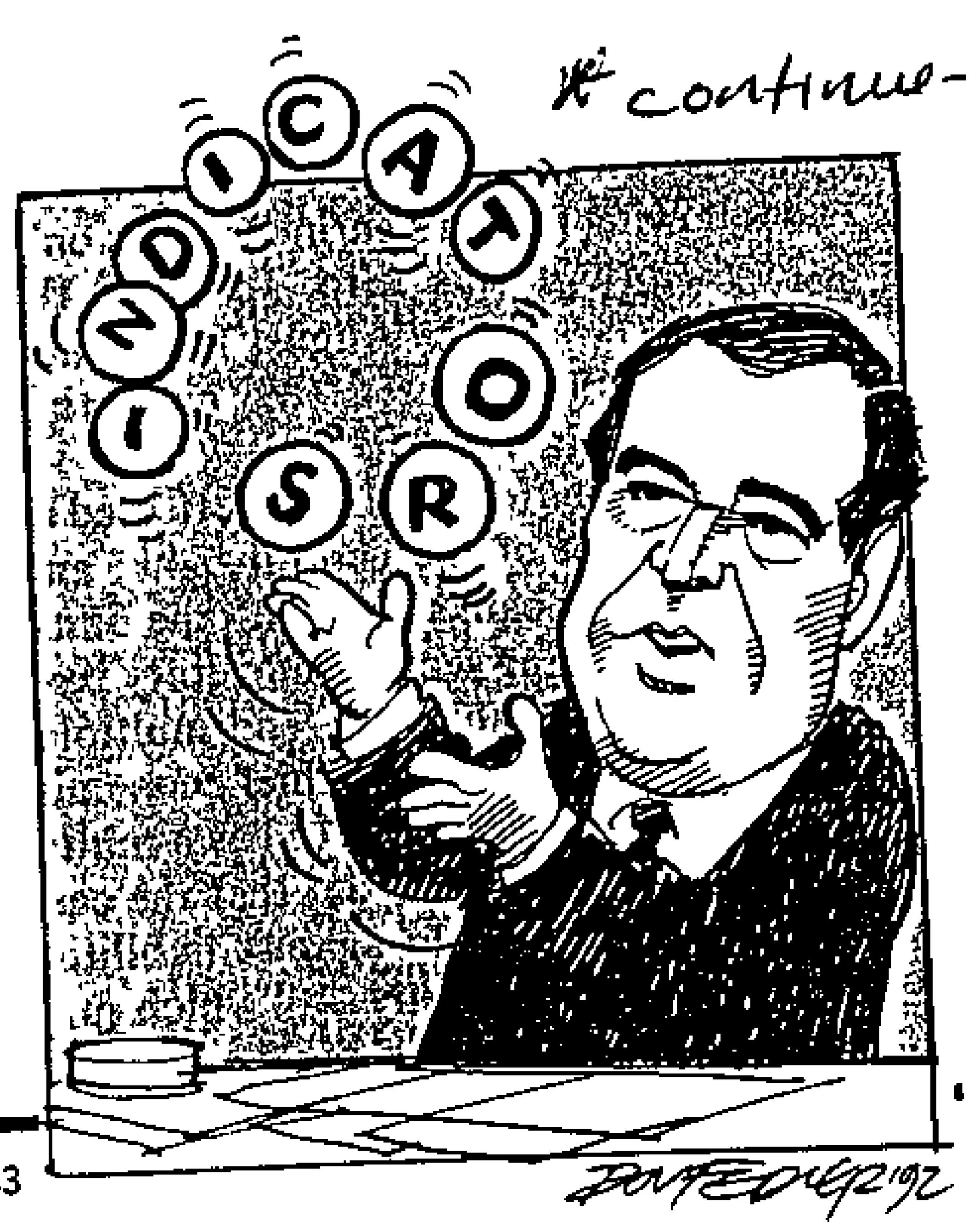
Central bankers know that high, and rising, inflation destabilises financial markets and inefficiently allocates resources. So, if the rate at which prices rise accelerates, responsible monetary authorities act to contain it.

Stals has done two things:

- □ Through open market operations, he has reduced liquidity (boosted by exchange controls and, this fiscal year, by a Budget deficit now expected to top 7% of GDP); and
- □ He has kept the Bank rate — at which the central bank accommodates the banking system — higher than inflation. It is now 15%.

He will not relax monetary policy but, as inflation falls, there is room for lower nomi-

continue-



 FM 13/11/92 (49)

nal rates. A number of inflation-related variables have improved. Consumer inflation is falling (though still high, at over 13%) and producer price inflation is in single digits (though rising back towards 10%). Growth in money supply has remained within the target range of 7%-10% for most of the year.

And the recession, which started in March 1989, is assuming frightening proportions. So is the time right for lower interest rates? Or are contradictory signals coming from other areas of the economy?

The rand, for instance, has recently slipped against the dollar. But the recent drop below US33c (or over R3 to US$1) on Monday, from nearly US36c early in September reflects a shift in the relative strength of the US currency and the D-mark. The dollar rose from less than DM1,4 to DM1,6 in that period.

Stals' policy is to keep the unit stable in real terms against a trade-weighted basket of currencies. This means that a rise/fall in the rand value of the dollar (with a weighting of more than 50%) must be countered by a fall/rise against the cross-currencies. So the rand rose from about DM0,51 to DM0,53

Erosion in the rand is clearer if we go back to square one: May 18, when the relationship between the dollar and the D-mark were about Monday's levels. The rand was worth DM0,5634, above Monday's DM0,5304.

"The extent of the fall," says First National Bank assistant treasurer Rob Wade, "is not out of line with the central bank's currency management policy."

So the falling rand is not a sign that interest rates must remain unchanged.

One sign that lower rates would be appropriate, says UCT professor Brian Kantor, is the rate of growth in total notes in issue. The 12-month growth rate fell to 6,8% earlier this year Though the deceleration is now showing signs of bottoming, the 12-month rate was below 10% in September. This indicates little inflationary potential, and only moderate prospects for economic recovery

But this does not mean throwing caution to the winds. Relaxation of monetary policy will have to be carefully managed. The inflationary potential can be seen in the narrow monetary measure M0. Its 12-month growth was over 22% in January 1990. It fell to 0,3% in September 1991 and then became negative, hitting a low of -4,5% this February.

The following month's shrinkage was only 2,7%; by April it was zero. In May, the growth rate was 4,3%, by August 16,6%, and in September an estimated 18% or more.

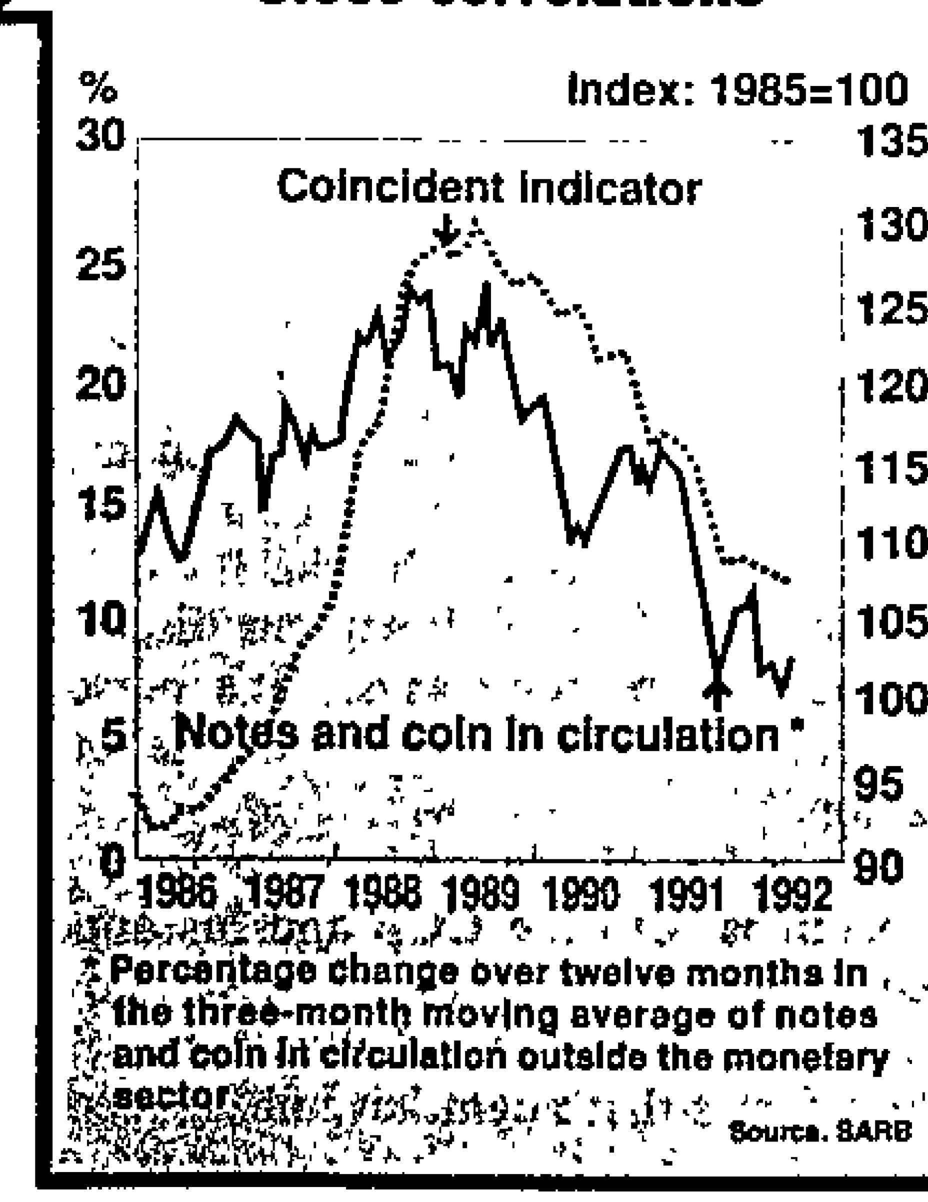
M0 consists of:

- □ Notes and coins in circulation reflected on the balance sheet of the central bank; and
- □ Deposits which banks keep with the Bank.

This is the banking sector's monetary base — in other words, banks can lend multiples of it to clients. So, says Absa chief economist Hans Falkena: "Any rise in M0 has a multiplier effect." But he points out that the cash reserves banks must hold against liabilities rose from 4% to 5% in July — "which may neutralise part of the cash build-up."

Pointing up

Close correlations



* Percentage change over twelve months in the three-month moving average of notes and coin in circulation outside the monetary sector

Source: SARB

The relative importance of various monetary measures is as controversial as interest rate policy. The value of notes and coins in circulation has correlated closely with changes in GDP since early 1989. Coinciding indicators then showed a downturn in the economy (see graph), closely following a decline in growth of notes and coins towards the end of 1988 It is now pointing up.

A continuation in the upward trend will mean only that demand for cash is reviving and monetary policy is allowing the economy to expand. It cannot guarantee a real rise in output. Whether the growth is real or nominal depends on whether the country can overcome the obstacles to cost-effective production and distribution.

But it seems likely that Stals will soon make a further cut in the Bank rate The above arguments support his policy of reducing it in line with inflation. As that is expected to fall to 12%-12,5% by year-end, he has at least a percentage point with which to play. ■

Conditions and further information is obtained from Mr B. J. Saaiman at Telephone (012) 290-2652.

B. J. Saaiman
for Director-General: Transport
Chief Directorate: National Roads
P.O. Box 415
PRETORIA
0001.

(N10/3/1/325/218)

(20 November 1992)

Voorwaardes en verdere inligting kan van mnr. B. J. Saaiman verkry word by Telefoon (012) 290-2652.

B. J. Saaiman
namens Direkteur-generaal: Vervoer
Hoofdirektoraat: Nasionale Paaie
Posbus 415
PRETORIA
0001.

(N10/3/1/325/218)

(20 November 1992)

NOTICE 1037 OF 1992

DEPARTMENT OF TRADE AND INDUSTRY

Notice is hereby given that the following promissory note issued by the Department of Trade and Industry to Massachem (Pty) Ltd as set out hereunder, has been mislaid:

Promessory note issued to Massachem (Pty) Ltd

Promissory Note No.	Date of issue	Due date	Face value (R)
5976	1991-03-08	1993-03-07	94 368

The above-mentioned promissory note will after the date of publication be regarded as cancelled. Should the promissory note be retreived, it must please be returned to the Department of Trade and Industry, Private Bag X84, Pretoria, 0001.

(20 November 1992)

KENNISGEWING 1037 VAN 1992

DEPARTEMENT VAN HANDEL EN NYWERHEID

Hiermee word kennis gegee dat volgende promesse uitgereik deur die Departement van Handel en Nywerheid aan Massachem (Pty) Ltd soos hieronder uiteengesit, verlore geraak het:

Promesse uitgereik aan Massachem (Pty) Ltd

Promesse No.	Uitreikings-datum	Vervaldatum	Sigwaarde
5976	1991-03-08	1993-03-07	94 368

Na datum van publikasie word bogenoemde promesse as gekanselleer beskou. Indien die promesse gevind sou word, moet dit asseblief aan die Departement van Handel en Nywerheid, Privaat Sak X84, Pretoria, 0001, teruggestuur word.

(20 November 1992)

NOTICE 1041 OF 1992

SOUTH AFRICAN RESERVE BANK

49

Statement of assets and liabilities on the 31st day of October 1992

	1992-10-31	1992-09-30	Change
Liabilities	R	R	R
Share capital	2 000 000	2 000 000	—
Reserve fund	93 325 065	93 325 065	—
Notes in circulation	11 275 118 767	11 330 864 517	(55 745 750)
Deposits:			
Government	9 756 896 027	10 222 940 969	(466 044 942)
Provincial administrations	113 804 861	113 063 774	(741 087)
Deposit-taking institutions	2 310 826 149	2 188 753 353	(122 072 796)
Other	77 577 308	72 627 133	4 950 175
Other liabilities	5 147 032 124	5 036 568 941	110 463 183
	R28 776 580 301	**29 060 143 752**	**(283 563 451)**
Assets			
Gold	6 086 877 915	5 905 875 467	181 002 448
Foreign assets	5 010 643 571	4 866 211 034	(144 432 537)
Total gold and foreign assets	**11 097 521 486**	**10 772 086 501**	**(325 434 985)**
Domestic assets:			
Discounted bills	4 589 765 000	4 754 775 000	(165 010 000)
Loans and advances:			
Government	—	—	—
Other	1 471 149 600	1 455 302 910	15 846 690

49

	1992-10-31	1992-09-30	Change
	R	R	R
Securities:			
Government..	457 802 682	998 918 506	(541 115 824)
Other	1 122 985 045	1 122 985 045	—
Other assets	10 037 356 488	9 956 075 790	81 280 698
	R28 776 580 301	**29 060 143 752**	**(283 563 451)**
Rand per fine ounce	R902,51	R881,14	R21,37
Gold holdings in fine ounces	6 744 388	6 702 539	41 849

C. J. SWANEPOEL,
General Manager.

Pretoria, 6 November 1992.

KENNISGEWING 1041 VAN 1992

SUID-AFRIKAANSE RESERWEBANK

Staat van bates en laste op die 31ste dag van Oktober 1992

	1992-10-31	1992-09-30	Verandering
Laste	R	R	R
Aandelekapitaal	2 000 000	2 000 000	—
Reserwefonds	93 325 065	93 325 065	—
Note in omloop	11 275 118 767	11 330 864 517	(55 745 750)
Deposito's:			
Regering	9 756 896 027	10 222 940 969	(466 044 942)
Provinsiale administrasies	113 804 861	113 063 774	(741 087)
Depositonemende instellings	2 310 826 149	2 188 753 353	122 072 796
Ander	77 577 308	72 627 133	4 950 175
Ander laste	5 147 032 124	5 036 568 941	110 463 183
	R28 776 580 301	**29 060 143 752**	**(283 563 451)**
Bates			
Goud	6 086 877 915	5 905 875 467	181 002 448
Buitelandse bates	5 010 643 571	4 866 211 034	144 432 537
Totaal aan goud en buitelandse bates	**11 097 521 486**	**10 772 086 501**	**325 434 985**
Binnelandse bates:			
Verdiskonteerde wissels	4 589 765 000	4 754 775 000	(165 010 000)
Lenings en voorskotte:			
Regering	—	—	—
Ander	1 471 149 600	1 455 302 910	15 846 690
Sekuriteite:			
Regering	457 802 682	998 918 506	(541 115 824)
Ander	1 122 985 045	1 122 985 045	—
Ander bates	10 037 356 488	9 956 075 790	(81 280 698)
	R28 776 580 301	**29 060 143 752**	**(283 563 451)**
Rand per fyn ons	R902,51	R881,14	R21,37
Goudbesit in fyn onse	6 744 388	6 702 539	41 849

C. J. SWANEPOEL,
Hoofbestuurder.

Pretoria, 6 November 1992.

(20 November 1992)

Jobseekers flood SA despite its economic plight

(235) (200)

C |Pren 22/11/92

By JENNIFER GRIFFIN (49) (114)

WITNESS Majiya, 23, needed work. But when he arrived in SA from Zimbabwe, he found fewer opportunities than his compatriots had promised.

"They said you could get any job you want," said Majiya, who has a matric. But the best Majiya could do was get a low-paying job at an apartment complex as a security guard, which also provides him with tiny living quarters on the roof.

The sinking SA economy, now in its fourth year of recession, is causing job losses at an alarming rate and the labour force can no longer absorb school leavers, much less people arriving from neighbouring states in search of work.

"The chances of a local person getting a job are one in 10. The chances for a foreign worker is almost nil," said Cosatu spokesman Neil Coleman.

Majiya is one of the lucky few to find a job. Between 1960 and 1965, 80,9 percent of SA blacks seeking work were absorbed into the formal sector, according to SA's Development Bank. Twenty-five years later, as 892 600 enter the workforce annually, only 33 000 new jobs are available.

Until recently South African gold mines, farms and factories employed thousands of workers from bordering states where job opportunities were limited. Now the gold mines are retrenching about 2 000 workers a month.

Such retrenchments affect surrounding countries. Some 45 percent of Lesotho's gross domestic product comes from the remittances of migrant workers, according to Francois Viruly, senior economist for the South African Chamber of Mines.

A miner's work is difficult, but, for some, at least it is a job. The work space is cramped, hot and deep underground. The wages are low, between R800 and R1 500 a month, and workers must live away from home in single-sex migrant hostels.

Most unemployed South Africans are unwilling to do that kind of work even though the Chamber of Mines has tried recruiting in the townships. Forty percent of South Africa's gold miners continue to come from other countries, a 20 percent decrease from before 1975.

"Cutbacks in the mining industry have reduced the employment available to non South Africans," said Keith Lockwood, an economist for the South African Chamber of Business.

"Since the end of the first quarter of 1989 – the beginning of the current downturn – 300 000 people have lost their jobs."

Poor performance in the agricultural sector caused SA's gross domestic product to fall by 5,7 percent in the third quarter of this year. Suffering the worst drought this century, more than 5 000 farmers are expected to sell-up by the end of the year, according to a survey published in a local paper.

More workers will lose their jobs. Already 70 000 farm workers have been dismissed.

With no jobs on the farms, between one and three-million people could migrate to Johannesburg and other cities in a desperate search for jobs that don't exist.

In Alexandra township, north of Johannesburg, 60 percent of the residents are at present unemployed. Male hostel dwellers remain pitted against community residents and continue their battle against the 350 000-strong community.

Over 12 000 people in Alexandra are now dependent on food handouts from local church groups. Since February this year, over 500 women and children line up at the women's migrant hostel to receive small packets of food filled with peanut butter and soya beans. Many of the men have either been retrenched or killed in the past 18 months.

Unlike before, the migrant workers who settle in the township can no longer find jobs in the city.

More than 3 400 businesses have declared themselves insolvent in the past two-and-a-half years. Liquidations escalated to 1 387 in the first seven months of 1992. Foreign investment is down by 35 percent this year, according to the Reserve Bank.

Despite the country's growing problems, Majiya says he will stay in SA. "I need the work," he said.

Rule now — and get rich later

SOUTH 28/11 - 2/12/92 49

Instead of Swiss bank accounts, South Africa's ruling elite will reap riches through huge early pensions, according to the latest edition of the ANC journal **Mayibuye**:

THERE is no longer any doubt that the apartheid system has enabled free-for-all plunder of state coffers. Scandal after scandal involving financial misappropriation has emerged.

The government is apparently unable to do anything to bring to book those accused. A case in point is the multi-billion rand scandal of the former Department of Development Aid which was run by Dr Gerrit Viljoen, until recently President FW de Klerk's right-hand man in negotiations.

Now that revelations have been made about the size and conditions set for state pensions, it is partly clear why the government has been reluctant to act.

The plunder is taking many forms, one of which is through parliamentary legislation.

The Parliamentarians' Pension Act provides for the state president, his cabinet and many long-serving parliamentarians — NP and CP alike — to have huge pensions waiting for them when they are ousted from power. Senior police and army personnel can also count on comfortable pensions.

ANC economists say this can only be described as plain plunder of the country's riches while the sun still shines for the present racists.

More disturbing for those who will inherit the economy after the massive dip into the kitty is that not only are existing state funds being plundered, but these corrupt payouts are financed by borrowing on a vast scale from foreign financiers.

This will ensure that long after the former dictators are pensioned off, taxpayers will feel the pinch and blame it on the new government.

When De Klerk announced a major restructuring of the police force recently, it turned out to be nothing but another occasion to publicly offer a golden handshake to loyal servants of apartheid.

Some officers were retired prematurely on full pensions while others were promoted to more senior jobs with bigger pensions.

In other areas of the public service the practice has been to pension off employees and re-employ them. This has been most blatant in education and the SABC.

Teachers unhappy with working in non-segregated schools have been given generous golden handshakes.

In the SABC, early retirement has been offered to some senior staffers who are now engaged as "consultants" on full pay.

Blacks who have loyally served apartheid have not been forgotten, probably because their services will still be required. It has been reported that former black mayors can expect pay-offs of R100 000 and councillors of R50 000. This comes on top of the benefits that have accrued to them all along, including housing, transport and education.

In Venda it was revealed that the administration was preparing grounds to privatise its pension scheme to benefit top echelons.

The question economists and politicians are asking is whether it would be morally right to allow such people, once there is a new government, to continue to draw these large pensions.

In the case of De Klerk (and PW Botha), the issue is compounded by the fact that, as state president, the payout will be tax free for life.

In the wake of the 1978 Information Scandal, it was alleged that millions of rands had been stashed away in Swiss banks in anticipation of leaders fleeing the country.

The Soweto uprisings had already signalled the end of apartheid rule and contingency plans had to be made. The scheme backfired and John Vorster was replaced by PW Botha. It was during PW's rule that the plan of "taking care of old buddies" began to flourish.

Plans were hatched to ensure that apartheid leaders lived like millionaires after retirement.

This whole system has to be reviewed for the sake of the economy and a democratic approach to pension schemes.

'ATION BUILDING *Helping up the underdog with the assistance of a caring company*

Happy children at a creche in Guguletu near Cape Town admire the beautiful hand-made toys that have been donated to the school. All the toys were made by senior citizens who entered them for Sanlam's Pretty Things for Little Things Competition.

Banking on a growing society

Sowetan 11/11/92 (49)

By Joshua Raboroko

■ REACHING OUT *Sanlam makes a commitment to helping the disadvantaged:*

THE DEVELOPMENT OF the small business sector for a sound and flourishing economy is just as important as education

Expanding the small business sector ensures participation in the free-market system, which is the sound basis for economic prosperity.

As one of the largest shareholders of the Small Business Development Corporation, Sanlam is at the forefront of small business development in South Africa

Sanlam senior public affairs manager Mr Leon Koen says: "We are fully aware of the critical importance of the small business sector in paving the way to economic recovery "

The thrust of the company's corporate responsibility programme in relation to small business development is concentrated in two areas - the promotion of the concept of entrepreneurship and advancement thereof through training

To achieve the first end the company sponsors several competitions in conjunction with the SBDC and *Sowetan* to promote and encourage entrepreneurs and new business ideas

According to Koen, Sanlam's contribution in the area of training is diverse and includes support for organisations such as the South African Free Market Foundation, the South African Foundation for Entrepreneurship Development, Get Ahead Foundation, Africa Cooperative Action Trust, Triple Trust, Valley Trust, the Independent Business Enrichment Centre, Informal Business Training Trust and the African Businesswomen's Development forum

Moreover, in conjunction with the northern Transvaal Technikon the company established the Sanlam Centre for Small Business management, which provides vital training for business people in the informal sector

"Sanlam has not only become an important player in South Africa's economy as a life assurer and investor of policy-owners' funds, but its involvement in social and business upliftment, as well as education and training, clearly illustrates the company's acceptance of a much wider role.

"It shows our deep commitment to the future of all South Africans," Koen says.

Referring to welfare and health-care, Koen says far-reaching political and economic change in South Africa, as well as unemployment and health and housing problems, have placed unparalleled demands on welfare and health services.

"Comprehensive political and economic changes provide massive challenges.

"A shortage of job opportunities, health problems such as tuberculosis, AIDS and malnutrition, as well as a shortage of housing, are making demands on the already-shrinking resources of the government and also on every individual

"This situation places a double burden on welfare and health organisations.

"We regard it as our duty to help, so that all of us can look forward to a brighter future. That is why Sanlam supports more than 50 welfare and health organisations We must help to pull the cart of economic upliftment, and this we do gladly," he adds.

Regarding education, he says there are today many conflicting views on the future of South Africa.

Politicians oppose one another and philosophers debate their divergent scenarios. Even businessmen and the collective man-in-the-street are divided in their hopes and dreams for the new South Africa

The only fact about which there can be no argument is that education and training will play a critical role in our shared future Every right-thinking South African will agree with this.

"The factors which will determine our quality of life and standard of living are not simply technology, factories or equipment.

"Our major assets on which we must depend are our human capital - our individual and collective insights, abilities and skills These are the seeds which, if sown wisely, will blossom into a bright future for all of us," says Koen

"But to prosper and grow these seeds need nurturing - nurturing which can only be provided through education and training

"We at Sanlam realise this full well, which is why the major part of our corporate social involvement is allocated to education and training."

Sanlam supports education from pre-school to tertiary level One of its most recent projects is the Sanlam Saturday School for black matriculants This rewarding project is run in conjunction with the University of Potchefstroom

To assist the company in its task of allocating funds for corporate social involvement, it conducts regular research to determine the areas in greatest need of its support.

In addition, the company conducts surveys among its policy-owners to ascertain their preferences with regard to the allotment of funds

Acting on the results of this research, the company extends financial aid mainly to education and training, the development of small business sector, job creation, welfare and health-care

But it does not stop there It also supports nature conservation, sport, culture and several other community projects When Sanlam's name is mentioned, one can be forgiven for seeing a mental picture of a huge institution involved in many sectors of the economy But the truth is that it has - first and foremost, always been, and still is, a leading life assurer

It therefore seems reasonable to claim that it actually performs a social function, through helping people to help themselves and through providing financial peace of mind and financial growth

The company is owned and ultimately controlled by about two million policy-owners of all population groups

FM 20/11/92 (49)

GDP FM 20/11/92

Lean years (49)

In the third quarter, drought and recession, imposed on a longer-term downtrend in the economy, produced a sharp economic decline. According to Central Statistical Service (CSS), GDP fell 5,7% at market prices and 6,3% at factor incomes. These are seasonally adjusted annualised changes (as are other quarterly changes reported below), based on constant 1985 prices.

Though disturbing, the drop is not the most serious in the past 10 years, says Sacob economist Keith Lockwood.

"Sharper declines were recorded in the third quarter of 1984 (-6,47%), in the first quarter of 1983 (-6,3%) and in the fourth quarter of 1982 (-8,2%)."

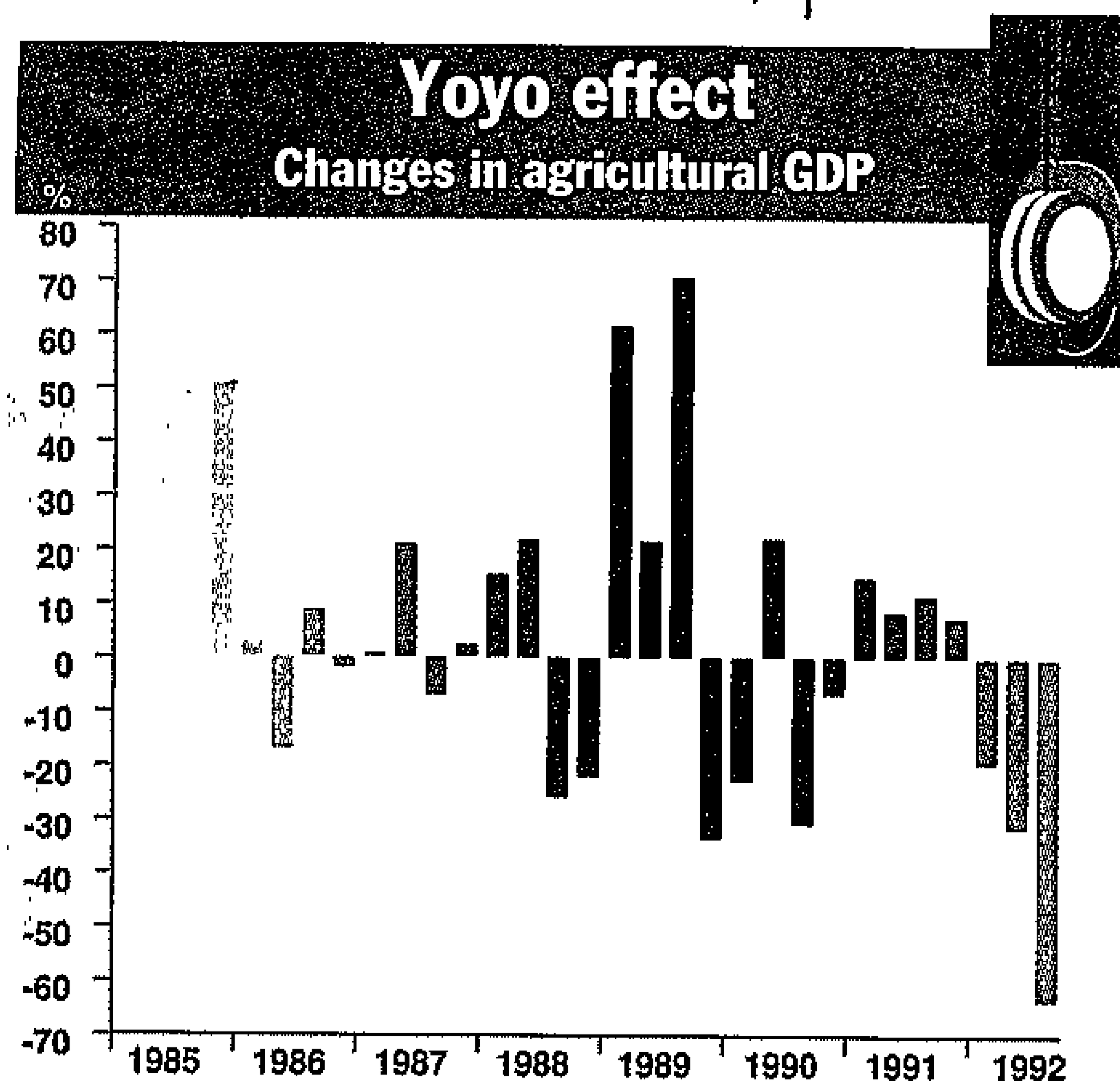
A sectoral breakdown of third-quarter performance measured at factor incomes (which excludes indirect taxes paid by producers and includes subsidies) shows a change of:

- ☐ -63,7% in agriculture; and
- ☐ -1,2% in the non-agricultural sectors.

The latter is broken down further to show changes of:

- ☐ -1,4% in mining;
- ☐ -2,4% secondary industries; and
- ☐ -0,4% in tertiary industries.

continue



The poor performance in agriculture was the worst since the third quarter of 1970, according to CSS chief director George Mills, when a fall of 75,6% was recorded (in constant 1975 prices). The sector is volatile (see graph) and the quarterly figures, because of CSS's method of seasonal adjustment, reflect season-on-season rather than quarter-on-quarter, changes.

Agricultural GDP is measured by subtracting intermediate inputs from the value of sales, and then using a variety of deflators to extract constant from current prices. A formula, introduced in February 1989, distributes the gross production of the more important field crops (such as maize, grain sorghum, groundnuts, dried beans, sunflower seed and wheat), as well as sugar cane and wool, equally "over the four quarters of the production year of each product."

More detailed information comes from the Department of Agriculture. This season:

- ☐ The maize crop was down to 3 Mt from 7,8 Mt last season. (The preliminary gross value for the current season, in current prices, was R1,5bn, compared with R3,2bn the previous);
- ☐ Grain sorghum 95 000 t from 240 000 t (R48m, R110m);
- ☐ Groundnuts 77 000 t, despite greatly increased area planted, from 78 000 t (R125m, R131m);
- ☐ Sunflower seeds 168 00 t, 589 000 t (R135m, R440m);
- ☐ Soya beans 57 000 t, 126 000 t (R52m, R91m); and
- ☐ Dry beans 27 000 t, 100 000 t (R60m, R162m).

The 1992 wheat crop is now being harvested but estimates are that it will be down to 1,3Mt from last season's 2,1Mt, says the department's Neels Meyer. No estimate has been made yet of the income this will produce. Last summer's crop was worth R1,3bn.

Rains this month have raised hopes of a better crop next season but rain is needed throughout the summer. "Last season a heatwave in February, which is a critical time for maize, caused most of the damage," says SA Agricultural Union economist Johan Pienaar.

If all goes well, he says, the benefits of a normal season will only be reflected in GDP figures for the second and third quarters of next year There are, however, good prospects for deciduous fruit in the western Cape. The fruit is harvested throughout the year.

Despite the dramatic fall in the third quarter, GDP estimates for the year have not been substantially revised down Lockwood puts the decline at 1,7%, down from his previous estimate of 1,5%. Econometrix has revised its estimate from -1,3% to -1,5%-1,7%. ■

'Goldstone' probe into control boards urged

By MAGGIE ROWLEY (49) CT 25/11/92

A "GOLDSTONE-type" inquiry into the "vested, sectional interests protected by a web of economic regulations imposed and sustained by control boards and monopolies" was urgently required, Pick 'n Pay CE Raymond Ackerman said yesterday.

At the opening of Pick 'n Pay's Chain Reaction clothing outlet in the new extension to Tyger Valley Centre, Ackerman said the Goldstone Commission and the Competitions Board shared a "similar" responsibility to "open up and free South Africa of political and economic engineering inherited from apartheid."

The encouraging downward trend of inflation would not endure unless urgent steps were taken to deregulate key sectors of the economy, Ackerman siad.

"Derek Key's laudable efforts to contain state spending — and thereby reduce inflation — are being undermined by the continuing interference of the control boards in economic development."

"Goldstone's courage in exposing bureaucratic shortcomings — to say nothing of more ominous activities — is the type of boldness and vigour we need to address the bureaucratic malaise which is preventing meaningful and long-term economic growth," he said.

First meeting of economic forum

Business, labour and the government join forces in 'economic Codesa': (49)

Sowetan 5/11/92.

By Joshua Raboroko

THE much talked about national economic forum - dubbed the "economic Codesa" - launched by business, labour and the Government, will hold its first meeting at the end of the month.

Present at the launch were the Minister of Finance, Mr Derek Keys, representatives of the South African Chamber of Business, Afrikaanse Handelsinstituut, Steel Engineering Industries Federation of South Africa, Fabcos, Nafcoc, Cosatu and Nactu.

The forum will deal with issues such as unemployment, the Budget and the Government's economic plan to be released this month.

Keys has said that the Government would take part "fully and absolutely" in the forum's activities despite its reluctance to do so earlier.

Sacob director-general Mr Raymond Parsons said the forum, if successful, could lay the basis for long-term co-operation in addressing economic issues.

"We need special mechanisms and processes to help resolve the paradoxes and uncertainties in our country. The forum is one of the mechanisms," he said.

OverSITE to be looked into

Sowetan 9/11/92

■ National Economic Forum to take legal action:

(49)

By Joshua Raboroko

TRADE unions and tax experts are considering massive campaigns against the Government and employers to recover millions of rands for black workers paying standard income tax (SITE).

The campaigns, which will include taking legal action, are to be considered following a meeting of the newly-launched National Economic Forum last week, sources said.

According to the Democratic Party's spokesman on Finance, Mr Ken Andrew, there was an urgent need for an investigation into the matter

Bleak prospects seen for next year

(49)

CT 20/11/92

By MAGGIE ROWLEY
Deputy Business Editor

THE lower turning point in the downswing has not yet been reached and prospects for the next 12 months have recently deteriorated considerably, says Sanlam in its latest Economic Survey.

The deterioration, says Sanlam, is the result of the more sluggish than anticipated recovery in the economies of SA's most important trading partners and the unfavourable state of government finances.

The latter not only largely eliminated the prospect of tax relief in the March 1993 budget but made an increase almost unavoidable.

In addition, the continuing political uncertainty and the accompanying low level of business and consumer confidence were not conducive to a recovery in general economic activity and no significant upswing could be expected before late 1993.

After a considerable decline this year, real private consumer spending will show no increase in 1993 since wage and salary adjustments will not keep pace with inflation and a continued heavy tax burden.

Sanlam forecasts the average renumeration for workers outside agriculture will increase by about 12% in 1993 against a 14% rise this year.

With an estimated inflation rate of around 11% or 12%, this will put very little extra in the pockets of consumers, says Sanlam.

Sanlam says the prospect of little growth in the economy during 1993 did not augur well for employment in the formal sector.

While the profits of commercial and industrial companies will continue to be rather bleak, businessmen could expect conditions to improve somewhat toward the end of 1993 due to an increase in the real demand for goods and services, slower increaes in unit costs as a result of the high utilisation of produciton capacity and the expected decline in interest rates.

Turning to the financial markets, Sanlam says the expected sluggish general economic activity will result in further downward pressure on short-term rates in the next six to nine months.

This, together with an expected considerably lower inflation rate, will pave the way for the Reserve Bank to reduce the bank rate further with the prime overdraft rate being in the region of 16% by the — middle of 1993 against the current 17,25%.

Regarding long-term interest rates, Sanlam says the greater part of the decline is probably already over but further drops could be forthcoming in the months ahead due to a continued downward trend in money market interest rates and the expected lower inflation rate.

"However capital market interest rates could start increasing in the second quarter of 1993 owing to a perception among investors that inflation may rise to higher levels again."

Warning on ANC's policy

Sowetan 26/11/92 (49)

■ A clear commitment to the free-market system needed:

SYFRETS portfolio manager Mr Tony Gibson this week said South Africa's financial markets would remain in a gloomy state until the ANC had spelt out its economic policy on key issues.

He said although the ANC had made "positive changes" in its economic thinking, a great deal of clarity was still needed.

"As the gloomy state of our financial markets clearly shows, foreign and local investment capital will not be forthcoming while this uncertainty persists."

SA can't deliver

Sowetan 25/11/92

■ **Professor gives warning on economic regeneration of the continent:** (49)

Sowetan Africa News Service

ADDIS ABABA - A democratic South Africa will have neither the capacity nor resources to act as a locomotive for the economic regeneration of the whole continent, African economists were warned this week

Professor Fantu Cheru, an Ethiopian economist, told senior officials of the UN Economic Commission for Africa that over-exaggerated expectations in Africa of what a new South Africa could do for the continent would have to be dampened down.

He said South Africa would for the foreseeable future be preoccupied with its own internal problems.

'No quick fix for SA economy'

(49)

CT 19/11/92

By AUDREY D'ANGELO
Business Editor

THERE are no easy or quick fixes for the SA economy, Dr Japie Jacobs, deputy governor of the Reserve Bank and economic adviser to the Minister of Finance, said in Cape Town yesterday.

He told business people at the annual Cape Times Businessman of the Year lunch at the Mount Nelson that the economy was not merely going through a cyclical downturn, which could be cured by reflating it, but was in need of restructuring.

"We have to address our economic problems realistically and with determination if we want to realise the economic growth potential of this country.

"There is no reason for us to have such a high rate of unemployment and rising poverty.

"However these problems will not disappear unless we can mount a united effort to tackle them, for which purpose we need the support of all the major players in the SA economy — including the extra-Parliamentary groups."

Jacobs said the National Economic Forum (NEF) had now been launched and was providing the three participants with the opportunity to address the fundamental economic issues facing the country.

The Government had joined the NEF in a positive frame of mind and indications were that this was shared by the other participants.

"We all want to see a turnaround in the economy — which must be sustainable. But to expect results within six months may prove to be too optimistic.

"We cannot address SA's problems of retrenchments, unemployment, poverty and backlogs in socio-economic services without sustainable economic growth.

"While there is room in the current circumstances for work creating programmes we must work on the basis that SA's economic problems are structural and not cyclical.

"Imposing fiscal discipline, which can only be phased in gradually, is the first step towards restructuring the economy.

"It requires a reduction in the rate at which Government expenditure has been increasing during the past two years and, more importantly, the phasing out of dis-saving by the public sector."

Dr Jacobs said it was understandable that the extra-Parliamentary groups had in the past associated themselves with punitive measures against SA.

But this attitude was no longer justifiable in today's changing circumstances in which all sectors had to "fight as one against rising unemployment and increasing poverty, and for higher spending on socio-economic upliftment programmes for the disadvantaged."

The challenge today was to absorb the disadvantaged people within their capabilities as entrepreneurs, skilled and professional economically active people in the modern sector of the economy.

"Education, training, job advancement and support for small business enterprises are the best available affirmative action programmes to effect a lasting redistribution of income in a growing economy."

● Pictures — pages 8 and 9

Ex-Anglo head calls for interim govt soon

(49)

JOHANNESBURG. — An interim government would have to be set up without delay to restore credible authority and bring violence under control, former Anglo American chairman Mr Gavin Relly said in Toronto, Canada, yesterday.

CT 3/10/92

"We must do these things very soon so that we can make progress towards rebuilding the economy of southern Africa before it becomes moribund," he said.

"I think we can be extremely grateful that violence, however dreadful, is not worse, and that the extraordinary capacity of South Africans, and particularly black South Africas, to moderate and contain enmity has been so far a significant feature of post-Rubicon life," Mr Relly said. — Sapa

Sanlam forecast gloomy

(49)

ARG 21/11/92

MARC HASENFUSS
Business staff

PREPARE for another 12 months of recessionary onslaught is the underlying message in Sanlam's latest economic survey.

According to Sanlam chief economist Mr Johan Louw, 1993 will be another year of sluggish growth.

"An analysis of several economic indicators shows that the downswing is not bottoming out yet. A recovery is not expected before late 1993."

Mr Louw at best hoped that 1993 would be a year of consolidation before a period of more rapid growth started in 1994.

"Indications are that we will not be able to rely on a strong revival in the international economy. We will have to depend on our own efforts."

He predicted a further increase in unemployment, a further weakening in the financial position of consumers, disappointing company profits, a listless stock market and one positive token: lower interest rates.

Mr Louw cited the poor state of government finances — which makes fiscal support for an upswing unlikely — as one of the reasons for the economic predicament.

The survey said the fiscal policy situation remained uncertain.

"Not only do we have a new Minister of Finance; extra-parliamentary parties will also participate meaningfully in the budget proposals for the first time."

Nevertheless, the survey predicted no significant tax reductions in the light of the unfavourable state of government finances and said there was a 'good chance' that certain indirect taxes could be raised.

There would also be a large budget deficit, in spite of efforts by authorities to reduce government spending to such an extent that it reflected a decline in real terms.

The survey estimated that real domestic spending on goods and services would rise by about 0,4 percent in 1993 (following an estimated 2 percent decline in 1992).

The survey said the expected moderate acceleration in the growth rate of the economies or South Africa's most important trading partners

Mr Johan Louw

should give a slight boost to the growth rate of exports.

Imports would rise at more or less the same rate as 1992. This could push up the growth rate of real gross domestic product to approximately 0,6 percent.

The prospect of little growth in the economy during next year does not bode well for formal sector employment. The increase in workers' annual renumeration will also slow considerably as retrenchments increase.

Sanlam predicted an average 12 percent increase in renumeration packages in 1993 (14 percent in 1992) — a development that will contribute to a continued bleak outlook for private consumer spending.

The most positive news came in form of predictions of lower inflation — estimated at an average 11 or 12 percent for 1993.

Factors exercising downward pressure on inflation include: Slower adjustments in labour renumeration, continued rationalisation, noticeably lower increases in food prices, a severe cut-back in government spending, a further decline in housing costs and a monetary policy aimed at protecting the value of the rand.

However, Sanlam warned that the fight against inflation could be hampered by the withdrawal of livestock from the market (which would have an adverse effect on food prices), a possible increase in direct taxation and further depreciation of the rand.

No hard and fast rules on the final cut

BDM 19/11/92 49 58 159

EDWARD OSBORN

GRETA Steyn concludes that "while the deficit is no reason to further delay a cut in the Bank rate, it is undoubtedly a reason why the next cut should be the last or close to the last" (Business Day, November 10).

By her reasoning, Tuesday's announcement would represent this final cut. But this presupposes that the upswing is near to starting and when it does the combined pressure of government expenditure, unless severely constrained, and capital investment expenditure will be strongly demand inflationary. This is the reason for Reserve Bank Governor Stals sticking with the same song of resistance.

But it also presumes that the antidote to fiscal excess is monetary restraint or, alternatively, we cannot have both lax fiscal behaviour and easy monetary policy at the same time.

Neither proposition is a truism or preordained verity; witness the US today. The situation in SA next year could conceivably justify the latter combination should there be continuing lack of consumer demand and investment confidence. On the other hand it might not. The point is it cannot be assumed to be an iron rule at this juncture.

However, there is the compelling argument to restore fiscal balance through a combination of expenditure constraint and enhanced revenues because of the Gadarene slide into the public debt trap that actually started about 1989. Any cock-eyed notion of clawing our way out of the present recession through fiscal means must be firmly resisted. The economic effects, although unpredictable, would be ephemeral, and there would be an acceleration down the slope.

The fiscal problem is essentially one of severe structural imbalance, exacerbated for the moment by the collapse of revenues because of the recession. And, furthermore, it is one that needs to be resolved on the revenue side, notwithstanding all the nice supply side arguments. Despite any Herculean attempts on the part of Minister Keys to reduce expenditures, it would be naive to expect anything other than a steady rise in expenditure levels as we go into our New World.

But it would also be disastrous for this country if the monetary authorities are going to see their role as attempting to negate fiscal imbalance through tight monetary policy on a permanent basis. For one thing it is vainglory, and for another it will be inimical to growth.

In a country where the wage rate has chronically outstripped production prices (395% as against 312% in manufacturing since 1980) and has not been compensated for by any improvement in productivity, the return on capital is attenuated. Rates of interest have to be low and credit readily available to induce productive borrowing — and especially low in a climate of low confidence.

And what's more, investment activity will only take place for reasons of perceived market opportunity. In many cases these can be of consumption in nature, and the present odium attached to consumption is just bad economics.

The recession, broadly speaking, has had two streams of causality, the external and the internal. The external, through a combination of reduced commodity prices and real effective exchange rates, has forced rationalisation and retrenchment. The internal, affected initially by the externally induced retrenchments and the sharp decline in investment activity because of poor business confidence, has also gone through rationalisation and retrenchment. And the process has fed upon itself.

Part of the problem for the mainly internally oriented manufacturing sector has been the financial stress on it. Surely in a constrained situation of reduced turnovers and financial burden there has to be only one way out for survival and that is through employment shedding.

One of the saddest indicators of the recession's depth has been the growth of the money supply restricted to about 9%. This is indicative of the fact that borrowing has not been related to productive investment, but simply for survival, in many cases using established facilities to cover interest due. Talk to anyone toiling in the banking vineyard.

Frankly, like Oliver, I see every reason to keep asking for more in present circumstances. Obviously, not in order to provide monetary stimulus to the economy which it would not, but rather for the alleviation of financial distress and stopping any further job shedding due to this factor.

☐ **Osborn is Nedbank chief economist.**

SA is falling from favour in credit markets

(49)

GRETA STEYN (265)

GOVERNMENT and parastatals were not budgeting for new foreign borrowing next year — mainly because of a hardening in overseas attitudes towards the country, sources said yesterday. (26)

The collapse of Codesa combined with the Boipatong and Bisho massacres had interrupted SA's emergence from the financial cold, a top executive of a parastatal said. Foreign creditors would prefer to wait for an interim government with a track record before committing new funds to the country, he said. BI DAY

Eskom's announcement this month of its borrowing requirements for next year is expected to confirm the fall in foreign borrowing. However, financing manager Theuns Kotze declined to comment on the corporation's budget for next year. He said the foreign credit climate had worsened, causing Eskom to abandon a substantial dollar issue that had been scheduled for September/October this year. 13/11/92

It is understood Eskom's overall borrowing requirement will not be much higher than this year's R2,5bn, but a larger proportion is expected to be sourced from the local capital and money markets.

Foreign credit lines negotiated some time ago will still be used, taking some of the pressure off the local market.

A Development Bank spokesman said the bank was not at this stage planning to borrow on foreign capital markets next year. He said further foreign borrowing would probably be too expensive.

The Development Bank is becoming a larger borrower on the capital market while public corporations are cutting back borrowing. Its authorised capital market borrowing is R2bn, but this could be increased, especially if foreign funds dry up.

Government and parastatal borrowers raised more than R2bn on foreign markets in the first half of this year, alleviating pressure on the capital account of the balance of payments.

Bankers said a further sign of SA's fall from favour was that the interest rate premium based on country risk for trade and other foreign finance had risen again.

Private sector stake 'too small'

Collapse in public fixed investment

BIDAY 24/11/92 (49)

GRETA STEYN

PUBLIC corporations' fixed investment spending is expected to collapse by 35% in real terms this year — a major factor behind the overall slump in SA's fixed investment performance.

The Bureau for Economic Research (BER) said yesterday spending by public corporations — including utilities such as Eskom — would fall to R5,1bn this year from R6,87bn the previous year. The main reasons for the sharp fall in real terms were the completion of the Mossgas project, surplus capacity and spending cuts.

The BER did not expect a significant recovery in public corporations' fixed investment over the next few years. Spending would continue to decline in real terms next year, although at a much slower pace, and would continue along the same level for the next few years. Eskom, which accounted for 50% of public corporations' fixed investment, was not expected to invest in new capacity in the foreseeable future.

The extent to which Mossgas underpinned fixed investment spending by public corporations is obvious from the average 47,5% real decline in the first two quarters of this year compared with the same period last year.

At other levels of the public sector, capital spending is being cut back in favour of current spending. Central government's capital spending is only 1,5% of GDP while economists say a figure of 3% would be more appropriate.

While the public sector's share in fixed investment has fallen, the private sector's stake has risen. But BER economist Graham White said the private sector's share had not risen enough. "Although the shift has been in the right direction, private sector investment has not been enough to ensure that our technological base does not become outdated. We are in danger of losing our international competitiveness."

The BER expected private investment to fall by 4,5% in real terms this year while next year a decline of 3% was forecast.

Economists noted, however, a number of major projects were set to take off. These included Gencor's Alusaf, Anglo American and Gencor's Columbus stainless steel project and Anglo's Moab and Namakwa Sands projects.

However, the SA Federation of Civil Engineering Contractors said yesterday it expected capital expenditure in 1993 to remain at the same level as this year — representing a real decline of 10%.

Barlow Rand was budgeting for a decline in capital spending, a spokesman said, representing a substantial fall in real terms. The group was budgeting for R1,7bn in its next financial year, from R1,8bn.

SAB financial director Selwyn MacFarlane said the group had budgeted for small real increases in capital spending over the past few years, and the next financial year would be no exception. Capex would rise to R1,7bn from about R1,5bn. About half the spending would be on new capacity.

Finance Minister Derek Keys has said sufficient and effective fixed investment is "the cornerstone" of economic growth.

Stals remains firm on interest rate cut

BIDAY 2/11/92

(49) (58)

DUMA GQUBULE

RESERVE Bank Governor Chris Stals ruled out the possibility of an interest rate cut at the weekend after last week's sharp decline in the consumer price inflation (CPI) rate to 13,6%.

The announcement followed intense speculation of a possible rate cut on Friday, which the market felt was justified after the release of improved inflation data last week.

Capital market rates, however, rose on Friday, which surprised many dealers. One attributed this rise in rates to earlier expectations of a two percentage-point rate cut having been dampened.

Economists were divided on whether the recent data warranted an immediate cut.

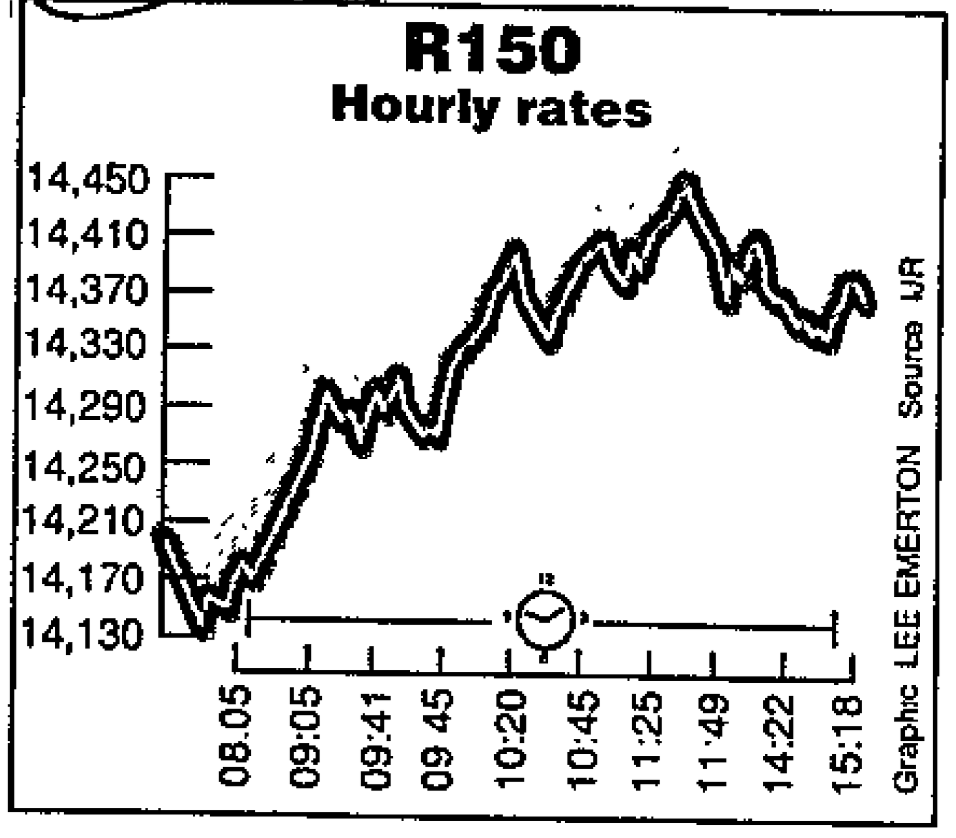
Nedbank economist Edward Osborn said he did not see any grounds for Stals's hesitancy in reducing rates.

Such a move would alleviate financial distress without implying a relaxation of monetary policy, he said.

Osborn said October's CPI figure, to be released at the end of this month, would show a significant drop to about 12,8% after the effect of VAT was removed from the year-on-year figure.

Inflation would fall rapidly to about 11,8% at the end of the year, he said.

Rand Merchant Bank economist Rudolph Gouws said all factors pointed to a cut in interest rates. But the Bank was probably concerned about the state of government finances.



Sacob economist Ben van Rensburg said the Bank should be given another month's leeway, as there were a number of danger signals looming for the inflation rate.

The deficit before borrowing, running at about 6%-8% of gross domestic product (GDP), was getting out of control and threatening to fuel further inflationary pressures. The weakening rand/dollar exchange rate was providing a new set of inflationary pressures, he said.

Sanlam chief economist Johan Louw expected a rate cut at the end of the month.

MONEY MARKETS by Hilary Gush

Call rates move in tandem with mystery rise in shortage

BDay 30/11/92

IN WHAT was labelled a "month-end hiccup", the shortage — the extent to which the Reserve Bank finances the market — rose from R3,292bn on Wednesday to R4,352bn on Thursday last week.

While conditions in the banking world are traditionally tighter over month-end, the reason for the R1bn rise in the shortage remained a mystery to many. The lower market liquidity saw some call rates move up on Friday.

While some big banks kept their calls steady at 11,5%, others — mainly the smaller banks — pushed theirs up to as high as 12,5%.

Despite an expected easing of the shortage this week when beginning-of-the-month government spending flows into the system, call rates are not expected to drop below 11,5% in December.

As wages, salaries and year-end bonuses are paid to workers before the holiday break, conditions in the money market are set to become tighter as Christmas nears. Many players are expecting Reserve Bank intervention, in the form of repurchase agreements, in December to prevent a highly illiquid year-end in the banking sector.

In a week of rather flat trading the average rate on the three-month Treasury bill (TB) was slightly higher at 11,78% from 11,67%. The rate on the six-month TB was a little lower at 11,05% compared with 11,08%.

The future of the 90-day liquid BA — which traded between 11,7% and 12% on Friday — appears uncertain, as dealers expect the TB rate to take the BA's place as a leading indicator in the money market. TBs are said to be more tradeable and more sensitive to the market. If BAs shrug off their liquid status — as proposed in a Reserve Bank discussion document released at mid-year — commercial paper is set to become a true short-term funding instrument.

Continued bearish sentiment in the capital market saw rates move up towards the weekend. The yield on the Eskom 168 was at around 14,60% late Friday, after trading as high as 14,74% at the session's opening from the previous week's 14,43% close. The outlook for gilts did not appear to be rosy.

Tax hikes 'no way to reduce deficit'

(49)

HILARY GUSH

REDUCTION of the fiscal deficit should be achieved by cutting government consumption spending and not through tax hikes, AHI chief economist Nick Barnardt said yesterday.

Barnardt said the record government deficit, which threatened to exceed R23bn or 7% of GDP this year, was the single greatest threat to inflation in 1993.

"Ongoing recession and especially its lagged negative impact on tax revenues, implies that the government's real income at unchanged tax rates is set to fall still further in the next fiscal year. This would result in an even bigger fiscal deficit, even if state spending shows no increase in real terms."

He warned against taking dramatic steps — such as imposing large tax increases and slashing government spending — to correct the deficit in the short term, and proposed a three-year deficit reduction plan.

The aim would be to cut the deficit by two percentage points in each of the next three years. However even a modest reduction to 6% next year would require drastic tax and/or expenditure measures.

A smaller deficit could only be achieved through a reduction in government consumption spending, which depended on limited wage and salary increases and restrictions on government transfers to the homelands — which, in nominal terms, should not grow at all next year.

In light of disclosures of misappropriation of funds by certain homeland governments, he said it would be politically inopportune to raise tax rates now.

To slow the wage-price inflationary spiral, Barnardt called for an agreement of intent between business and labour.

"Ideally wage settlements should be somewhere between the anticipated guidelines for money supply growth of 5% - 8% for next year. This would limit the retrenchment process as well as government consumption spending," he said. If real spending was left unchanged from this year's levels a VAT rate hike to around 15% would be inevitable.

Money supply growth sticks to guidelines

BDay 27/11/92

(497 83)

HILARY GUSH

GROWTH in the broad money supply in October kept just within the 7% to 10% guideline range specified by the Reserve Bank for 1992, Bank figures released yesterday showed.

While year-on-year growth in M3 — which consists of cash in circulation and all deposits with banks — rose to 9,34% in October from September's 8,73%, growth from the base of the guideline year (fourth quarter 1991) eased to 9,14% from 9,33%.

Boland Bank group economist Louis Fourie warned that too much should not be made of the slight increase in M3 growth.

"Borrowing is still depressed and increases in money supply are within the Bank's guideline range. This points to a well managed money supply and leaves room for another Bank rate cut before year-end."

Fourie was optimistic inflation would remain between 11% and 12% until next year, fanning hopes of another cut in the official interest rate.

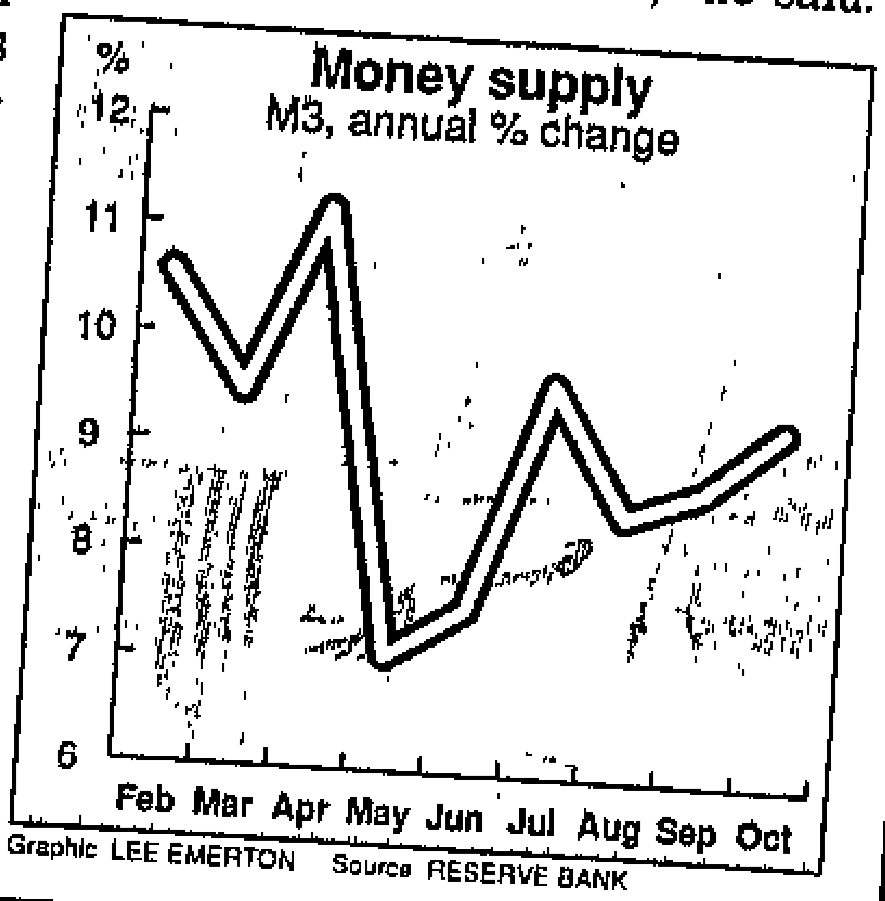
JCI assistant economist Peter Perkins said although inflation's fall to 11,7% in October fuelled hopes of another cut in the Bank rate before year-end, this was unlikely.

"It could well be that the Reserve Bank will want to see the final outcome of the deficit for fiscal 1992/1993 before cutting the rate again.

"While keeping money supply growth within the guideline range is certainly a prerequisite to an easing of monetary policy, there are too many other variables to consider when cutting Bank rate — particularly the fiscal deficit," he said.

The decline in total domestic credit extension growth to 8,53% in September from August's 9,07% reflected the weakness of the economy.

"Slowing domestic credit extension growth is important in bringing growth in money supply and the inflation rate down further," he said.



Graphic LEE EMERTON Source RESERVE BANK

Violence blamed for lack of growth

BDAY 18/11/92 (49)

GERALD REILLY

PRETORIA — Unless the level of political and other violence was significantly lowered, economic growth in SA would remain in the doldrums, Human Sciences Research Council political scientist Chris de Kock said yesterday.

Speaking at a symposium on industrial development in the current political climate, De Kock said confidence among businessmen was probably lower than it had ever been.

Unless the uncertainties and fears generated by socio-political instability were removed, real and significant development would remain paralysed.

A situation seemed to have developed where business was more concerned with protection and survival than with expansion., he said.

Referring to the skewed development in the SA power structure, De Kock said the conflict front which became institutionalised after 1948 through the apartheid policy still existed.

Political inequality and injustice, socio-economic inequity, minority fears and negative, prejudiced stereotypes were all part of the structural origin of violence.

Unfortunately SA was trapped in a "catch 22" situation. To apply the needed structural surgery successfully, or even to apply it at all, socio-economic development had to be accelerated rapidly.

And this, he stressed, could only be accomplished if the current cycle of violence was broken.

De Kock said by the '80s it was clear to every socio-political analyst that a revolution in the making had a high potential for developing into a fully fledged revolution.

Part of the revolutionarty strategy included ungovernability, and development of alternative structures such as street committees, civic associations and peoples' courts. "Indeed, a total alternative society developed alongside the existing apartheid SA," he said.

The ANC still regarded itself as a national liberation movement, with MK as a national liberation army, and alternative structures operating parallel to official structures continued to expand.

UK mission chief warns on violence

BDay 9/11/92

LINDA ENSOR

CAPE TOWN — Violence in SA threatened increasingly to take on organised, mafia-like dimensions, as had occurred elsewhere in the world, UK SA Business Association (Uksaba) chairman Sir Keith Stuart said at the weekend.

Stuart led a 12-day trade delegation to SA and Zimbabwe. Speaking at a SA Britain Trade Association (Sabrita) function, Stuart said the problem of violence seemed to have become more difficult since Uksaba's visit to SA last year and he was less hopeful about the issue than before.

He added that he was also more cautious about the speed at which foreign investment would flow into SA because of the violence and political difficulties. Widespread retrenchment, both past and threatened, was also cause for concern.

On the positive side, he had noticed a "remarkable" convergence of views among SA political parties on the future of the country. The ANC appeared to have undergone a genuine change in its stance on socialism and nationalisation, while government had become attuned to the idea of affirmative action.

(49)

Also, business and the government were generally more in agreement about broad economic policies than they were on previous visits, when it appeared the two parties were speaking a different language.

Stuart said the waning of sanctions had led to a greater convergence of SA-linked organisations in Britain which, previously, were split along lines of pro- and anti-SA trade during the apartheid era.

He insisted that Britain's vote in favour of Maastricht would not involve a narrow inward-looking European trade policy — the UK would still be open to SA exports. Stuart said this year SA exports to the UK were down slightly, while UK exports to SA had increased by about 5%.

The traditional relationship between the countries had to some extent been disrupted by increased UK-East European trade.

There had been an explosion in the sale of SA wine in Britain, with all the major supermarket chains displaying them.

Sabrita is to send a delegation to Britain in a few weeks time.

Dealers in the dark on Bank's finrand policy

(49) B DAY 9/11/92.

HILARY GUSH

FINRAND dealers expect a statement soon from the Reserve Bank on the use of the financial rand as an overseas investment vehicle for local companies.

Traders in the finrand market have been unanimous in their call for Reserve Bank clarity on the issue.

One dealer said: "There is no clarity from the Bank as to whether they're going to allow the finrand to be the vehicle for disinvestment by local companies."

He said the delay in clarification was due to the fact that Reserve Bank governors were divided in their views on the currency. He expected a statement soon by Bank Governor Chris Stals.

Last week finrand deals worth more than R190m were clinched.

Local transport and container group Trencor last week announced its acquisition of a substantial minority shareholding in San Francisco-based container leasing company Textainer Group. The deal is believed to be worth about R100m in finrands, but the form of payment has not yet been disclosed.

Traders say Sappi's offer to buy the balance of the shares in German company Hannover Papier — a deal worth about R90m in finrands — is likely to fan further finrand sales. As the deal will only be finalised in mid-December, its immediate impact on the unit will be reduced.

Despite statements from FNB that it will finance payment for the purchase of British merchant bank Henry Ansbacher through means other than the finrand — possibly through offshore borrowing — news of the deal has had a substantial impact on the market.

Since the beginning of October reports of pending payments have cast a shadow of doubt over the thin and volatile market, fuelling a sell-off of the currency by nervous dealers.

It is understood that the finrand portion of the deal involving the purchase of Del Monte Foods International by local confectionery group Royal is worth in excess of R1,3bn in finrands. Even if the deal is structured so as to spread out finrand sales over a longer period, dealers say the impact on the finrand will be significant.

The unit, which closed at R4,70 against the dollar on Friday, is expected to trade in a range of R4,55 and R4,87 for the next few months, until all impending sell orders have left the market.

Reserve Bank plans to curb use of finrand

49 LINDA ENSOR

SOMERSET WEST — The Reserve Bank was considering "natural and non-disruptive" ways of limiting use of the financial rand for off-shore investments, Bank Deputy Governor Jaap Meijer said yesterday.

Various methods of restricting the use of the finrand which would not be too tough on the market were being investigated. The Bank would prefer the finrand to be more stable than it had been since mid-September, Meijer said in an interview at the Stellenbosch University Bureau for Economic Research annual conference.

HILARY GUSH reports dealers responded with enthusiasm to Meijer's comments. They speculated the Bank would either have to impose a limit on the amount of finrands sold each week by an investing company or allow direct purchase from the Bank of the foreign currency needed for the offshore acquisition.

Meijer said the Reserve Bank would prefer companies to finance their overseas acquisitions either with their own shares or with offshore finance. The socio-political uncertainty in SA and the identification of profitable opportunities overseas had fuelled the acquisition activity.

But Standard Bank Investment Corporation executive chairman Conrad Strauss said in an interview it was wrong to regard the spate of foreign acquisitions as a flight of capital. "The world is increasingly becoming a global village and we cannot operate in isolation. We need to take advantage of the windows of trade and technological opportunities opening up."

If SA financial institutions did not establish a presence overseas to cater for the needs of SA customers, foreign competitors would provide this service and set up in SA. Standard Bank's main aim was to consolidate its representation in southern Africa. BDAY 10/11/92

Regarding a cut in Bank rate, Meijer

☐ To Page 2

Finrand

BDAY 10/11/92 49

☐ From Page 1

said the Reserve Bank was reluctant to surrender too soon to economic pressures as it had persisted so long with great pain and had achieved some success.

It was reluctant to reduce Bank rate without inflation coming down and even after taking into account the exclusion of the impact of VAT on inflation, would have to examine the underlying inflationary trend in the economy.

In his speech at the conference, Meijer said the Bank favoured reduction of the government deficit at whatever cost this might have for other aspects of the economy.

"The supreme and most immediate priority for government in the fiscal policy area undoubtedly is to re-establish confidence in the fiscal authorities' ability to curb their expenditure, increase their revenues and reassert control over the size of their budgetary deficits.

"We are most concerned about the effect the deficit has had in sapping confidence. It has created the impression that even in a transitional phase government is unable to maintain discipline and is unable to keep the Budget under control," Meijer said.

He said it was unlikely there would be any significant improvement in the deficit in the 1993/94 fiscal year, despite the intentions of Finance Minister Derek Keys. This year the deficit would be about 7% of GDP.

The Reserve Bank was concerned about inflationary expectations in the economy being boosted — a rise in taxes in next year's Budget to offset the deficit could add to the cost-push pressure of inflation — but it believed the deficit had to be addressed at all costs.

Meijer said the deficit was a revenue and not an expenditure problem, which reflected the weak state of the economy. Government expenditure was running according to plan but the flow of state revenue had been weak.

In suggesting some guidelines for a fiscal policy to promote economic growth and development, Meijer mooted the idea of negative income tax as an incentive for people to enter the formal sector. The system, which provided income supplements by way of a negative income tax for very low income earners, would also put downward pressure on wage rates.

Meijer suggested that the SITE mechanism could be used for this purpose, admitting, however, that, practically, the system would be difficult to implement.

● See Page 5

PRODUCTIV

Africa 'must work hard to become a world player'

BDAY 4/11/92

49

JONO WATERS

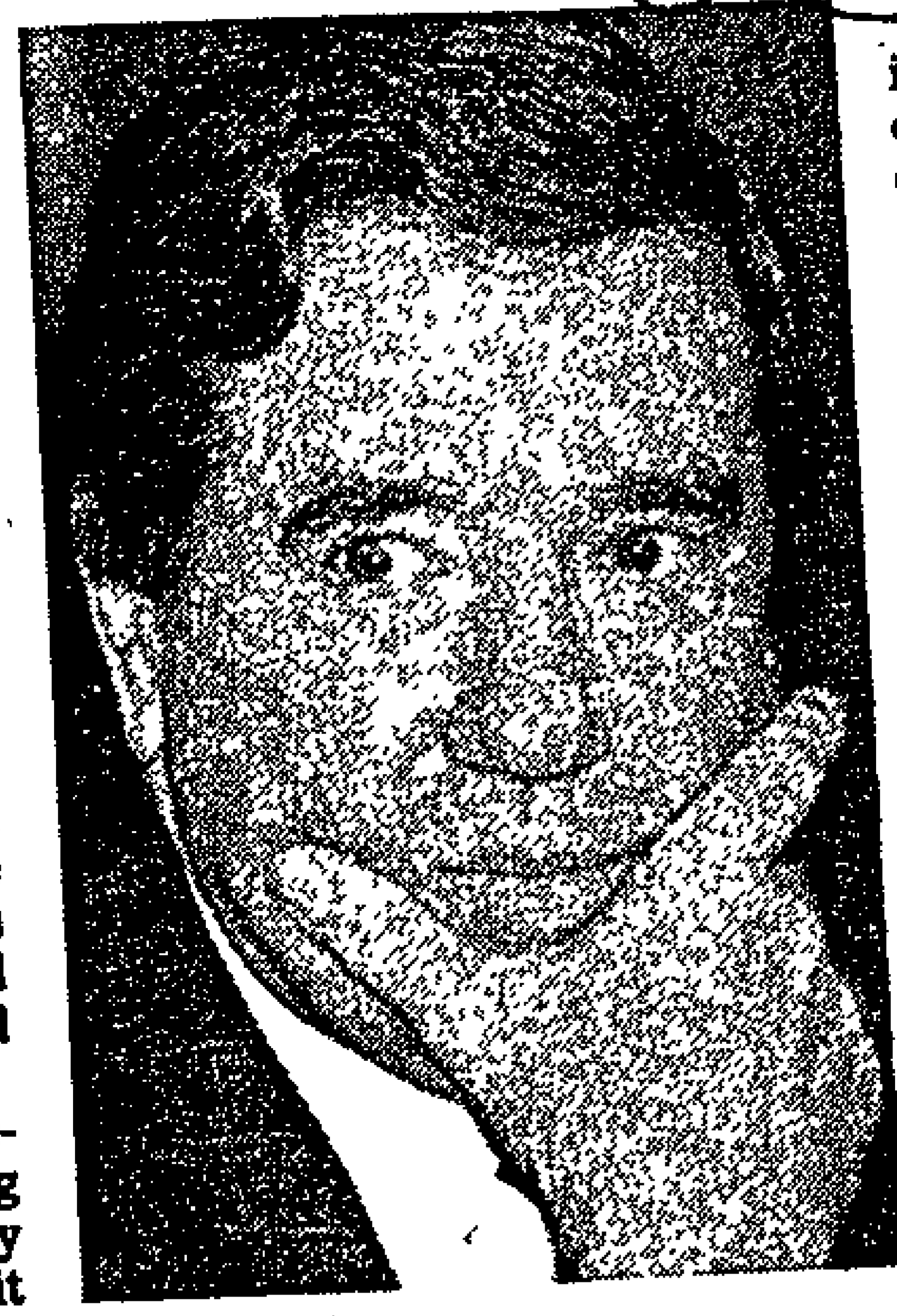
TOTAL factor productivity remained constant between 1960 and 1987 in subSaharan Africa against increases of 1,9% a year in East Asia, National Productivity Institute executive director Jan Visser said yesterday.

Delivering the keynote address, he said that since 1960, growth in productivity had accounted for a small proportion of output growth for most developing countries.

Visser said the World Bank had predicted there would be an increase of nearly 100-million poor people in subSaharan Africa which would make 30% of the developing world poor, compared with 16% in 1985.

"The correlation between productivity and economic growth is strong and positive, and Africa will simply have to increase productivity if it wants to become a world economic player," he said.

GDP in the subSaharan region decreased by 1,2% a year between 1980 and 1989, while it increased in all other regions except Latin America. The growth rate of 1% a year achieved by the subSaharan region was not high enough to accomodate the high population growth rate of 3,2% a year.



● VISSER

Visser said that in recent years, East Asia had grown rapidly through expansion in trade. Annual growth in real exports increased by more than 10% from East Asia, while they declined in subSaharan Africa.

Since agriculture provided Africa with 33% of Africa's GDP and 40% of its exports, the continent had a clear comparative advantage and it offered the best immediate opportunity for raising incomes, he said.

"Agricultural growth must be doubled to 4% a year to be able to increase Africa's standard of living." He said that even when full account was taken of the environmental limits to land exploitation, the scope for expanding production was great.

Over a longer period, policies should aim at fostering private investment and entrepreneurship in the industrial sector, he said.

Visser said education would affect productivity and growth, as a better educated person absorbed information faster and applied new processes more successfully.

Visser said the adult literacy rate in subSaharan Africa was only 48% compared with 71% in East Asia, and fewer than 50% of children were enrolled in primary school in the subSaharan region.

Visser concluded that to have an African productivity association dominated by governments and politicians would be fundamentally wrong, and he was pleased that no politician had been involved in the first assembly.

SPOT DESK

Mexican economic reform holds lesson for SA

BDAY 4/11/92.

49

SIMON WILLSON

A DEVELOPING country at the southern tip of its subcontinent was having trouble with persistently high inflation and with fragile international investor confidence. So it drew up an economic action plan.

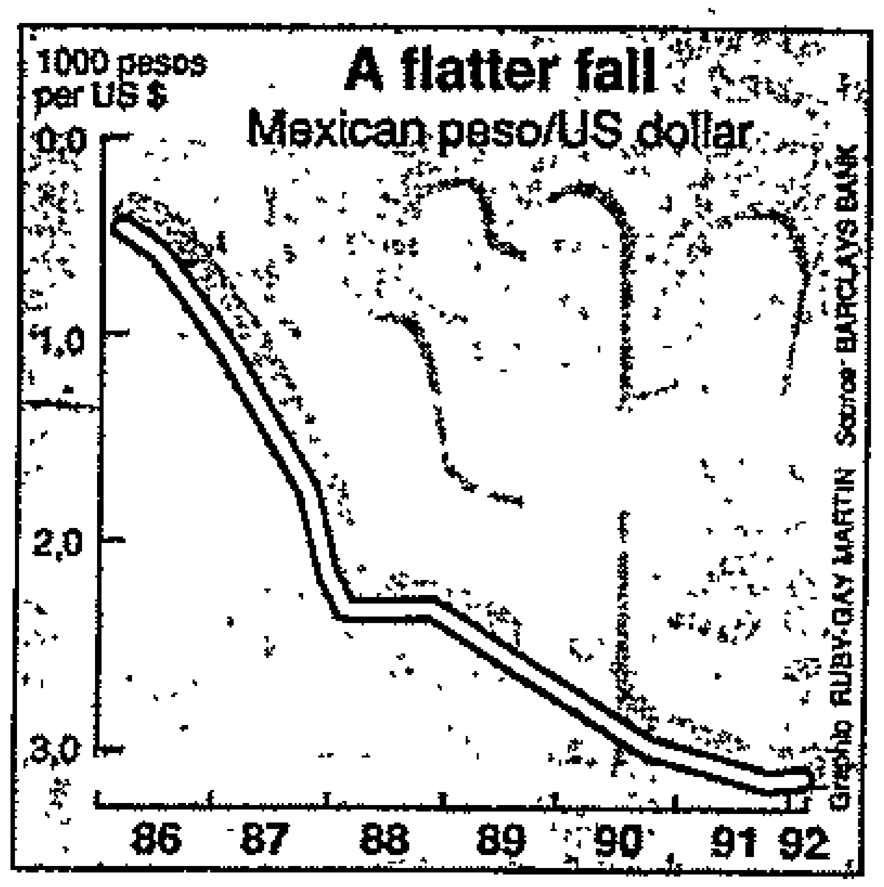
It established an economic forum between government, business and labour and then abolished its two-tier exchange rate and dismantled exchange control. It restrained the rate of its currency's depreciation, even though the unit should have fallen more rapidly in view of the country's relatively high inflation.

The results were welcome: gold and foreign exchange reserves rose to record levels; inflation slowed under the discipline of the firm exchange rate and of the economic forum, and international investors comfortably financed the growing current account deficit.

Is this SA in 1993-94? Not quite. This laboratory of economic — and, in particular, exchange rate — reform in a high-inflation developing country is present-day Mexico. But the analogy with SA is more than coincidental — it is almost uncanny.

Mexico and SA have many similarities besides the way they have run their exchange rates recently. Each occupies the southern tip of a subcontinent; each has a primary, dollar-denominated commodity accounting for about a third of exports (oil for Mexico, gold for SA); each has a similar per capita GDP (Mexico $2 700, SA $2 530) and each has had to restructure foreign debt during the past decade.

But there the similarities end. Mexico was forced to tackle its economic problems in the early '80s when a combination of domestic instability, high inflation and an insupportable foreign debt burden forced its government's hand. Radical reforms were enacted, based on privatisation, deregulation and a reconfiguration of public-sector finances. State spending cuts and privatisation revenues — 80% of Mexico's public sector was sold off between 1982 and 1991 — are expected to produce a budget surplus this year.

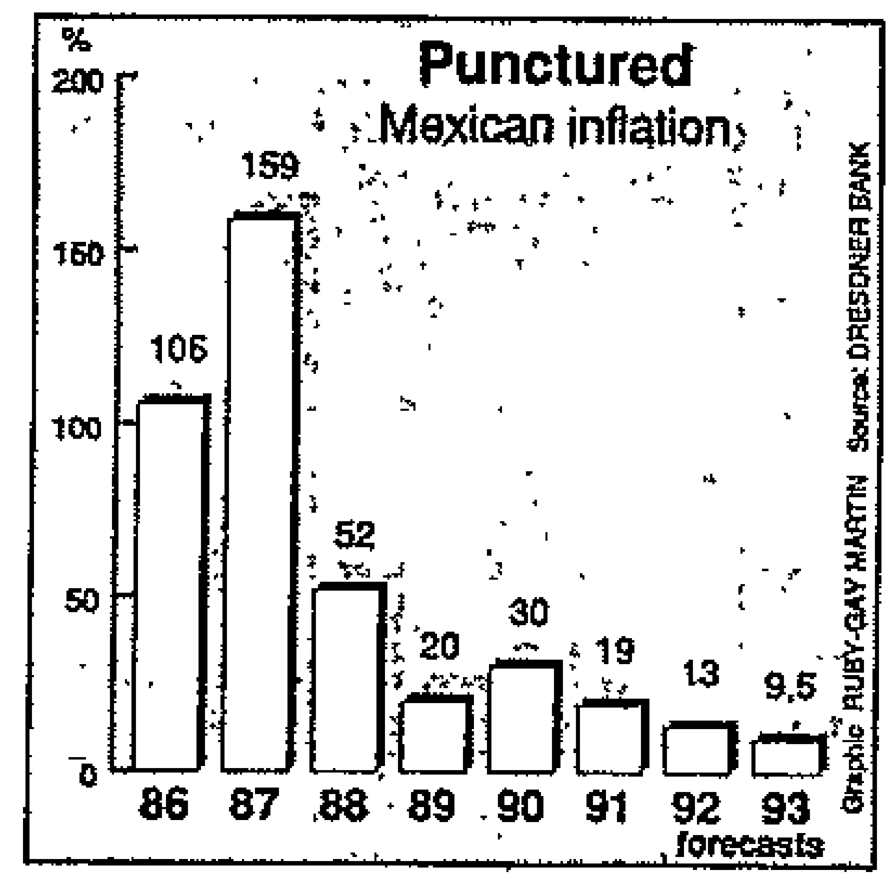


A flatter fall
Mexican peso/US dollar

For SA, the effect this economic restructuring had on the Mexican exchange rate could be salutary. Until late last year Mexico also operated a two-tier exchange rate with a controlled peso/dollar rate and a free-market rate operating side by side. The controlled rate was used for foreign trade transactions and external debt servicing, while the free rate applied to other transfers.

The peculiarly smooth outline of the controlled peso rate on the first chart is the result of the Mexicans' careful monitoring. The depreciation of the controlled peso was predetermined at a daily average of 0,4 pesos and regulated by central bank intervention and stiff exchange controls. As the Mexican economy stabilised, the differential between the controlled and free peso gradually closed until the rates were unified a year ago this month.

The result, as the first chart shows, was a flattening out of the peso's fall as the authorities were able to reduce the daily average depreciation to 0,2 pesos. The effect of this exchange rate regime and its allied reforms on Mexican inflation has been notable, as displayed in the second chart. It has slid from a 1987-91 average of 56,1% to an expected 13% this year and 9,5% next year. The inflation outlook is now so tame that the government was able to help industry two weeks ago by raising the peso's daily depreciation back to 0,4 — which is 4,6% a year.



Punctured
Mexican inflation

Are there lessons here for that other southern-tip developing country with domestic instability, high inflation and rescheduled foreign debt — SA? Some have already been learned, in that SA is to produce a draft economic restructuring programme later this month. An assault is, we are assured, to be made on government spending and an economic forum has been established. Meanwhile the real effective exchange rate of the commercial rand is being massaged upwards to help contain inflation.

But the Mexican precedent also seems to indicate that, if performed as part of a package that includes wage restraint, privatisation, deregulation, budget deficit reduction and exchange control removal, unification of an inherently weak two-tier exchange rate need not be too traumatic. If the effect of such moves in SA was a two-thirds cut in the inflation rate, a budget surplus and foreign funding of a current account deficit, there would surely be few complaints.

LETTERS

25 1992

Sale of state assets 'can pay social debt'

BDAY 25/11/92. (49)

LINDA ENSOR

CAPE TOWN — The sale of state assets as a form of compensation to address the "hidden liabilities" of government towards the poor could be one way of settling the social debt in transitional economies without upsetting the fiscal balance, world renowned Brazilian economist Professor Roberto Macedo said in an interview.

Macedo, former secretary to the economics ministry in Brazil and current professor of economics at the University of Sao Paulo, was on a short, World Bank-financed trip to SA to conduct a workshop for SA economists undergoing a two-week World Bank training programme.

Representatives of the SA Finance Ministry and of the ANC also took part in the programme, which was aimed to give exposure to SA economists to the management of economies in transition.

Macedo said a similar programme of using state enterprises to spread ownership to the people to compensate, for example, for liabilities such as unfunded social pensions was under consideration in Brazil. SA and Brazil had followed an inegalatarian growth path and both now faced widespread uncertainty about the future of the economy and economic policy.

As with Brazil, SA's political liberalisation was preceding its economic liberalisation, creating problems of unfulfilled and rising expectations and popular demands for unemployment to be alleviated and income distribution improved by resorting to expansionary fiscal policies.

Democratisation carried the risk of increased government expenditure and rising levels of public debt. For instance, political reform in Brazil saw an escalation of the number of civil servants employed and a radical increase in the federal payroll from $1bn a month to $2bn.

There was a need to be cautious about civil service employment creation, Macedo said.

Brazilian privatisation together with a rise in taxes over the past three years had helped reduce the deficit before borrowing from 7,5% of the total GDP of $400bn to the present 2,5%.

Macedo said economic growth in Brazil had stagnated because of the dominance of inefficient state enterprises in key sectors such as oil, energy, telecommunications, petrochemicals and steel. Another cause was macro-economic instability which had resulted in a present inflation rate of 1000% a year. The Brazilian government's interference with financial markets had discouraged savings and the only way it could finance its deficit and pay government salaries was to print money.

The country's high level of inflation had acted as a grave disincentive to local and foreign investment, as investors were not able to calculate their future input costs.

One of the purposes of Macedo's lecture was to expose SA economists to the dangers of the mismanagement of the economy practised in the past in Brazil. He said SA's inflation rate was low for a developing country and represented a major asset to be protected at all costs.

On the other hand, one of the strengths of the Brazilian economy was its vibrant export sector.

Both rand units get Bank support

B/DAY 4/11/92 (49)

TIM MARSLAND

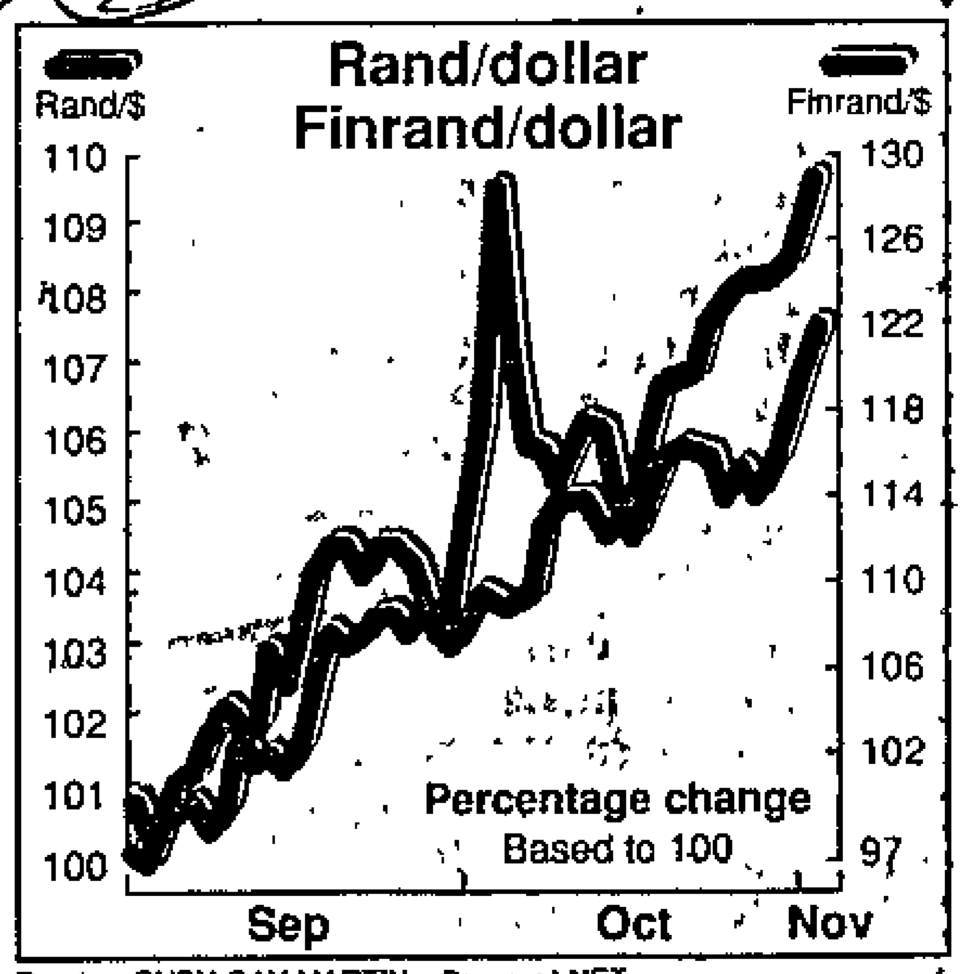
THE Reserve Bank entered the volatile currency markets yesterday, propping up both the commercial and financial rands after the units weakened sharply in early morning trade, dealers said.

Early selling of about R30-R40m saw the finrand lose 15c against the dollar to R4,6598 in see-saw trading. The unit lost more than 20% against the US unit since the dollar bull run began in September.

Dealers said there were signs that the Reserve Bank had actively taken out surplus finrands during mid-session trading. Bank intervention was also reported by Reuters, but the Bank is rumoured to have kept its intervention low-profile.

Dealers linked the decline in the finrand to continued outward-bound investment, but said selling was widespread.

"Sterling is looking cheap at the moment to anyone investing in the UK," one said.



Graphic: RUBY-GAY MARTIN Source: I-NET

The commercial rand regained its early losses, ending at R2,9728 to the dollar from its overnight R2,9748. However, it hit an

☐ To Page 2

Rand

B/DAY 4/11/92 (49)

☐ From Page 1

all-time low during the day of R2,9968 — just off key support of R3,00 to the dollar.

"If it breaks R3,00, it's going to be tough pushing below that level . . " a dealer said.

The dollar bull run has cost the rand 10% against the US unit since September

Dealers said the market had been long on dollars towards the close and the Bank bought at R2,9760 shortly before the close.

Exporters sold enthusiastically during the lunch break when the dollar failed to break resistance of DM1,57.

The dollar has been making steady gains during the past few weeks in anticipation of a Bill Clinton win in the US election.

The rand kept its chin up against the crosses, though, ending steady at R4,5907 against sterling.

MERVYN HARRIS reports currency factors were dominant on the JSE yesterday as further finrand weakness bolstered share prices in rand terms to keep the market in firmer territory

The JSE overall index rose 13 points to 3 031 with gold shares, bellwether De Beers and mining houses the major beneficiaries of the unit's renewed downturn

The soft commercial rand and a steady gold price at about $338 enabled the rand gold price to hold above R1 000 Dealers said JSE trading was directionless as players waited for new factors like an interest rate cut to inject life into the market.

They cautioned, however, that underlying sentiment remained bearish.

Capital market stocks had a day of mixed fortunes, with government's R150 easing to 14,395% from 14,400% while Eskom's 168 firmed to 14,405% from 14,400%.

Dealers blamed the weaker Eskom stock on Eskom's funding.

Bankers' 'impassioned' plea

GRETA STEYN (49)

BANKERS who put in an "impassioned plea" for a cut in interest rates at a meeting at the Reserve Bank last week came away hoping for action by the middle of the month, sources said at the weekend.

The meeting of bank treasurers, which was addressed by Deputy Governor Chris de Swardt, heard that bankers' corporate customers were getting deeper and deeper into the red.

"We made an impassioned plea on behalf of the companies who bank with us," said a banker who attended the meeting. The bankers noted that at a previous meeting it had been indicated that a cut in Bank rate would be possible once inflation fell below 14%. September's inflation rate, released last week, was 13,5%.

However, De Swardt indicated that the Bank was waiting for third-quarter economic statistics, that would not become available before the middle of the month at the soonest, before taking a decision.

Sources said gross domestic product (GDP) figures, the balance of payments (BoP) and government finances were included in the statistics that would be taken into account. Bankers said it was clear the Reserve Bank was especially worried about the BoP and the fiscal policy situation. The Bank saw the weak rand and the huge deficit as factors working against a slight easing in monetary policy.

☐ To Page 2

Bankers

BDM 9/11/92 (49)

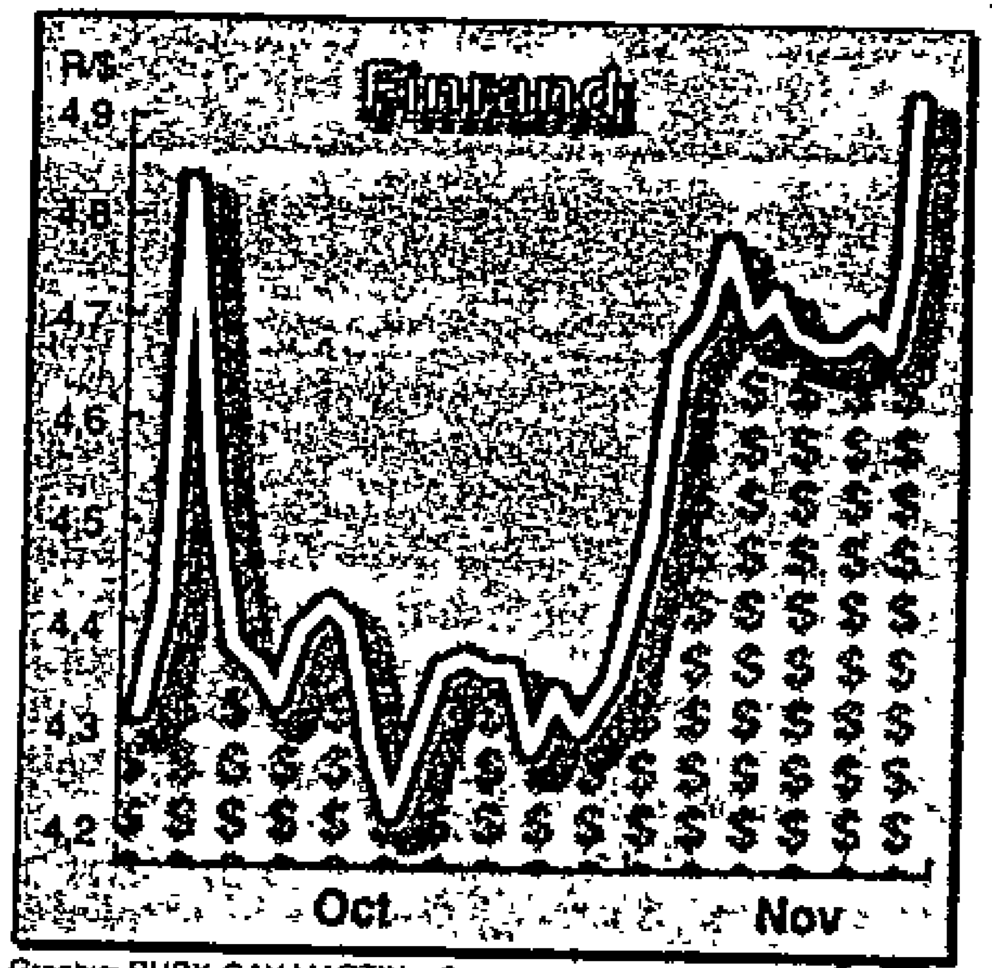
☐ From Page 1

But the bankers argued, in turn, that the Bank should also take into account that "companies were bleeding".

Although bank margins have benefited from the monetary policy environment — as the cost of funding has fallen faster than lending rates — this has been offset by a surge in bad debt charges and low volumes as credit demand failed to pick up. Expectations of two cuts in Bank rate before the end of the year have now been discarded, but bankers are still geared for a one percentage point fall this month.

The Bank's failure to act after the release of the inflation figures has raised the possibility there will be no move this year. A disappointed capital market has already pushed rates up by almost 100 points as analysts began to predict the end of the bull run in that market.

A surprise increase in the Treasury Bill rate on Friday further dampened bullish sentiment. Dealers, however, said that it was not indicative of a new trend in short-term rates.



Graphic: RUBY-GAY MARTIN Source: I-NET

Finrand reels as Bank cuts rate

58
49

GRETA STEYN and HILARY GUSH

THE one-point cut in Bank rate to 14% and rumours of new developments on the Royal acquisition of Del Monte sent the finrand reeling yesterday.

The foreign investment unit shed more than 3% to hit a low of R4,95 before clawing back to a close of R4,9260. Dealers said the cut in Bank rate had an effect on the finrand rather than the commercial rand, but that the sharp weakening in the unit could not be justified solely by the Reserve Bank's move on interest rates.

A dealer said the market's anticipation of the finrand implications of the Royal/Del Monte deal was a major factor depressing the currency. There was speculation Royal would have a year to settle the finrand portion of the deal of about R1,5bn, implying continued pressure on the currency for that period. There was also talk of the Bank keeping the trade out of the interbank market to help smooth movements in the currency, but this could not be confirmed.

BDM 19/11/92

The Bank is, however, considering making recommendations to Finance Minister Derek Keys on a new policy for SA investment overseas.

Another dealer said large sell orders had emanated from Europe and the pressure had been aggravated by a local bank's aggressive selling. Political factors were playing a role. "Judge Goldstone's revelations are not doing the currency any good."

However, the finrand is still off its record low of R5,12 reached at the height of the

☐ To Page 2

Finrand

BDM 19/11/92

49

☐ From Page 1

Royal/Del Monte pressure. The market believes the currency will find good support at the R5,00 level and that it has the potential to strengthen to R4,82.

Money market rates also came off sharply on news of the Bank rate cut but gilt yields defied market sentiment and moved up 20 points.

In the money market, call rates dropped one percentage point — from around 12,5% to 11,5% — matching the Bank rate cut.

The rate on the three-month liquid BA was also lower, trading in a 11,8%-12,2% range from a previous 12,3%-12,5% band.

Bankers — to a degree — heeded Reserve Bank Governor Chris Stals's plea not to cut deposit rates. They said in line with Stals's request, retail deposit rates would not be reduced by a full percentage point, but rather by 0,5 percentage points.

Dealers said as the market was liquid — with the shortage falling to R1,611bn on Tuesday — deposit-taking institutions could afford to drop the call rate by such a wide margin. However, they expected calls to move up towards 12,25% as month-end neared and the shortage rose.

Although month-end was traditionally tight, interest payments on government stock — due on the November 30 — would offset a very tight month-end, they said.

The fall in call rates is not expected to be sustained as the shortage is predicted to be significantly higher by December, when spending on credit rockets ahead of the Christmas season.

Immediate response to the Bank rate cut in the gilts market was mildly bullish with rates on key long-dated stock coming off 10 points. Sentiment soon turned around and yields moved up 20 points.

The yield on the bellwether E168 traded in a 14,52% - 14,75% range before finishing at 14,72%. The yield on government's R150 bond ended the session at 14,68% after hitting an intra-day high of 14,72% from an overnight 14,57%.

● Comment: Page 8

Mortgage market growth boosted

BI DAY 2/11/92

(49) (88)

ANDREW KRUMM

GROWTH in the mortgage market — which outstripped growth in domestic credit in the 12 months to August — had been bolstered by a trend to finance consumer spending with long-term debt, economists said at the weekend.

Latest Reserve Bank figures showed the mortgage market had grown 16,9% to over R25bn in the year to August, compared with a 9,4% growth in domestic credit extension over the same period.

"No doubt this indicates a switch of short-term debt to cheaper and more flexible long-term financing," a monetary official said.

He added that the consumer's search for lower interest rates could benefit institutions as they could lower their capital requirements — since mortgage advances had only a 50% capital risk rating — and increase lending capacity.

The Reserve Bank said in its September Quarterly Bulletin flexible bond facilities had given customers access to less expensive financing that was not necessarily earmarked for real estate purposes only.

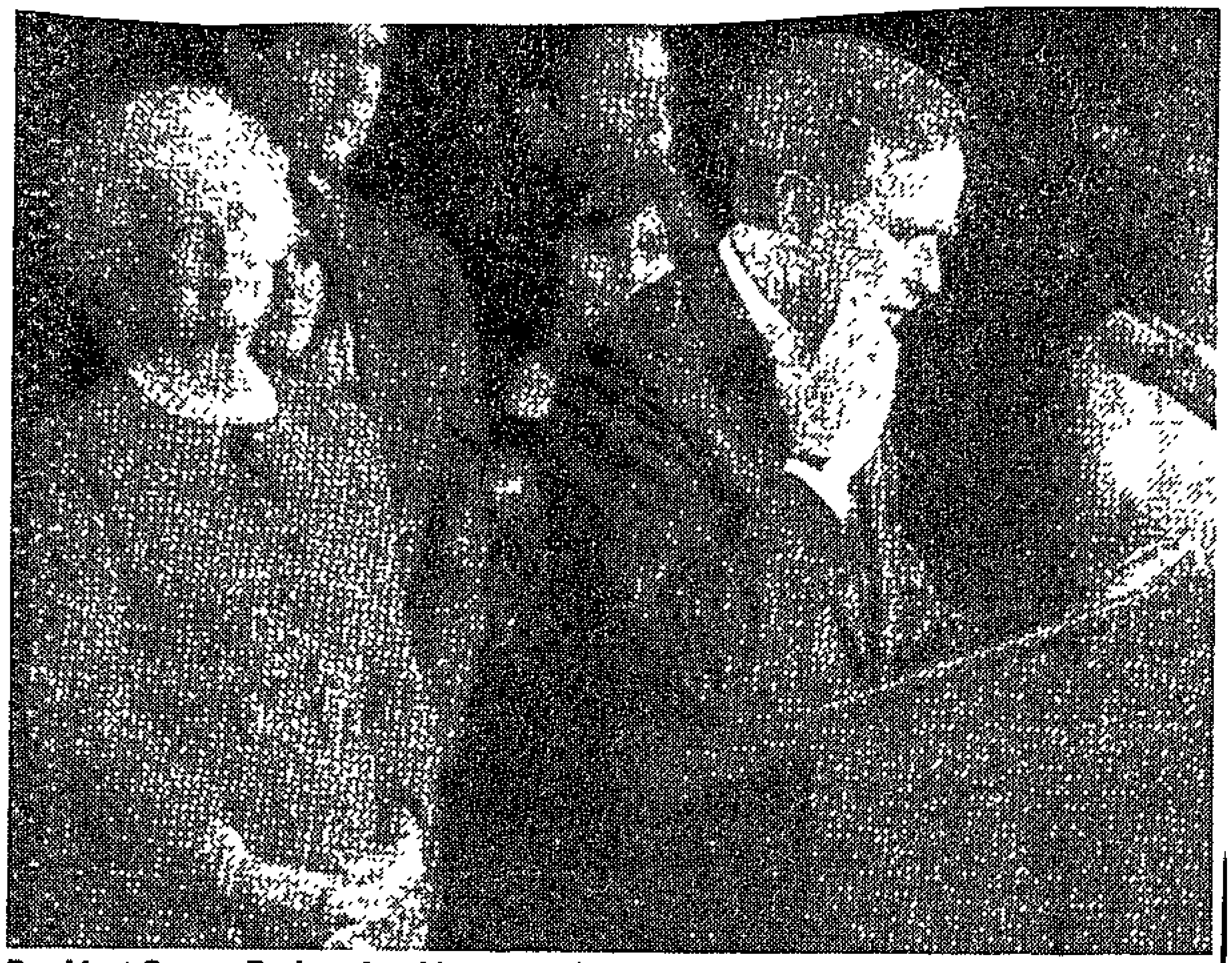
This had reduced the relationship between an increase in financial institutions' holdings of mortgage bonds and an increase in the value of real estate transactions.

An economist warned that the latest statistics could show a dangerous trend to increase existing mortgages to finance consumer spending.

"There is a problem here, since financing spending through mortgages looks cheap in the beginning, but is expensive in the long term."

Bank spokesmen said they did not collate statistics on the proportion of bank customers who were extending existing mortgages or taking out second mortgages. They attributed the disparate growth statistics to pent up demand over the past few years, and the effect of "massive inflation" on house prices.

However, the economist said if one compared the 30% drop in activity in the deeds office to growth in the mortgage market, it appeared that consumer spending and not increased home ownership was behind the growth in mortgage financing.



President George Bush makes his concession speech to supporters at a Houston hotel on Tuesday night with his wife Barbara at his side. Picture: AP

Economists consider effect of Clinton's win

(49)

BDay 5/11/92.

GERALD REILLY

PRETORIA — Economists expect no overnight changes in US political and economic attitudes towards SA after the Democratic victory in the US presidential election.

They said, however, a Democrat in the White House and a Democrat-controlled Congress would be more ANC-friendly than the Republican administration.

Afrikaanse Handelsinstituut economist Nick Barnardt said the change of administration could have medium- and long-term economic benefits for a new SA.

The Democratic Party, as a fierce opponent of apartheid over past decades, had SA high on its agenda, and if it was consistent in its attitude, it was likely to become more involved in constructive development in SA than the Republicans were. Greater support for development programmes, expansion of trade links and easier access to the IMF and World Bank were among the possibilities, Barnardt said.

However, he stressed the Democrats would be faced with the same domestic problems which had helped pull the Republicans down, and resources would be focused on those problems.

Stellenbosch University's Bureau for Economic Research head Ockie Stuart said no dramatic changes in US political or economic attitudes would follow the Democratic triumph — provided government kept its foot out of its mouth until a political settlement was reached.

The Democrats were historically ANC-friendly and an SA government weighed with the ANC could expect sympathetic development aid from the US.

Absa senior economist Adam Jacobs also expected no major changes in attitudes. However, he said, of benefit to SA exporters could be a strenghtened dollar and weakened rand.

Sapa reports Prof Sampie Terreblanche, Stellenbosch University economist and political philosopher, predicted that, as president, Bill Clinton might even embark on a programme of large-scale government spending to create new jobs, and that the resulting inflationary effects would be good for the gold price.

SA Institute for International Affairs director Prof John Barratt, and Rand Afrikaans University's head of the Department of National Strategies and American Studies, Prof Carl Noffke, agreed the election result was bad news for government and would benefit the ANC.

All three academics said a Clinton administration, backed by a Democratic Party legislature, would create serious difficulties for the present SA government.

"Together they can implement any policy towards SA without the slightest resistance," Noffke said.

The most important of these, he said, was the Clinton threat to cut off SA access to IMF support until a black government was in power.

Barlow arms in good nick

S Times (Buss) 1/11/92.

By JULIE WALKER

EARLY results from Barlows companies for the year to September were mostly positive.

Adcock Ingram, Oceana Fishing, Romatex and Persetech all produced growth well ahead of inflation, Nampak's increase was diluted at the per-share level to an 8% climb and Rand Mines Props' earnings shed a third.

Worse

Only one of the 19 companies reporting preliminaries this week incurred a loss — small-fry Norvic.

Of the balance, only Gencor fared worse than previously. Every other company showed nominal if not real earnings growth.

Three banking groups had varied fortunes. Fidelity Bank returned an impressive 1,94% on assets in the year to September. Its earnings a share jumped 22% to 93,7c. At 525c it is on fewer than six times earnings in spite of a spotless record.

In the same time, First National continued its strong growth and Board of Executors lifted earnings 4% from a 14% improvement in attributable profit because of dilution due to converted loan stock.

Gases, welding and healthcare group Afrox — one of the few companies to take the effects of inflation into its financial statements — achieved real earnings-a-share growth of 12% to 311c on a 7% climb in turnover to R1,1-billion in the year to September.

The group expects to maintain its real growth trend in the current year.

Three linked companies — Abbey, Fenix and Propcor — and Cargo and Boltons incurred interim losses out of the 22 firms reporting.

Under new management at Pepkor, Tradehold returned R35-million to the black in the six months to August and Pepkor itself lifted earnings a share by 16% to 27,7c.

Edgars sales grew 9% to R1,4-billion in the six months to September and earnings 5%. Even the credit chains are feeling the recessionary pinch.

Boymans and Arthur Kaplan also suffered sharp declines in profitability.

Other companies to improve at the interim include Martin Jonker, Datakor and Uniserv.

Gilts in a flurry

THE JSE WEEK

By JULIE WALKER

GILT rates shot up more than half a percentage point to 14,46% before easing on unsubstantiated rumours that SA troops had gone back into Angola.

Delays in the announcement of a cut in the Bank rate was another reason behind the hardening.

The rand lost ground steadily against the dollar, down to 296c. The finrand was stable about 432c.

Gold dropped below $340 in a wait-and-see week ahead of American presidential election result.

The JSE continued nervous in the wake of Greg Blank's looming spell "between the chains". Talk of further arrests prevailed.

The Royal group of companies relisted initially at the prices to be paid by Anglo American for control of the group after its £360-million acquisition of Del Monte. But the shares eased, reflecting reluctance by the market to accept that the deal is a bargain.

Platinum came under pressure and there was heavy selling of Rustenburg, reportedly because of a portfolio liquidation.

The investments of Dab are being sold. Net asset value was estimated at R13,86 at last week's shareholders' meeting. But it is probably not the culprit because of JCI links and no big deals in its main holding CMI.

Afrox continued to deserve its premium rating. A buyer was prepared to pay R4 above the market price for a rare line of the stock on Thursday. The price retreated R2 to R95 on Friday — 31 times inflation-adjusted earnings. But NEI Africa gave up half its value to 350c.

Score Supermarkets warned of negotiations. A management buy-out is likely. It added 8c to 33c, having been 18c in May.

Barlows has shed 10% in a fortnight to R44,15.

Forum to pave the way

S Times (Buss) 1/11/92

SUSTAINABLE economic growth coupled with social and development upliftment is essential if the wider process of political transformation is to succeed. (47)

With this broad theme, the long-awaited National Economic Forum was signed into existence on Thursday.

Its members come from organised labour, business and the Government. It will operate as a consensus body.

Requiring particular attention will be the distortions caused by large-scale unemployment, inequality in incomes, skills and economic power.

The aims of the NEF will be the generation of high and sustainable economic growth, an improvement in the use of human and capital resources and the participation of everyone in economic decision making.

After inflation —

Earnings per share

The Bundesbanker in Pretoria

Brian Kantor is professor of economics at the University of Cape Town

49

FM 20\11\92.

All Germans may not believe in God but they all believe in the Bundesbank. They have every faith in its protecting them from the curse of inflation. This support gives Bundesbankers enormous authority over governments. If the government wants to spend more and tax less, a natural inclination, the Bundesbank puts up interest rates and the politicians cannot escape the consequences.

We have a Bundesbanker in Reserve Bank Governor Chris Stals. Even if we lack the same horror of inflation, and do not fully believe in what he is doing, we would do well to understand that he is determined to deliver German-style central banking and no politician or pressure group is going to deflect him from his goal of very low inflation. His determination is without qualification, unless qualification is measured by a gradual but consistent decline in the rate of growth of the money supply. Some would argue that going cold turkey by freezing money supply is the surer method.

Economists have a theory that links changes in output and employment growth not to inflation but to unexpectedly high or low inflation. Economic actors — firms, households, unions and government departments or enterprises — build inflation into their budgets. If inflation turns out as expected, nothing much changes in response to higher or lower inflation.

However, if inflation is higher than expected, because demand for goods and services is higher than expected (the result of money supply growing faster than expected), the firms and other decision-makers respond as if their budget-beating sales and prices and what are assumed, falsely, to be improved margins, were the result of their own superior efforts in marketing or production. In response, the firm expands production and employment. When, however, monetary policy is tougher than expected, and price increases and revenue growth that were planned for do not materialise, the firm reacts as if all this were its own fault and cuts output and employment. In this way, unexpected inflation has real effects.

The extraordinary feature of SA inflation since 1975 has not been its average, but its stability An unlikely coincidence of policy reactions and oil and food price and exchange rate shocks have kept inflation within a tight range of about 14%. As a result, inflationary expectations have become entrenched about this level and budgets are made accordingly

There is thus a theoretically respectable argument that monetary policy should have lived with these expectations. After all, it is unexpected inflation that has real effects; and everyone, including long-term borrowers and lenders, had had ample opportunity to build expected inflation into their contracts. Furthermore, breaking such well-entrenched beliefs about inflation would prove particularly costly, in output lost as a result of unexpectedly low inflation.

Stals will have absolutely none of this argument For him the only acceptable rate of inflation is no inflation. His intuition is not that of the modern economist but of the latter-day central bankers for whom inflation is public enemy number one. Stals is fighting inflation with all the weapons at his disposal: interest rates, exchange rates and even exchange control

Relieving such controls, which must be to the longer-term benefit of the economy, would interfere with the low inflation objective in the short run if it meant a weaker rand exchange rate and higher import prices The fate of the financial rand and the offshore market in SA securities, battered as it was recently by extra supplies of rands sold to pay for direct SA investments abroad, is, it would appear, of much less importance.

Whether Stals is right or wrong in his intuition. and whether his goal for inflation is too ambitious for a poor country already carrying a comparatively heavy burden of welfare and taxation, is irrelevant. The reality is that he is pursuing his anti-inflation goal with determination Which is why, like the Bundesbanker, he keeps up short-term interest rates because the fiscal deficit has widened appreciably in recent months as the weak economy erodes tax revenues

Many would regard the larger fiscal deficits as a welcome relief for the economy. Not Stals. Either the deficit comes down or interest rates stay up and the onus is put very much on the Treasury to limit the deficit One only hopes that Finance Minister Derek Keys will cut spending rather than raise taxes because it seems perfectly clear that raising tax rates at this stage is likely to produce less rather than more revenue

The economy will recover when businesses and unions take into account fully the determined onslaught against inflation. Businesses and unions would do well to plan their costs (including especially the salaries of senior management), prices and wage demands next year as if inflation would be no more than 5%. Assuming any more than that is bound to lead to costly disappointment for them and the economy

Economy is worse, but don't panic

W/Mail 13/11 – 19/11/92

By REG RUMNEY (49)

DRAMATIC figures showing the key indicator of economic activity in the country is worse than expected will knock business confidence and may lead to more pressure for interest rate cuts.

If the economy continues to crumble at this rate the already negative forecasts for the yearly decline in that indicator — gross domestic product, the total value of all goods and services produced in the country — will be revised further downwards from the -1 or -1,5 percent that has been talked about. Minus 2,5 or even -3 percent GDP is on the cards for the whole of 1992 if things continue as they were in the third quarter.

The focus on the 5,7 percent annualised fall in GDP also confirms that statistics should be handled with care. This is particularly so when quarterly statistics from the national accounts are being looked at.

Nedbank chief economist Edward Osborn stresses the -5,7 percent figure is annualised from a quarterly fall. "When there is a big change like this it should not be annualised."He says annualising a quarterly fall means the decline is assumed to continue over a full year. The percentage quarterly fall is multiplied to the power of four, leading to frightening figures.

The most worrying figure among those released by the Central Statistical Services is the 63,7 percent decline in agricultural production in the third quarter. This is the cause of the big overall GDP drop.

The actual quarter on quarter fall is around -23 percent. However, this is still grim. Osborn also notes that agriculture is difficult to measure on a quarterly basis, says Osborn.

The third quarter -23 percent fall comes from comparing the third quarter of this year with the third quarter of 1991 — the only quarter where GDP as a whole rose. This was because agriculture, as measured by the CSS, kicked in with a big increase, due to the timing of inflows of agricultural products to the marketing boards.

Thus a low third quarter agriculturally because of the drought is being compared to a relatively good quarter a year ago, exaggerating the fall.

'Biltong curtain' dries up economy

(49)

ARG 24/11/92

The Argus Correspondent

JOHANNESBURG. — The new chairman of the Rembrandt Group says the "biltong curtain" and political and labour instability are the main hindrances to South Africa's economic recovery.

Mr Johann Rupert told a conference this week that the previous administration was characterised by misjudgment, obstinacy and denial.

President De Klerk had succeeded in breaking down this "biltong curtain" — comprising misplaced investments, a securocrat mentality and dangerous economic policies — through bravery and wisdom.

But this was only the end of the beginning and it was vital now to transform South Africa into a safe, low-tax haven for foreign investment.

The ingredients vital for a sound economic base are:

- The establishment of the rule of law.
- A more accountable and transparent government.
- A free and robust Press.
- The government's recognition that the markets do a better job than does government.
- A new education policy.
- A correction of the housing backlog.
- The recognition by trade unions that their competition is not so much South African business as South American, East European and Southeast Asian companies.

BER ANNUAL CONFERENCE

GDP growth rate of 0,5% is forecast for next year

BIDAY 10/11/92. (49)

Reports by
LINDA ENSOR

SOMERSET WEST — A GDP growth rate of 0,5% could be expected next year after a real 1,5%-2% decline this year, Stellenbosch University Bureau for Economic Research director Ockie Stuart said at the congress yesterday.

But he warned that there were signs that the fourth quarter of this year would show a further deepening of the recession.

Domestic demand would continue to be weak next year and the private sector would have to look to overseas markets to sell their goods. Stuart forecast a 2% rise in exports this year and next year.

In real terms, consumer spending would fall 3% this year and rise 0,5% next year on the assumption of an increase in VAT to 15% in the March Budget.

Business and consumer confidence would remain at low levels until well into 1993, while low wage increases and retrenchments would constrain the increase in consumer spending.

The cost of credit would remain high and hire purchase would be fairly expensive.

Government expenditure was forecast to be 1,8% up in real terms this year and to be reduced by 0,5% next year while fixed investment was projected to fall 9% this year and 3% next year.

Gross domestic fixed expenditure was expected to decline 2% in real terms this year and to increase 0,5% next year.

Stuart said that while economic forecasters all over the world were scaling down their forecasts for world economic growth, there were signs that a recovery may occur next year and that this would cause SA exports to pick up.

However, the reduction in world inflation rates would depress the gold price in the short term and result in a depreciation of the rand in line with inflation differentials.

Stuart said political uncertainty would remain a fact of business life for the next three to five years during the period of transition and investment decisions would have to be taken with this in mind.

It would also take about three years of normal rainfall for the drought-stricken agricultural sector to normalise.

While inflation should drop to about 11,5% by the end of the year, an increase of VAT would counteract the downward trend and make further cuts in Bank rate after March next year unlikely.

Stuart predicted a cut in Bank rate before the end of 1992 and perhaps another in early 1993.

Economic pain 'inevitable'

LINDA ENSOR (49)

CAPE TOWN — The urgent need for an economic restructuring programme was highlighted last night by Econometrix chief economist Azar Jammine, who said any economic upswing would be unsustainable unless long-term impediments to higher growth were addressed. BDAY 13/11/92

Speaking at Boland Bank's annual economic presentation, Jammine said that some of this restructuring would involve short-term pain, and it was not clear whether the political environment would prove patient enough to accept the necessary long-term medicine.

Jammine recommended the removal of tariff protection to reduce costs and eliminate inefficient distortions.

Also, he said, foreign exchange controls should be removed to encourage new foreign investment and to eliminate the bottling up of investment funds in the hands of financial institutions.

Boland Bank economist Louis Fourie, in his projections for the SA economy next year, predicted an inflation rate of 13%, a year-end gold price of $375, an 8% depreciation of the rand against the dollar, an 0,5% real growth in GDP, a 1% rise in exports, a 1% decline in fixed investment and a surplus of about R500m.

Rebuilding SA 'is a burden that must be shared'

B/DAY 19/11/92 44

KATHRYN STRACHAN

IT WAS unreasonable to expect political leaders to shoulder the total load of placing SA on a successful course of reconstruction, Urban Foundation CE Sam van Coller said last night.

In his address to the Urban Foundation's AGM Van Coller said individuals and organisations outside the political arena had to share the responsibility for moving SA forward. There were many avenues through which organisations could complement the work of politicians and help create a society that was "shaking off its past".

"There is at present a very disturbing trend in SA — it is a belief that the future of our country lies almost totally in the hands of the political leaders. Our history has also generated high levels of dependency, a fact epitomised in the statement: 'Once there is a new government, I am going to get a house.'"

He said that if development continued to be seen as primarily that of physical provision by government, SA would fail.

Many organisations were involved already in development programmes, although the extent to which these were both strategic and effective in terms of the country's needs was difficult to assess, he said.

If there was to be a return to stability, Van Coller said, SA had to meet three challenges concurrently — that of becoming a democracy, of returning to economic growth and of achieving rapid socio-economic development.

"Yet there is a natural tendency for many leaders to see these challenges in sequence — to say that we need a political settlement to stop the violence, that this will generate business confidence and economic growth, and that these factors in turn generate funding for socio-economic development," he said.

But to achieve stability, these factors had to be accompanied by greater commitment to improving people's circumstances, which meant more effective use of resources.

In spite of the economic problems there were significant government, private sector and international resources available for development.

It was also possible to apply these resources effectively despite violence and conflict, but it was vital they were applied in terms of sound criteria and not used for social engineering or parochial interests.

In a keynote address at the AGM, Urban Foundation vice-chairman and Peninsula Technikon rector and Franklin Sonn said the movement towards national level negotiations on education had become bogged down in a mixture of hope and despair.

He said the high political valency of education meant discussions about a new system would have to wait for an interim government.

"An inclusive negotiation process which will involve all interest groups in the process of designing the reconstruction of our education system continues to elude us," said Sonn.

While the legitimacy of apartheid education had collapsed, the system remained. There was an urgent need for leaders to negotiate a new education structure because it lay at the heart of the challenge facing SA.

"Education will be the critical cornerstone in the reconstruction of our society, in arresting the social degeneration, in rebuilding the fabric of our society and in countering violence."

In reconstructing education, Sonn said there would have to be a greater focus on providing the skills most needed. Without a massive reorientation the education system would simply reproduce the cycle of unemployment and frustration, he said.

Companies urged to help workers

Private companies and the government were this week urged to intensify their efforts to educate adults if they were committed to lifting the country out of the economic recession.

Of the 15 million strong workforce, about nine million are illiterate. One out of every three women was also illitrate," according to Paulette Bethlehem of the Continuing Education Project (CEP).

CEP is presently helping companies to set up education programmes for their workers at all levels up to matric.

Bethlehem warned prospective candidates that there were many schemes on the market which promised good results but were inadequate. "We are very concerned about this since adult learners were subjected to courses which were not educationally sound," Bethlehem said. (50) (180) (129)

She said: "When adults are taught, they need courses which are adult orientated because they are experienced and responsible people.

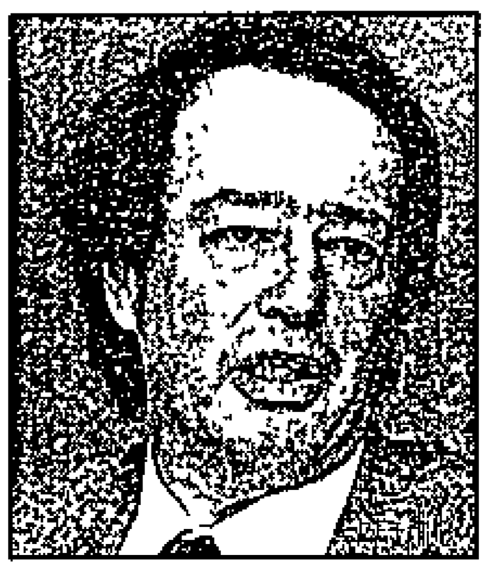
Now is the time to be involved in education because we have a downturn in the economy. This is our opportunity to improve the education level so that when we have an economic upswing, we would be ready to meet the challenges." (121)

Bethlehem also advised companies not to make use of the "car wash" theory of literacy. According to this theory, companies take a batch of illiterates, "put them through" a programme and they come out at the other end with their ignorance washed away. (49)

Learning Nation — New Nation 12/11/92

A capital idea

FM 6/11/92



Brian Kantor is professor of economics at the University of Cape Town

49

The percentage of gross domestic savings to GDP fell to a record low of 18% in the first half of 1992. Over the previous 30 years it had averaged about 24%. The main explanation for the declining savings rate is government dissaving. In earlier decades, government was an important source of gross savings, in that tax revenues exceeded government consumption spending. In 1991, government consumption spending exceeded tax revenues by R7bn. In the first half of 1992, government was dissaving at an annual rate of R9bn.

These are large amounts compared with total savings of R55,5bn in 1991 and what will probably be little more in 1992. Furthermore, as the Reserve Bank and Finance Minister Derek Keys have emphasised, government consumption spending has risen to 19% of GDP this and last year, compared with 11,5% in the Sixties, 13,5% in the Seventies and 16,5% in the Eighties

What is not taken into account is that government spending on education is defined as consumption. This has grown rapidly, absolutely and relative to other parts of the Budget. In the 1992 Budget, educational expenditures of R19bn were equivalent to 20% of all government spending. In 1972, the equivalent education percentage was about 7,3%.

This spending on education could be regarded as an important investment in the future. Gary Becker has just been awarded the Nobel Prize in economics, in part for his seminal work on human capital formation through education. The investment in human capital consists of the sacrifice of income, made by the student when studying, together with the fees and subsidies paid for education. The value of the human capital so created is the present value of the extra income earned over a working life.

The proper concern is not one of definition, but whether the commitment to education is making South Africans more productive and capable of earning more and so adding permanently to our stock of human capital. Until the weakness, of black education in particular, is addressed, much of the extra money spent on it will indeed have been consumed.

A serious concern about government spending on education is the return realised from the hugely increased resources being invested in it. This weakness has been a failure of government. More representative governments may be able to generate better returns from their spending on education. However, the way to secure good returns would be to design the educational system to be as similar as possible to a full fee-paying private educational system.

When private savings are invested, the incentive to ensure good returns is very strong. The same incentive does not operate nearly as well when government is doing the investment spending and raising taxes or borrowing to finance that spending. Government officials are simply spending other people's money, from which they, the officials, benefit.

The solution is for government to subsidise parents rather than schools Independent schools and universities would then compete for income-generating pupils and students. Moreover, government subsidies should be directed mainly at primary school pupils so that talent can be identified.

Those identified as having the ability to benefit from higher education have no claim to subsidies. The talented and, therefore, the most fortunate members of society should surely be expected to pay for their own education.

Government should help by acting as surety for the loans they would take out to cover fees and living expenses. It would help further by treating investment in education as it does all other investments and so allow financing charges to be deducted from taxable income. Depreciation allowances will not be required as the education will be of such quality as to maintain its value over time.

The way to avoid waste in education is to charge properly for it and minimise the role of government as a producer of educational services. A well-managed economy that, by definition, sustains incentives to save and invest in the physical stock of capital will be an economy in which talented people will enjoy appropriate rewards for the investment they and taxpayers make in their education.

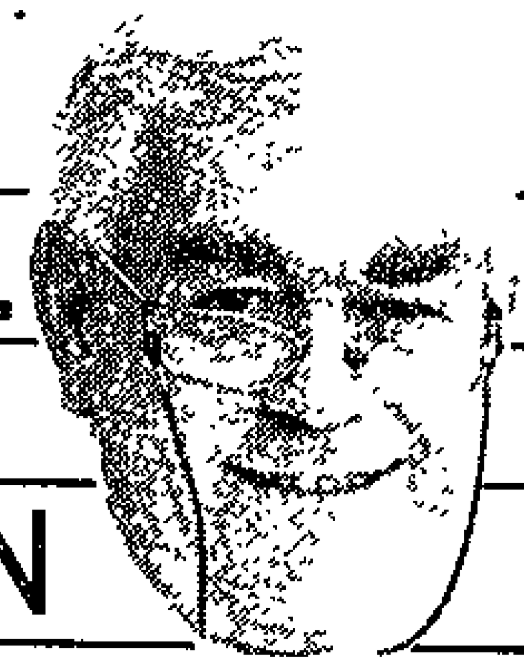
Clearly, the savings picture and the sense of government spending would be different if education spending were regarded as investment rather than consumption spending. If such adjustments are made, given government spending on education in the 1992 financial year of more than R19bn, current government dissaving of R9bn becomes savings of R10bn and the savings percentage rises to a respectable 24%-25% of GDP.

Hope and hopelessness

ST Times (Buss) 29/11/97 49

Foreign investors are becoming disillusioned by the reluctance of South Africans to invest in their own country.

JOHN CAVILL IN LONDON



EVEN the most economically illiterate is able by now to recite by heart the prerequisites for a revival of investment in the "new SA."

Acceptable political settlement equals confidence, equals investment, equals growth which in turn breeds jobs and enhances political peace. The virtuous circle is self-fulfilling.

The present situation is the opposite. John Taylor, analyst with James Capel, one of the few London broking houses to spend money on maintaining a fully fledged SA department through thick and thin, has returned from SA with a mixture of reasons for "hope and hopelessness".

Mr Taylor believes "a vicious circle is now in place. The longer a political settlement is delayed, the worse the economy will get and hence the more difficult it will be to reach a settlement."

He writes in Capel's Southern African monthly of the "mood of despondency among foreign investors" which has become manifest in the past few weeks; of potential interest drying up and of selling, "often at a considerable loss", by those who held SA securities.

Much the same point was made elsewhere: a room in the House of Lords where investment banker Martin Kingston of Morgan Grenfell spoke at a conference organised by West European parliamentarians.

Mr Kingston spoke plainly of the withdrawal of support by European banks and financial institutions which had put up funds for those first SA Government bond issues in the wake of the political changes.

The political confusion and deteriorating economy had "removed what interest there was in the early provision of capital to SA".

Both men, in slightly different ways, also said that it might be helpful if investment, like charity, was seen to begin at home.

MR Kingston said that the big foreign push by SA business unleashed by the country's international comeback — such as the Royal Food-Del Monte deal and First National Bank's acquisition of Ansbacher — was logical.

How far and how much longer the Reserve Bank would allow it to continue was uncertain.

In addition, said Mr Kingston, "to attract foreign capital into SA, the domestic financial community of both lenders and investors shall need to demonstrate confidence in their local environment rather than exporting resources, skills and capital".

Mr Taylor, too, has doubts about the Reserve Bank's attitude to external investment through the financial rand.

But, more specifically, the Capel review takes the SA investing institutions, holding 23% of their assets in cash, to task for their attitude to the two big capital-raising projects:

- The R6,5-billion Alusaf smelter which could add 1,5% to annual gross domestic product, $750-million to export earnings and generate a total of more than 30 000 jobs.
- The R2,6-billion Royal-Del Monte deal which will provide 50 000 to 60 000 jobs in five years.

Mr Taylor acknowledges there are reasoned arguments behind the caution of institutions which have been less than enthusiastic — putting up only half the expected R1-billion for Alusaf and 80% of that coming from Old Mutual and Sanlam alone.

"There are really two things that SA institutions had to consider when they were asked to subscribe to the Alusaf project," says Mr Taylor who headlines it "A symbol of hope".

"Firstly the quality of the project itself and second whether they wished to invest in the long-term future of SA. On both counts there are mixed feelings."

"Unfortunately these are not normal times in SA and we feel that they should have been a little more supportive," writes Mr Taylor.

HE warms to the theme more strongly in speculating about the amount the institutions will put up for Royal's big expansion.

"Will they think it their patriotic duty to subscribe as it will create jobs? Given their lack of ringing endorsement for Alusaf it seems that love of the motherland will not play all that large a part.

"As an aside, despite the terrible recession it is remarkable how much money the institutions are pumping into commercial property such as fancy shopping malls."

It is little short of an indictment of narrow actuarial focus on quick bottom-line returns at a time when long-term vision is the imperative and begs the question of why foreign investors should take a different view of SA's future.

THE WEEK AHEAD by Simon Willson

Bank's oracle held no spooks

BDay 23/11/92. (49)

ONE of the most compelling factors behind last week's cut in Bank rate reappears this week when the **October money supply** figures are released.

The single-digit annual rate of growth in M3, the broad measure of money, since the start of the third quarter was cited by the Reserve Bank as a sign of greater financial stability. Together with slowing consumer inflation and steady rates of increase at around 10% in producer prices and private sector credit extension, restrained money supply growth enabled the Bank to trim another percentage point off Bank rate to 14%.

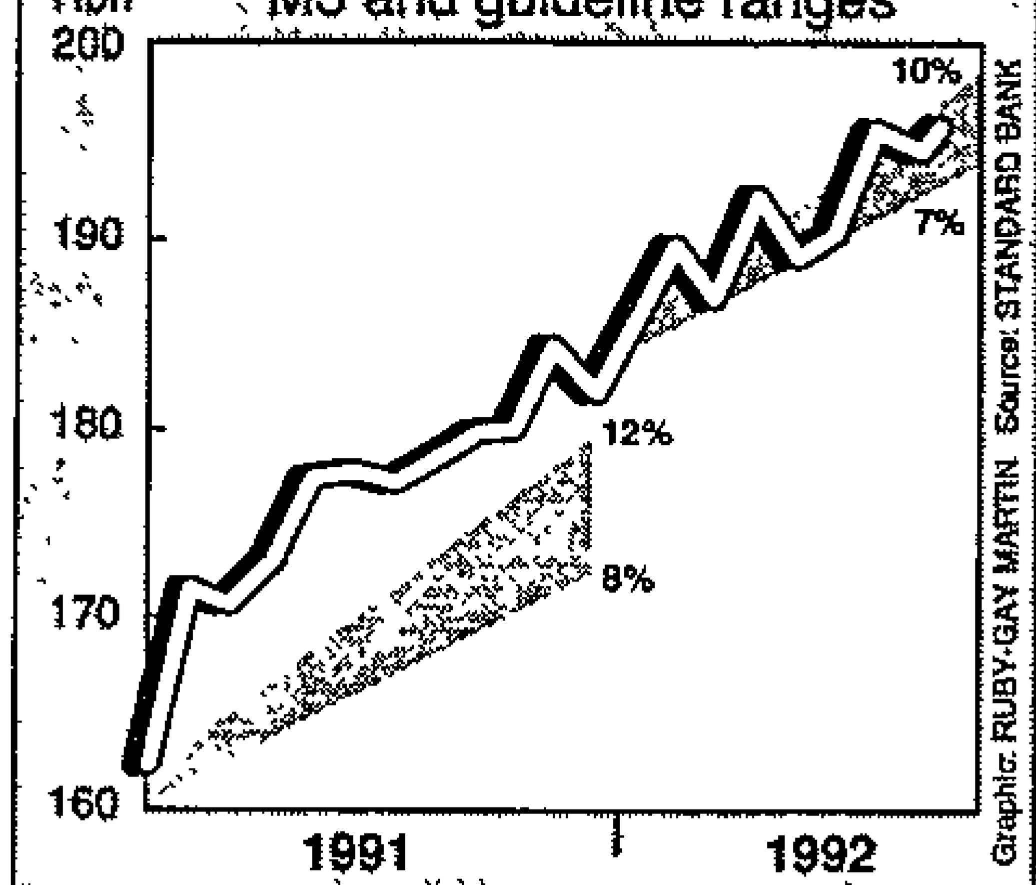
The Bank might have had advance notice of this week's October monetary aggregates, and cannot have seen any spooks in the readout. The sequence of sub-10% outturns for M3 growth in the 12 months to July, August and September has probably, therefore, extended into a fourth successive month.

The Bank statement accompanying the rediscount rate cut last week zeroed in on the 12-month rate of expansion in M3 rather than on the increase in the aggregate in relation to its guideline range. The 1992 range, at 7%-10% from a base at last year's fourth-quarter average, is the lowest and narrowest set by the Bank since it started monetary targeting six years ago. Since M3 comfortably overshot its 8%-12% guideline range throughout 1991, meeting this year's range at one time looked a stern task.

But, as the chart shows, M3 has been a model of restraint when stacked up against its challenging 1992 guideline range. That M3 has basically kept to its guideline range could also have been mentioned by the Bank as having allowed it to cut Bank rate again. The crumbling in economic activity in the third quarter has helped, but there has also been a cumulative reining in of monetary expansion which bodes well for the equally daunting quest that lies ahead — that of keeping inflation down next year.

Down the middle

M3 and guideline ranges



Graphic: RUBY-GAY MARTIN Source: STANDARD BANK

Internationally, much attention is likely to be focused on Wednesday's first revision to US **third-quarter GDP**.

The advance data showed a rise of 2,7% in output in the September quarter, which represented an appreciable acceleration of the 1,5% increase in GDP posted in the second quarter.

But there was suspicion that the outturn could be revised down as some of its features, such as the rebound in consumer spending to a rise of 3,4% from the previous quarter's -0,1%, looked out of line with the regular mo .hly data releases.

The November US **consumer confidence** index is published tomorrow, and should perk up from October's eight-month low of 53 now that the US presidential election is over. The correlation between confidence and the dollar could also bolster the index, as the dollar firmed after the election. US **October durable goods orders** are also out tomorrow, and could show a small positive readout since the September fall of 0,4% was mostly the result of weakness in volatile military orders.

Later today, the **UK trade and current account** figures for October are scheduled for release but the portents indicate a widening of both deficits, which came in at £1,1bn and £963m in September. Britain's principal export markets — particularly in Europe — look too sluggish to have reacted yet to the cheaper pound, while the lower interest rates in the UK since sterling quit the European exchange rate mechanism are almost bound to have boosted imports.

Another historic contraction in Japan's key money supply measure could be in prospect tomorrow, when the October level of **Japanese** M2 is published.

The aggregate shrank for the first time in September, when it fell 0,4%, and another dip will raise pressure on the Bank of Japan to cut discount rate.

An economist's wave of growth and decline

BDAY 3/11/92

(49)

MICHAEL PROWSE

The long wave is the least understood and most important (cycle) ... but it moves so slowly that the motion is imperceptible to the human eye. Yet like the glaciers, it can have the most devastating effect on the countryside — Prof John Sterman, Massachusetts Institute of Technology.

EVERYBODY seems to be talking about "long waves" — the 50-60 year economic cycles that Kondratieff, the Russian economist, first claimed to have identified in the '20s.

I was recently discussing the US outlook with economic consultant Charles Venus. He pointed to low interest rates and gave the usual textbook arguments for a solid US recovery over the next few years. But then he surprised me by raising a horrible doubt. Might not the US — indeed the entire global economy — be caught in a Kondratieff downwave? This is precisely what is happening, according to a paper presented to a recent Bank Credit Analyst conference in New York by John Sterman, a long wave theorist at MIT's Sloan School of Management. The economy is hard to understand, he believes, because four things are happening at once.

Over the longest time span, technical change and population growth result in steady economic growth — about 3,5% a year since 1800 in the US. Long waves represent slow, powerful fluctuations about this trend, lasting about 50-60 years. Superimposed on each long wave are numerous short-term business cycles, lasting on average about five years. Finally, there is "random noise", reflected in arbitrary variations in the growth rate from quarter to quarter.

Most academics refuse to believe in long waves. Joseph Schumpeter, the Austrian analyst of capitalism, was an exception. In his book Business Cycles (1939), he identified three long cycles, the first beginning with the birth of modern capitalism in the 1780s, the second in the 1840s, and the third at the end of the 19th century. Lengthy economic downturns — including the Great Depression of the early '30s — occurred roughly on cue in the second "downswing" phase of each cycle. In the '40s, Schumpeter was one of only a handful of economists to predict strong global growth after the Second World War, partly because he believed the powerful expansion phase of the fourth Kondratieff cycle would then be under way.

But what could cause cycles of such long duration? The long-term dynamics of capital goods industries and the tendency for innovations to occur in clusters provide a possible answer. The start of an upswing is characterised by pent-up consumer demand and a wave of investment in new technologies. Motorcars, washing machines and televisions helped power the post-Second World War expansion, just as railways provided a boost in the mid-19th century.

But the supply of new products first requires investment in capital goods industries, a process that can feed on itself for several decades. At some point, however, capital goods production exceeds demand, precipitating cuts which eventually trigger the contraction phase of the cycle. In long waves, assets — such as plant, equipment and real estate — thus play an analogous role to inventories in short-term business cycles.

There is another plausible reason for long waves: after 50-60 years those whose mistaken expectations shaped one cycle will be dead or very old and thus unable to influence their successors. Put another way, you are unlikely to repeat the mistakes of your parents, but you may easily fall into the same traps as your grandparents. The speculative excesses of the '80s, for example, could not have occurred in the '50s because too many people then remembered the '20s. In the '50s in the US it was difficult to borrow against the security of a house, because real estate was still seen as a highly illiquid asset of uncertain value.

If long waves exist, where are we now? According to Sterman, the current long cycle peaked in the early '70s when excess demand began to emerge in heavy capital goods industries such as steel. We have been in the downswing phase ever since; this is why growth has tended to be below the long-term average of 3,5% and why short-term recessions have been more severe than in the immediate post-war decades. A long wave's final phase is characterised by a trough in which the economy moves sideways in preparation for a new upswing.

If the trough began with the 1990-91 recession, might an expansion soon begin? It is possible, but not probable. None of the relevant leading indicators — such as the rate of capacity utilisation in capital goods industries — point to an early upturn. Most economies still seem burdened by the excesses of the last cycle. There is not yet a sense either of pent-up demand from consumers or of an imminent wave of investment in new technologies. But long wave theory suggests most of the downswing is behind us. By the late '90s, the mostly myopic economics profession may be amazed by the strength of the global recovery. — Financial Times.

LETTERS

Bank optimistic on interest rates

BDAY 24/11/92.

(49)

HILARY GUSH

EXPECTATIONS of below-12% inflation for the rest of the year gives hope for a further easing of interest rates this year and in 1993, says the latest Nedbank Economic Profile.

However, the bank report cautions: "SA is rapidly approaching a situation of balance of payments considerations taking precedence over inflation in maintaining a restrictive policy, as the political log-jam continues ahead of the expiry of the debt standstill agreement in 1993."

In the light of low levels of foreign exchange reserves in the late '80s and the "abnormal" foreign debt repayments falling due in the following years, the report says, the primary objective of restrictive monetary policy — introduced in the second half of 1988 — was to maintain surpluses on the current account of the balance of payments.

As political perceptions of SA started to improve and pressure on the balance of payments to ease from the beginning of 1990, fighting structurally rooted inflation took precendence over the protection of the balance of payments.

Although inflation has eased considerably in the past few months, the report says political stability and balance of payments considerations may prevent a further relaxation of monetary policy in the short term.

"The foreign exchange reserves position is still far from comfortable and could well come under pressure in the months ahead due to higher food imports and weak commodity prices suppressing export growth."

As a result, the monetary authorities could face a dilemma of whether or not to relax monetary policy.

"Without significant progress on the political front, monetary authorities will be compelled to maintain their restrictive policy, notwithstanding an average lower inflation rate in 1993."

The report says if the trend of declining GDP continues into the fourth quarter — it fell by an annualised 5,7% in the third quarter — a real shrinkage of at least 2,5% for 1992 could not be ruled out.

"In this context the recent widespread rains provide hope of some alleviation of the economic ills being experienced by the country."

BUSINESS

'Don't blame sanctions for the economic mess'

W/Mail 6/11-12/11/92. (49)

South Africa's economic woes started way back in the supposedly successful Sixties, argues a new book on the Old Mutual-Nedcor Scenarios.

REG RUMNEY *reports*

THE swamp in which the South African economy now finds itself mired owes little to sanctions, and almost everything to an inward-orientated policy pursued for decades.

That sanctions alone have brought the economy to its present sorry state is one among a few common economic misconceptions dismissed in the book version of the Old Mutual-Nedcor scenario exercise.

Ascertaining why the economy has performed so dismally is essential to putting it right.

The South African economy has performed poorly since 1975, and been in decline since 1981. But the book suggests that even the 1960s, which white South Africans regard as a golden age of strong investment and growth, with rising incomes and low inflation, were not as good as they seemed. The world economy as a whole saw low inflation and rapid growth then.

South Africa's performance in the 1960s matched the lowest-performing group of countries identified by a World Bank study of middle-income developing countries, of which South Africa is one.

From 1963 to 1973 South Africa's growth in per capita incomes was slightly over two percent a year, only marginally better than the average for the lowest-performing group of countries identified by the World Bank.

Sanctions are a partial explanation for South Africa's poor economic performance since 1985, says the book. Also, all the blame cannot be laid at the door of a declining gold price: economic stagnation began while the gold price was rising, and continued as gold hit its peak.

Rich resources do not a prosperous nation make: rather the opposite, as an appendix to the main part of the book explains. Almost none of the resource-rich economies such as Mexico, Nigeria, Norway or Venezuela have performed as well as the resource-poor Asian countries.

The reason for South Africa's economic decline was the failure to depart soon enough from its inward-looking, import-substituting industrial strategy. While commodities such as gold were booming, import substitution was a motor for investment in local manufacture. But the inward-looking strategy had run into a dead end by 1975. Also, South Africa followed strongly consumer-orientated policies directed towards whites, such as subsidies on imports through an overvalued exchange rate.

The rate of savings, says the book, plummeted after 1985 and all but vanished after 1990.

In the 1980-83 gold price peak protection on manufactured goods was wiped out: the rising value of the rand cancelled out the 20 percent protection.

However, protection against imports was raised from a traditional level of around 20 percent to about 40 percent in the 1980s.

Protection in home markets for manufacturers did not help exports. Between 1960 and 1990 South African manufactured exports have grown by a little more than two percent a year, while world growth in manufacturing was more like six percent.

South African spending on research and development illustrates our failure to grasp opportunities. Our apple growers, it says, spend four times more on R&D than leading South African manufacturers. One leading South African manufacturing conglomerate spent 0,12 percent of turnover on R&D, only five percent of the average in the United States.

"The issue of spending on R&D was hardly one of affordability. It was a matter of choosing to utilise technologies developed elsewhere, paying licence fees and, in many cases accepting — as a condition of the licence — that there would be no exports involving that technology. This amounted to a corporate strategy that sacrificed export capabilities for the sake of earnings. The effect was to restrain South Africa's exports and thus its potential growth."

South African firms's investment declined, not because firms were unprofitable in the years of stagnation in the 1970s and 1980s, but because of a lack of perceived opportunity.

South Africa's low investment performance was outdone by its manufacturing productivity. During the 1980s productivity grew at a rate of about 0,5 percent, much lower than that achieved by such well-known laggards as the US and the UK. At the same time inflation pushed up nominal wages, so that unit labour costs rose dramatically.

"The two issues were connected. Low productivity growth was one of the driving forces perpetuating inflation. The lack of exports was a major contributor to that poor productivity growth."

In short, the OM-Nedcor book concludes that the inward-looking strategy resulted in:

- Stagnation of our manufacturing output.
- Declining investment in our manufacturing sector.
- Low productivity growth in manufacturing, which, in turn, together with increases in nominal wage rates, resulted in "cost-push" inflation.

The book's point is that South Africa can expect continuing poor economic performance until there is a radical change in economic policy and strategy.

● ***South Africa: Prospects for Successful Transition*, edited by Bob Tucker and Bruce R Scott. Published by Juta & Co.**

Activist has key role in development

49

AND 28/11/92

PORT ELIZABETH. — Anti-apartheid activist Valence Watson has been appointed co-ordinator of the Eastern Cape Economic Development Forum.

Midland Chamber of Industries executive director Brian Wasmuth said no date was set for the formal launch of the forum.

The forum aimed to promote the growth of local industry, commerce and agriculture; Stability, fairness and justice in the workplace; The full development of the human resources of the region; and working with local communities to create a better quality of life for all. — Sapa.

Economist: rate cut seems likely

BIDAY 3/11/92 (49)

LINDA ENSOR

CAPE TOWN — A high probability of a 1% cut in Bank rate in the next few weeks — perhaps ahead of the publication of the October CPI figure, which is almost certain to fall below 13% — is predicted by Board of Executors' senior portfolio manager Rob Lee in the November issue of Investment Outlook.

"Unfortunately the level of business and consumer confidence is so low, and incomes under such pressure, that lower interest rates will, in the short term, help to alleviate distress rather than promote rising economic activity," he said.

He warned that the Christmas season was going to be bleak from an economic and business point of view.

October CPI figures, to be released towards the end of November, would show a sharp decline as the impact of the introduction of VAT fell out of the calculation.

Lee believed market speculation of a two percentage point drop in Bank rate appeared wide of the mark, but he said a further cut, perhaps in the last quarter of 1992, could be expected as inflation fell below 12%.

Improved inflation figures and lower short-term interest rates over the next few months should prove beneficial to medium- and long-term bonds, and capital market rates could decline further. But Lee said the decline would be limited because of the alarming deterioration in SA's fiscal position, which could result in an upward pressure on rates.

He warned of the rising risk of investing in long-term bonds.

In addition to spending cuts, a significant increase in the basic rate of VAT to 13%, or even 15%, would probably be required in the next Budget to finance the mounting deficit. Also a further increase in the petrol price and petrol tax was likely.

Lee said there had been a significant deterioration in domestic economic conditions over recent months. However, a small positive growth rate was achievable in 1993 provided there wasan end to the drought, a stabilisation of the inventory cycle and some moderate export growth later in the year.

But without the installation of an interim government, constitutional agreement and the implementation of an economic structural adjustment programme, the economy would operate far below its potential.

Growth forecasts for the international economy continued to be revised downwards and sluggish conditions were forecast for several more months, though a modest recovery in 1993 was possible.

Earnings and dividend growth prospects in SA were worsening and the JSE with its historically high ratings and low yields remained vulnerable with significant medium-term downside. A sharp fall in US equity prices because of structural problems in the US economy was another potential negative for the SA market.

The significant relative strength shown by property trusts against equities since June should last for some time, he said.

TO WORK

(49)

FM 20/11/92

The first meetings of the two working committees of the National Economic Forum will take place next week. They follow the November 10 meeting of the forum's process committee, which determines the newly launched organisation's broad policy direction.

The working committees of the NEF — which represents an alliance of business, union and government — are concerned with long- and short-term policies. Job creation, among other issues, will be on the agenda of the short-term committee, while the second committee will look at "the whole ambit of macro and long-term development policy," according to a spokesman for the forum.

There will also be a broad discussion on the 1993/1994 budget involving both groups.

Upturn in economy not forecast

(49)

SIPA-1

3/11/92

GERALD REILLY

PRETORIA — An economic upturn in the foreseeable future is unlikely, say Human Sciences Research Council (HSRC) economists.

The warning yesterday followed a fall in the HSRC's consumer confidence index from 23 in April to 16 in July, its lowest level of the past year.

Consumer confidence had a direct bearing on the performance of the economy, the economists said. Indices had shown previous performance forecasts to be accurate.

The consumer survey, said an HSRC statement, was made soon after the Boipatong massacre, which sent consumers optimism into a tail spin.

Sapa reports the economists said it was likely that the index measured an element of over-reaction to the event.

Almost 60% of respondents believed the economy had worsened in the previous six months, while only 15% believed conditions would improve in the next six months.

Eighty percent said their incomes were lagging behind inflation.

It was found black consumers were the most confident about the economic future, while Asians showed least confidence.

The HSRC consumer confidence index was based on responses from 2 000 people in all population groups. This index can range from zero, representing total consumer pessimism, to 100 (total consumer optimism).

Deficit 'may hit upturn'

B/DAY 2/11/92

(49)

SHARON WOOD

AN IMPENDING economic upturn could be reversed by the soaring state deficit, Absa says in its latest Economic Monitor.

Government expenditure soared during the first five months of the present fiscal year, causing the state deficit to climb by 60%.

Absa says it is vital the deficit is drastically reduced, because if the deficit before borrowing continues its rise a budget deficit of 7,5% of expected GDP can be expected for the year.

However, it points out that there appear to be extenuating circumstances for the deficit, which may be non-recurring and may limit the extent of the deficit in the 1993/94 fiscal year.

Government is expected to have little difficulty in financing the deficit from the capital market because of depressed domestic business conditions, it says. "However, corrective action is needed urgently to ward off future problems when the economy eventually picks up."

Absa projects a 1,5% decline in GDP this year and says despite an intensification of the recession in the third quarter of this year, there are signs of an upturn in the business cycle.

The expected moderate improvement in the domestic economy next year is based on expectations of improved rainfall, moderately improved international trade, moderate restocking, lower interest rates and a continuing decline in the inflation rate.

'Global economics will determine growth in SA'

BDAY 23/11/92. (49)

HILARY GUSH

GLOBAL economic developments will be instrumental in determining whether a return to economic growth in SA occurs next year or if it is postponed until 1994.

In its latest Economic Review, the Standard Bank says that while the short-term outlook for international economic recovery is gloomy, prospects for a turnaround in the medium term are "encouraging".

"Given expected ongoing sluggishness within the international environment, the potential for export-led domestic recovery in SA is, at best, slim. However, in an international environment where there undoubtedly is pent-up demand, and where inventory levels are low, eventual global recovery should, in time, translate into increased demand for SA exports."

Return to near-normal agricultural production and greater political stability will facilitate a return to economic growth — last seen in 1988.

Although there had been pockets of economic resilience in the depressed global economy, none of the world's major industrial economies can assume a "locomotive role", it says.

The high level of global indebtedness accumulated in the boom years of the late 1980s was the main source of current economic weakness. By its very nature the reduction of this debt is a long-term development, but even more so in an environment of slow growth.

"The world economy thus finds itself in completely uncharted waters — never before has there been an orderly working-off of outstanding debt in a slow growth/low inflation environment."

The report says there is widespread concern about the sustainability of a world economic growth rate high enough to allow for the paying of excess public and private debt and a simultaneous reduction of unemployment and sufficient profit generation to finance new investment.

While acknowledging that the structure of current economic crises renders it improbable that global economic recovery will be swift or dramatic, the report says that as international interest rates have recently declined, the cost of servicing debt has dropped considerably.

"Total indebtedness has thus begun to fall and, as the cost of amortisation payments becomes more manageable, consumer confidence will gradually return and global economic momentum will begin to build.

"Low global inflation and ongoing structural adjustment in a number of developing countries combine with recent monetary stimuli to suggest that resumed global economic growth will be soundly based, albeit less dramatic than that recorded in the 1980s."

'Politics delaying economic recovery'

BDAY 23/11/92 (49)

GERALD REILLY

PRETORIA — Political leaders who ignored economic realities in the pursuit of power were a major obstacle to economic recovery, the Northern Transvaal Chamber of Industries said.

In its latest Economic Focus, the chamber said that with the growth in GPD down to -1,6% in the first nine months of the year, a growth rate of at best -2% for the year was a foregone conclusion.

However, the chamber said, there were positive factors which could change the direction of the economy. These included the expected continued decline in inflation, the prosepect of a more normal agricultural season, a build-up of inventories from current low levels and prospects for a moderate improvement in global economies.

The latest decrease in the Bank rate — down 1% to 15% and the third since March this year — would help restore business confidence and alleviate cash flow problems.

As matters now stood and were expected to develop there was hope the economic downswing would slow, with the prospect of a recovery towards the middle of next year.

The chamber said there were no quick fixes or short cuts. However, it stressed economic growth would remain out of reach unless a stable and peaceful environment was restored.

Why does a profit motive sound so repellent?

BDay 23/11/92 (49)

LOREN BRAITHWAITE and BERTRAM LEE in New York

ONE OF the highlights of this month's highly successful National Conference in Support of the ANC and Other Democratic Forces for a New SA was the widely attended workshop focusing on investment policies and economic development in a future SA.

Representatives from the US state department, large US corporations including Ford, Apple and Honeywell, investment banks and minority businesses, among others, listened as ANC international affairs head Thabo Mbeki, economic planning department head Trevor Manuel and a delegation of white and black SA business leaders discussed topics including investment opportunities, corporate responsibility and developing ties with the African American business community.

It must be indicative of the ANC's success in examining the issues in a sound and prudent manner that Simon Barber could find nothing to attack except the fact that the ANC's "allies" in the US were lining up to do business once an interim government was in place.

In "ANC's American allies queue up to sponge off new SA" (Business Day, November 17), Barber made it seem as though US "parasites" were lining up to sate themselves on the spoils of a democratic SA. In the past, Barber and others at Business Day have opposed economic sanctions. It is difficult to understand why, when international businesses are contemplating re-entering SA, the idea that they might have a profit motive seems so repellent to Barber.

Is he in fact proposing that economic sanctions be continued to keep out profit-seeking foreigners? Or is it only the business initiatives of some Americans in SA that rankles him?

The "effrontery on a cosmic scale" of African American business people to suggest that they too will participate in developing economic ties between the US and a democratic SA seems to shock him. He calls attention to the formation of the South African-American Business Council (SAABC), one of whose purposes is to "foster a closer working relationship in the areas of business and economic development between the dispossessed South Africans and African Americans". Why does Barber seem to see something ominous in close ties developing between black business in SA and the US?

He characterises another purpose of the SAABC — to "assure that appropriate affirmative action guidelines are adhered to and respected" — as a "shakedown licence".

The programme of action developed at the conference does promote the affirmative inclusion of US black businesses and products in our own US government-funded programmes and it does promote certain standards of conduct by US businesses in SA. The conference was held in the US where it is hardly revolutionary to tie public spending to social objectives and to expect that US corporations abroad behave no less responsibly than at home. Indeed, most Americans would find it reprehensible that US corporations would treat foreign citizens less fairly and equitably than they do Americans. Why does Barber think it inappropriate for US citizens and taxpayers to support democratic development in SA?

At the conference, reports were given of the Polish-American Enterprise Fund, a private corporation established at the initiative of President Bush and the US Congress to encourage Polish private sector development. Thus far, the fund has been authorised to receive \$245m in capital from the US government and has, since its inception, committed more than \$180m to Polish private sector development. A similar fund has been authorised for Hungary.

Barber even detracts from copying this model to create a similar fund for SA stating that, in contrast, the Polish and Hungarian funds were established "after the countries had governments committed to free-market reform". In other words, Barber suggests that the US commit money for private enterprise in SA only under certain economic conditions. This smacks of a call for international intervention in shaping the SA economy.

Yes, as Barber noted, former US congressman Walter Fauntroy, when discussing the SA fund, spoke of the historic use of "other people's money" for development. But why does this translate in Barber's language to unsound management? The Polish and Hungarian funds use "other people's money", as do the World Bank, the IMF and many other institution of which we assume Barber approves.

As the period of sanctions is coming to an end, the central focus of the workshops was to attract new capital, US technology and training to assist in the transition from apartheid to democracy. Barber's article derides this effort which should be applauded by all South Africans. He seems more intent on settling old scores than looking to the future; this is surely not what will attract sorely needed investment and resources to build a new SA.

It seems as though Barber's prescription for a new SA is based on continued white domination; isolation from foreign investment and acceptance of international development assistance only under economic conditions dictated by donor countries. If so, it will be a sorry day when it comes. It is unfortunate that Barber is giving Business Day a bad name.

☐ **The authors were co-ordinators of the conference.**

BOOKS

Agricultural activity falls 63,7%

Drastic drop in farm output batters GDP

BDay 12/11/92

(49)

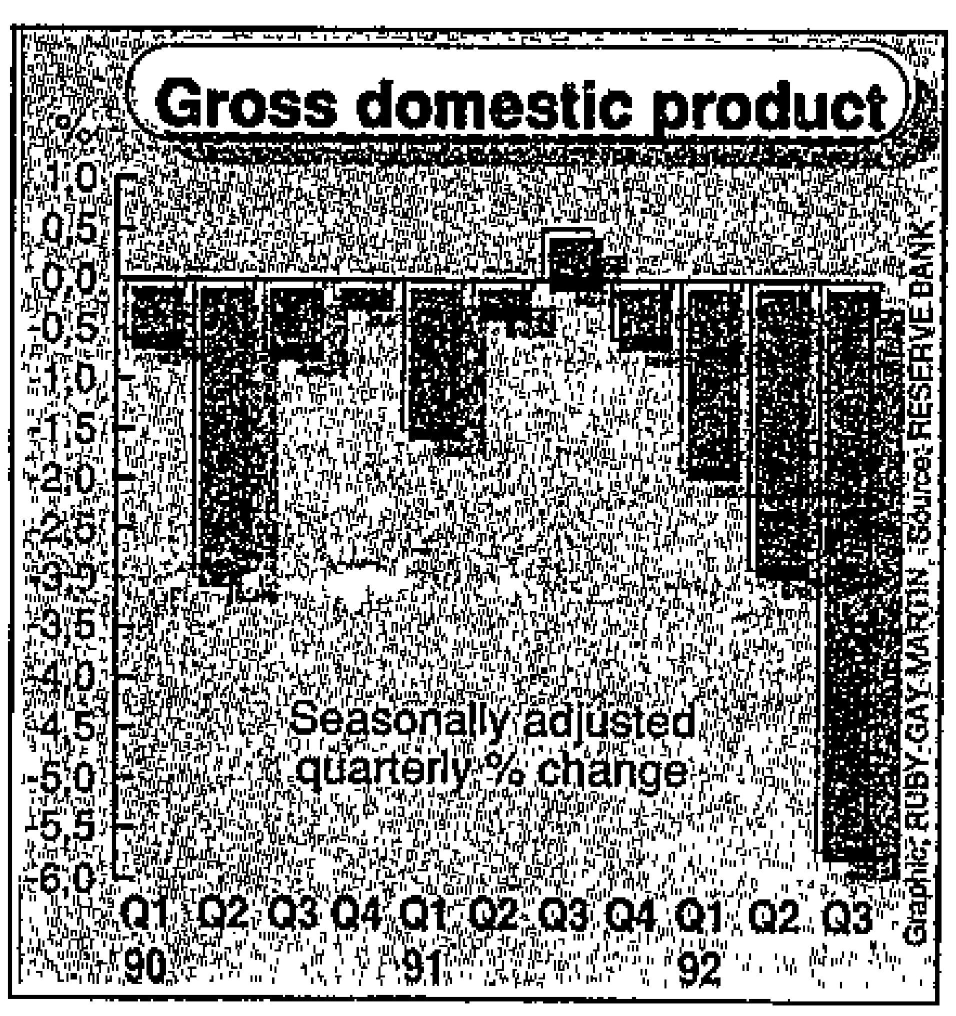
HILARY GUSH

A DRASTIC fall in agricultural production pushed real annualised GDP down 5,7% in the three months to September, the largest quarterly drop in national output in eight years.

Official figures released yesterday by the Central Statistical Service (CSS) showed the contraction in output in the September quarter was the sharpest since the 6% slump posted in the third quarter of 1984.

In the first three months of the year, GDP had fallen 2%, while the change in GDP in the second quarter was revised from -2,6% to -2,9%.

Agriculture was responsible for most of the quarterly deterioration in the economy. Real activity in the agricultural sector tumbled by a massive 63,7% in the quarter, after sliding 19,7% and 31,8% in the first two quarters of the year.



Economists said while prolonged drought was the main culprit of sinking economic activity, production levels in the non-agricultural sector had declined at an accelerated rate — pointing to widespread economic ills.

The 1,2% slump in non-agricultural activity in the three months to September was almost double the decline posted for that sector in the first two quarters. Economists said this reflected the "depth and severity" of the recession.

Mining swung from four quarters of positive GDP contribution to a 1,4% decline in output in the third quarter.

Some encouragement could be drawn from the slowing of the manufacturing sector's decreasing contribution to GDP. After falling 2,5% and 1,8% in the first two quarters, the decline in manufacturing output eased to 1,6%.

Absa senior economist Christo Luus warned that if the trend of contracting activity continued in the fourth quarter, the economy was heading for a 2,5%-3% shrinkage in overall GDP for the year.

He labelled the fall in agricultural production "shocking", but said the annualised slide in quarterly GDP showed that the recession had deepened over almost the entire spectrum of economic activity.

Nedcor chief economist Edward Osborn rejected the figures as a "total statistical freak". With such a sharp downward movement in GDP, as reported in the official release, Osborn said it was incumbent on

☐ To Page 2

GDP

BDay 12/11/92. (49)

☐ From Page 1

the CSS to provide an explanation.

Although the figures had been seasonally adjusted, Osborn said he was not aware of a "vast fall" in agricultural output in the third quarter.

At worst, he had expected a continuation of the gradual slide in economic activity experienced in the first two quarters. "But more than likely, there would have been a degree of flattening out of activity in the third quarter."

Econometrix senior economist Michiel Bester said the figure was not "unreasonable" considering the disruption of production lines due to third-quarter stayaways.

The drought, however, had had an overriding impact and agriculture alone had knocked GDP back by an annualised 3,7%, he said.

Budget deficit cut 'unlikely'

BDay 6/11/92

GRETA STEYN 49

GOVERNMENT was unlikely to achieve a significant cut in the budget deficit in the next fiscal year, Senekal Mouton & Kitshoff economist Louis Geldenhuys said yesterday.

The weak economy, the political impasse and changing society, and major belt-tightening were factors Geldenhuys saw as forcing another year of unacceptably high deficit.

The capital market seemed to have shrugged off the deepening fiscal crisis for most of this year, he said.

He described achievement of a deficit of 3% of GDP as "out of the question". To reach this level, spending would have to be cut by a massive 8% in real terms, while taxes would have to increase by more than 10%. This was just not feasible, Geldenhuys said. A deficit of 3% of GDP is stated government policy and an international benchmark figure.

Graphic RUBY-GAY MARTIN Source: SMK

Describing the fiscal situation as potentially more disastrous for the SA economy than the Rubicon speech, Geldenhuys argued that a deficit of 5% of GDP would also be unrealistic. This level of deficit could be achieved by real cuts in expenditure and tax increases of almost 6%, with no relief for fiscal drag. Given political demands and the weak economy, such sweeping cuts in government spending, combined with a heavier tax burden, did not appear to be feasible, he said.

The most feasible option, he argued, was a "stabilisation and consolidation" policy which would see spending cut by 3% in real terms and no further increase in the tax burden apart from fiscal drag. This scenario did not necessarily rule out the possibility of an increase in the VAT rate, as the key element was to keep the overall tax burden unchanged while trade-offs between different taxes remained possible.

The deficit in the next fiscal year could be 6,5% of GDP, he said.

Government spending falls again

(49) CT 26/11/92

From SIMON WILLSON

GOVERNMENT spending adjusted for inflation was continuing to decline and fell 3% in the third quarter, Reserve Bank Governor Chris Stals said yesterday.

While cautioning against drawing conclusions too soon from the trend in a single calendar quarter, economists said the decline was another indication that overall inflationary pressures in the economy were abating.

Speaking at the Sanlam Financial Reporter of the Year Award presentation in Johannesburg, Stals cited the dip in real government spending as further evidence of the deepening of the recession.

"At this stage production is declining in all major sectors of the economy and all the main components of gross domestic expenditure are contracting. Even government expenditure declined in real terms in the third quarter.

"As a very pessimistic businessman said the other day: 'Even those who don't pay aren't buying any more'," Stals said.

The further confirmation that expenditure by general government is falling in real terms verifies hints dropped in the Reserve Bank's September quarterly bulletin that the pace of state spending was beginning to slow appreciably.

The bulletin said exchequer issues — that is, budgeted disbursements — were rising at an annual rate of 14,5% in the four months to July.

Although this rate of increase in issues exceeded the increase in government revenue over the same period, the bulletin conceded that it was nevertheless "fairly low" compared with corresponding increases in previous years and well within the increase budgeted for fiscal 1992/93.

The Bank's December bulletin, to be published in the next few days, is expected to show an annualised third quarter decline of 3% in real government consumption expenditure. But Stals said the decline was unlikely to be repeated in the fourth quarter, when a higher level of government spending was likely.

AHI chief economist Nick Barnardt said the drop in real government expenditure confirmed that the rate of increase in state spending was no longer an inflationary factor.

"The size of the fiscal deficit is still a major problem, but the rate of increase in government spending is now below the average over the past 10 years," Barnardt said.

The contribution of the curb in state spending to overall disinflation would emerge in the AHI's quarterly inflation barometer to be published today.

Absa senior economist Pierre Morgenrood said most of the impetus in the third quarter state spending slowdown would have been supplied by the non-exchequer component of general government spending. "Exchequer spending will still be rising in real terms but we are probably seeing evidence of cutbacks in expenditure by the local authorities, who are reducing capital spending to very low levels.

"This could be a sign that the ratio of government spending to GDP could be levelling out, which is comforting."

PAC rules out state company control

(49)

CT 23/11/92

GABORONE. — The PAC has ruled out nationalisation of existing corporations but recommended "anti-trust legislation" as part of its economic redistribution programme.

A statement at the close of the three-day economic seminar recommended the redistribution of equity-ownership, introduction of anti-trust legislation and a redistribution of power and control to potential black managers.

On land, the meeting called for a redistribution of excess land owned by white farmers, to the landless, saying buying land was politically unacceptable.

"Affected farmers ... would be compensated on their determinable investment in the excess land."

The meeting proposed that a Land Restoration and Redistribution Fund should be set up to compensate farmers on cash or Government bonds.

The seminar agreed that the country's tax policy should be developed within the context of the fiscal system and socio-economic development strategy.

The seminar recommended a land tax, property tax, capital transfer tax and capital gains tax among measures for the redistribution of wealth. — Sapa

ANC won't nationalise properties — Mandela

PORT ALFRED. — South Africans need not fear that their properties would be nationalised under an African National Congress government, according to ANC president Nelson Mandela.

Mandela, speaking at a political gathering in Port Alfred, eastern Cape, on Saturday night, said the ANC had a flexible attitude towards nationalisation.

Whites did not have to be concerned about the possibility of an ANC government as the organisation was democratic and had the interests of all population groups at heart, he said. — Sapa

CT 23/11/92

Budget deficit will rise to 8% of GDP, says Keys

BDAY 13/11/92 (49)

SHARON WOOD

TRADE and Industry and Finance Minister Derek Keys said yesterday the Budget deficit would be 8% of GDP this year — higher than the previous official estimate of 7%.

Speaking at a Rotary Club event where he received a special award for achievement, Keys expressed serious concerns about the high level of current government expenditure draining SA's resources.

He said only R6bn of the R28bn deficit would be capital expenditure.

The remainder, R22bn of current expenditure, was a drain on the savings capacity of the economy and would only keep services running as they were today.

"Investment is down to a level at which capital stock is only being replaced and not augmented."

He said there were only two sources of growth in the economy — gains in productivity and investment in additional productive capacity.

SA's resources had been sapped by government expenditure, and official and unofficial capital outflows. "This problem has to be tackled otherwise SA will remain a stagnant economy with exploding needs."

Keys said it was imperative to recognise the situation and start taking steps to raise the investment level by encouraging, and not discouraging, investment.

He issued a challenge to the private sector to find an investment direction in which resources could be applied.

"We need capable, enthusiastic and shrewd entrepreneurs because government cannot do it," he said.

He said government would continue to invest in public services but this did not yield high returns.

Sanlam joins economic scenario bandwagon

(49)

B|DAY 25/11/92.

GRETA STEYN

SANLAM has climbed on to the economic scenario bandwagon by financing stockbrokers Frankel, Max Pollak, Vinderine; the Human Sciences Research Council; and Ernst & Young to come up with ideas for SA's economic future.

The scenarios will be released to the media at the weekend but they have already been presented to some of the major players in the economy, including government and the ANC. The main focus of the new exercise is understood to be on more productive use of capital resources.

It follows a plethora of similar exercises and comes just before the release of government's future plans on the economy.

In the presentation, emphasis was placed on the need to avoid prescribed asset requirements. The scenario planners, led by Frankel's economist Mike Brown, emphasised that the market would find ways to channel savings into development. Government would have to create conditions conducive to creating new investment vehicles for development financing.

A source described the exercise as an effort by major players in the financial markets to acknowledge SA's development needs and the markets' role in addressing them. The emphasis was on the informal sector and small business development.

Although less emphasis was placed on infrastructural development in the Frankel/Sanlam scenario than in the Old Mutual/Nedcor exercise, it was acknowledged that this was a necessary element of a development strategy with significant private sector involvement.

Anglo American's Clem Sunter produced the first scenario planning exercise to attract attention, followed by the Nedcor/Old Mutual exercise and the left-of-centre Mont Fleur scenarios.

Finance Minister Derek Keys is expected to release his plans for the future within the next two weeks.

Keys's economic plan put on hold

GRETA STEYN (49)

FINANCE Minister Derek Keys's economic restructuring plan has been postponed until the end of January, but elements of it will be discussed when the National Economic Forum meets next week.

Finance special adviser Japie Jacobs' office confirmed yesterday that the finalisation of the plan had missed the November target. BDAY 27/11/92.

However, elements of the policy package that affect next year's Budget will emerge when representatives of labour, business and government meet in the forum next week to discuss next year's Budget.

Jacobs said yesterday there would be an information session of the forum on the Budget problems experienced this year and those expected next year.

"The objective is to illustrate the need for fiscal discipline and to debate the issue

At this stage it might only be an information session, but it could pave the way for proposals that government could consider when finalising the Budget for the next fiscal year," he said.

Cosatu representative at the forum, Jayandra Naidoo, said the movement did not expect to negotiate next year's Budget in a detailed, technical sense. Cosatu was aware of the limitations of discussing the Budget in the absence of an interim government and before a proper debate on overall economic policy had taken place. It was only [illegible] such a debate had progressed that a detailed discussion on the actual Budget numbers would be possible.

However, Cosatu intended making some points about government spending, including the wastage of government funds in homelands and covert military operations.

'Nightmare' clouds upturn

(49)

DT 1/12/92

By AUDREY D'ANGELO
Business Editor

THE "developing fiscal nightmare", with excessive government spending and an enormous deficit, is clouding prospects for lower inflation and interest rates, says Board of Executors economist and senior portfolio manager Rob Lee.

But he still expects at least one more cut in bank rate.

He forecasts a gradual improvement in the economy in 1993. But he warns, in his Investment Outlook for December, that there is unlikely to be a significant export-led recovery until 1994.

Explaining that the international economy has remained far weaker than enyone expected throughout 1992, Lee says this has prompted fears of another depression.

"We believe this to be extremely unlikely as policymakers (except in Germany) are now aggressively fighting the recession.

"We expect a gradual return to economic growth in 1993 but strong recovery is now unlikely before 1994.

"The SA economy has also performed far worse than anyone forecast 12 months ago.

"This massive deterioration was caused by four main factors — the weak international economy, the drought, escalating violence and the breakdown of negotiations, and economic mismanagement which has now manifested itself in an exploding fiscal deficit.

"The huge budget deficit poses a significant threat to future economic prospects. Draconian measures to reduce the deficit would push an already weak economy even further down and would not be appropriate."

At the same time, Lee warns, "such deficits will eventually overwhelm Dr Stals' efforts to secure financial stability and thus remove an essential precondition for sustainable longterm growth.

"The deficit must therefore be substantially reduced over time but preferably in the context of rising economic activity. This will automatically raise revenues and make it easier to implement spending cuts and if necessary tax increases.

"Privatisation can and should also play a role in alleviating fiscal distress."

Discussing investment prospects Lee warns that a further fall in the JSE can be expected.

"We remain concerned that the domestic equity market has not yet fully discounted the drastic deterioration in earnings growth prospects.

"If further equity market weakness is not to occur, rapid progress needs to be made towards meeting at least some of the preconditions for achieving sustained economic growth.

"These preconditions are: strong international recovery, formation of an interim government, concensus on future constitutional arrangements, a de-escalation of violence and the adoption of an Economic Structural Adjustment Programme."

Lee advises that "selected quoted property investments offer reasonable value at current high yields."

Stals seeks 'overall strategy'

PORT ELIZABETH — Reserve Bank Governor Chris Stals yesterday called on unions and big business to help in the fight against inflation.

Speaking at the Economics, Business Economics and Manpower research conference, Stals said using monetary policy alone against inflation could succeed, but it would not be tolerated in a democracy.

He said while monetary policy could curb inflation, it was nevertheless advisable to have a comprehensive strategy. BDM 1/12/92

"Such an overall strategy must include big business, unions, government and the central bank."

He said persistent inflation confused the signals of relative price

Own Correspondent 49

changes. The consumer price index rise caused by higher food prices in the wake of the drought was perceived as higher inflation.

"And yet, it represented a normal market reaction to a reduction in the physical supply of an important consumer commodity. Because of inflation, the signal of the rising prices partly failed to convey its important message to consumers — to temporarily tighten belts on the consumption of freshly produced foodstuffs.

He said the perverse reaction of a major part of the community was to claim for compensation in the form of increases in salaries and wages.

● See Page 11

Prepare for 'sacrifices'

PORT ELIZABETH — People should be aware of the urgency and importance of economic structural adjustment changes, and be prepared for the sacrifices required in the short term, National Manpower Commission chairman Frans Barker said yesterday.

He said structural adjustment programmes were intended to make countries competitive internationally. It was important for government to obtain the support of the whole society for such a programme as it mostly entailed big sacrifices by important elements of society.

(49)

Barker said there was a trend ~~towards~~s decentralised labour bargaining in other countries, while in SA the pressure from trade unions was to move in the opposite direction in terms of negotiating at industrial council level.

Barker also referred to SA's poor labour training record.

BDAY 11/2/92

"It has been estimated that employers in SA spend an average of only 2% of total expenditure on training, compared with about 5% in other countries."

Government spending on training was also inadequate.

He said it seemed probable that job security regulations were already having a negative effect on the job market in SA. — Sapa.

Deficit leading to 'fiscal nightmare'

BDM 1/12/92 (49)

LINDA ENSOR

CAPE TOWN — Draconian measures to deal with the developing fiscal nightmare of a huge budget deficit will act only as a further blow to an already weak econony, Board of Executors senior portfolio manager Rob Lee says in the latest Investment Outlook.

Substantial cuts in real government spending and increases in taxation would be required to reduce the deficit even to 5% of GDP and would be inappropriate in present circumstances, Lee said.

The huge budget deficitshould only be reduced over time in tandem with a growth in the economy.

"This will automatically raise revenues and make it easier to implement spending cuts and if necessary, tax increases. Privatisation can and should also play a role in alleviating fiscal distress," Lee said.

"It is extremely unfortunate that privatisation has been frozen as a policy option, because the sale of state assets would substantially relieve fiscal distress."

The deficit was clouding prospects for lower inflation and interest rates and might overwhelm attempts by Reserve Bank Governor Chris Stals to achieve financial stability.

Nevertheless, Lee expected one more cut in Bank rate on the back of a reduction in the inflation rate to below 10% next year.

The appalling deterioration in the SA economy could be ascribed to the weaker than expected international economy, drought, escalating violence and breakdown of political negotiations and economic mismanagement. However, it should improve next year.

"The ending of the drought, a turn in the inventory cycle, a modest upturn in the international economy and lower inflation and interest rates should be enough to secure modest positive growth rates next year and in 1994," Lee said.

Sustained and healthy economic recovery would require a world upturn, formation of an interim government, political consensus, a waning of violence and adoption of an economic structural adjustment programme.

Lee expressed concern that the JSE had not fully discounted the drastic deterioration in earnings growth prospects. Rapid progress in political and economic planning and negotiation had to be made if further weakness was to be avoided.

The Dow Jones index was likely to take a knock next year and there was also a risk of a further major shock in the Japanese stock market. Prospects for UK equities, however, looked promising.

The international economy had been far weaker than expected this year, but depression on the scale of the 1930's was extremely unlikely as policymakers — except those in Germany — were aggressively fighting the recession.

Lee said a gradual growth in the international economy could be expected in 1993 with a strong recovery likely only in 1994.

HILARY GUSH

Finrand moves up on news of curbs

NEWS that Finance Minister Derek Keys had curbed finrand payments for offshore investments moved the currency sharply upwards early yesterday, but selling later in the day saw the unit lose some ground.

After finishing at R4,86 against the dollar on Friday, keen demand out of Europe saw the finrand open more than 2,7% firmer yesterday, at R4,73. Afternoon selling pushed the currency back to finish at R4,84.

Keys's weekend statement was seen as a confidence-building move and dealers expected the "well-oversold" unit to strengthen to R4,65 in the coming weeks.

Most traders welcomed the statement, but added that uncertainty still overshadowed sentiment. Even if payment for Reserve Bank-approved offshore acquisitions was staggered over time, finrands would have to be sold and the unit's value would be affected, they said. Others said intervention by the authorities prevented the finrand from being a true barometer of foreign investor confidence.

The unit is expected to trade in a range of R4,70 to R4,88 for the rest of the week.

On the back of persistent dollar strength, the commercial rand weakened further yesterday. From a weekend close of R3.0220 against the US currency, the rand fell to a morning low of R3.03 before closing slightly firmer at R3,0213.

(49)

Budget deficit major threat to growth — BoE

(49) ARG 2/12/92

Business Staff

THE huge deficit on the Budget, which Finance Minister Derek Keys predicts will rise to eight percent of GDP this year, poses a significant threat to future economic prospects.

This is the warning by the Board of Executors' chief economist Rob Lee in the BoE' latest economic report.

Excessive government spending over the years has led to punishing levels of taxation, high nominal interest rates and this year, undermined further by collapsing revenues, an enormous budget deficit.

"Substantial cuts in real government spending and increases in taxation would be required to reduce the budget deficit even to five percent of GDP, but these measures would in the short term push an already weak economy even further down," Mr Lee says.

"At the same time such deficits cannot be sustained for long without eventurally overwhelming the Reserve Bank's attempts to reduce inflation."

Mr Lee therefore proposes that the deficit be reduced substantially over time.

"The best that can be hoped for is that economic growth resumes so that the deficit is narrowed by rising revenues."

However, even in the case of rising levels of economic activity Mr Lee comments that it would be appropriate to implement spending cuts and tax increases.

It was extremely unfortunate that privatisation had been frozen as a policy option, because the sale of State assets would substantially relieve fiscal distress.

Despite the deficit overhang Mr Lee is optimistic that on the back of the ending of the drought, a turn in the inventory cycle, lower inflation and interest rates and a slight upturn in the world economy a modest growth rate could be achieved next year.

The Star Wednesday December 2 1992

Budget deficit poses major threat to growth

STAR 2/12/92. (49)

By Sven Lünsche

The huge deficit on the Budget, which Finance Minister Derek Keys predicts will rise to eight percent of GDP this year, poses a significant threat to future economic prospects.

This is the warning by the Board of Executors' chief economist Rob Lee in the BoE's latest economic report.

Excessive government spending over the years has led to punishing levels of taxation, high nominal interest rates and this year, undermined further by collapsing revenues, an enormous budget deficit.

"Substantial cuts in real government spending and increases in taxation would be required to reduce the budget deficit even to five percent of GDP, but these measures would in the short term push an already weak economy even further down," Lee says.

"At the same time such deficits cannot be sustained for long without eventually overwhelming the Reserve Bank's attempts to reduce inflation."

Lee therefore proposes that the deficit be reduced substantially over time.

"The best that can be hoped for is that economic growth resumes so that the deficit is narrowed by rising revenues."

However, even in the case of rising levels of economic activity Lee comments that it would be appropriate to implement spending cuts and tax increases.

It was extremely unfortunate that privatisation had been frozen as a policy option, because the sale of state assets would substantially relieve fiscal distress.

Despite the deficit overhang Lee is optimistic that on the back of the ending of the drought, a turn in the inventory cycle, lower inflation and interest rates and a slight upturn in the world economy a modest growth rate could be achieved next year.

SPOT DESK

Independent Bank key to fighting inflation

BDay 2/12/92 (49)

SIMON WILLSON

JUNE 1974. Willie-John McBride's British Lions were rampaging unbeaten through SA's rugby stadiums. The dams were brimming. The national speed limit was 80km/h. Inflation was 11,2%. And the rand was floated

When inflation heads lower in economies with floating exchange rates, the task of keeping it down without the discipline of a fixed-rate currency becomes a stern one After sterling's recent tribulations, the UK is about to discover this After the events of June 1974, so is SA.

Since its withdrawal from the European exchange rate mechanism (ERM) in September sterling has been floating, and the Bank of England must now try to keep British inflation low and under control without the discipline of a fixed exchange rate. Britain's once-fearsome inflation guard dog has been retired to stud; what will replace its menacing and distinctly persuasive presence?

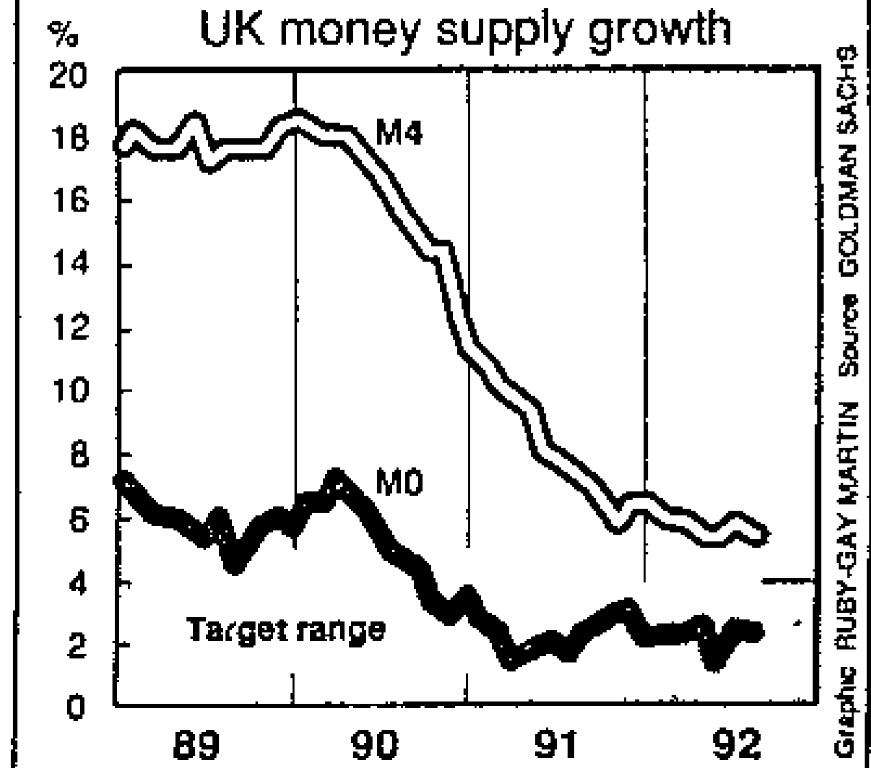
Monetary targeting is the fancy electronic alarm system the British have substituted for the slathering ERM mastiff to deter rising prices.

The UK government has added a broad-money M4 target to its existing target range for the narrow, cash-only M0 money measure. High-tech monetary aggregate analysis is replacing the uncomplicated brute force of a pegged pound in the remorseless effort to subdue inflation.

As the first chart shows, recession has dragged UK M0 nicely into its current target range of 0%-4%. Thanks also to the pervasive effects of the British recession UK M4, too, is comfortably in the new 4%-8% range set for it last month.

The key question for British policymakers is whether these targeted aggregates will behave quite so placidly when recovery stirs in the UK economy. Once demand reignites, what will stop inflation jumping from its present level of

Instead of the mastiff
UK money supply growth



3,6% to the 10,9% of two years ago, the 18% of 12 years ago or the 24% of 17 years ago? With sterling in a free float, only the ability of the non-independent Bank of England to enforce its monetary targets stands between the UK and the bad old days.

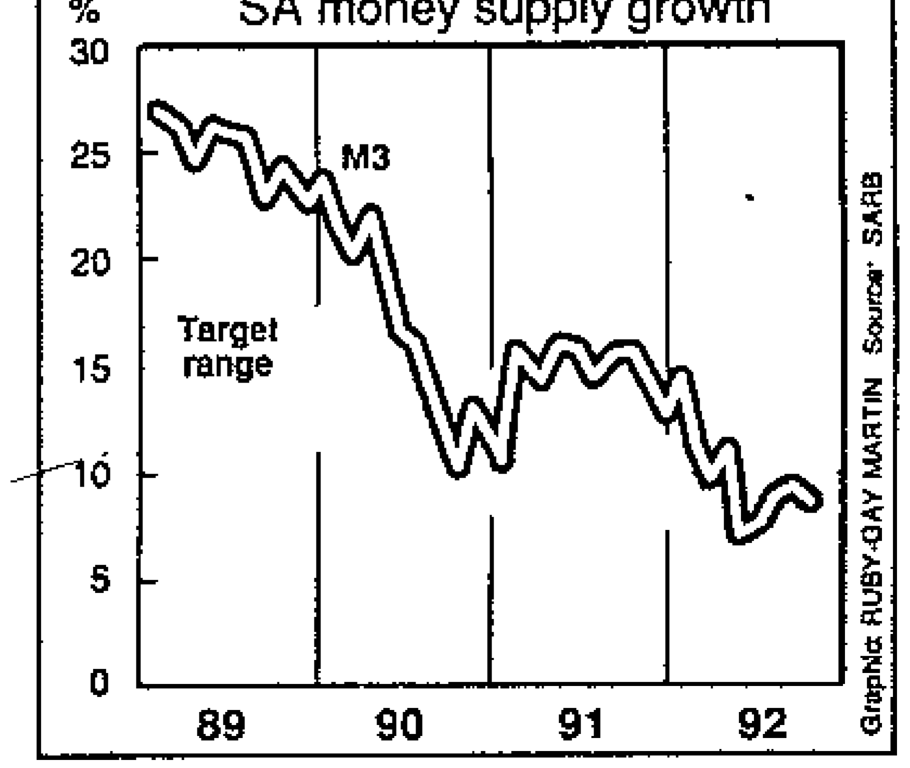
But the angst gripping the UK authorities could shortly be felt in SA too. As SA inflation drops, as it almost certainly will, to new lows in the months ahead, the mandarins in the Reserve Bank and the Finance Ministry are going to be faced with the same challenge: can inflation be kept at low levels without the discipline of a fixed exchange rate?

When SA inflation last posted a single-digit average in a calendar year (9,5% in 1973) the rand was pegged to the US dollar, and the greater discipline and certainty that came with the link to the world's principal reserve currency helped restrain domestic prices. But in June 1974 Finance Minister Nico Diederichs formally adopted an independent, managed float for the rand.

"Under the new policy," Diederichs said, "the monetary authorities will not necessarily peg the rand to any weighted average value of all other currencies. In other words, there will be no firm commitment ... to avoid any effective appreciation or depreciation of the rand in terms of all other currencies." The new flexibility and relaxation of exchange rate discipline in that resonant phrase "no firm commitment" led, among other things, to annual average inflation rising into the double digits (11,6% in 1974) it has never since left.

Judging by his recent statements, Derek Keys is apparently confident that he will shortly be the first

Mandarins' challenge
SA money supply growth



Finance Minister since Diederichs to preside over sustained single-digit inflation. But Keys, like Owen Horwood and Barend du Plessis before him and like the UK authorities today, lacks a fixed exchange rate to help enforce low inflation. So how will the monetary discipline of 1973 be replicated 20 years later? Also by monetary targeting.

The second chart shows how, with the help of recession, SA's broad money growth has been pummelled into conformity with progressively lower and narrower guideline ranges for M3.

As in the UK, however, the true test of targeting will come with recovery: will the money growth guidelines still be observed when demand is expanding again?

Although Keys lacks the fixed exchange rate that Diederichs had to help maintain monetary discipline he has, instead, an ally that Diederichs, Horwood and, until the last part of his tenure, Du Plessis all lacked: an independent Reserve Bank. As SA moves from recession to recovery, and from political instability to consensus, having a monetary authority separate from the executive branch of government could prove a more effective anti-inflation weapon than the pegged rand ever was.

LETTERS

High degree of capital intensity not inimical to labour

BDay 2/12/92

KEVIN LINGS and EDWARD OSBORN (49)

THE pitfalls of aggregation are no more prevalent than in the matter of capital intensity. Broad conclusions have been drawn by many about developments in the SA economy that amount to rising capital-labour ratios, the accepted measure of capital intensity; much intellectual energy has been devoted to plausible explanations of the phenomenon; and even policy decisions, or official explanations given for policy decisions, have been based on this apparently socially undesirable trend.

SA has come under the spotlight of World Bank studies recently and in the past year or so at least three papers have revolved around the rise of capital intensity. International comparisons have been made of SA with other countries with comparable levels of per capita income, and the conclusions have been to the effect that "SA appears to be unusually capital intensive" and that "SA's economy-wide capital:labour ratios are more than double of those of Korea, Brazil, Mexico and Malaysia at comparable levels of per capita income."

Leading industrial economists in SA have also drawn attention to the rise in capital:output ratios for the manufacturing sector.

It has been a short and very obvious logical step to deduce that SA has developed a tendency towards a rising rate of unemployment due to this increasing level of capital intensity and that, given the already alarming rate of unemployment, industrial policy should be fashioned to combat this trend.

We have challenged all this in a paper at a recent conference held under the auspices of the National Productivity Council. Broadly, there has been a rising trend in capital:labour ratios for manufacturing industry since the Second World War; for example in the period 1946-51 of 6,2% a year; in 1951-58 of 2,1%; in 1958-74 of 3,6%, in 1974-81 of 5,3%, and in 1981-89 of 1,3%.

We gave specific attention to the '70s and '80s, noting the tremendous rise during 1974-81, and the subsequent levelling off during 1974-89. The choice of years coincided with the peak years of the business cycles in order to minimise distortion to the comparison of the ratios, particularly when it came to the ratios adjusted for levels of capacity utilisation.

Much ingenuity has been expended in providing general economic explanations for growing capital intensity.

The explanations include factor price distortions in the form of substantial increases in the cost of labour, accompanied by a relatively low cost of capital caused by periods of negative real interest rates; an overvalued exchange rate, that would tend to favour the import of capital equipment; the availability of capital-intensive technology particularly from the developed countries, general labour unrest caused by trade union activity; accelerated depreciation allowances in favour of capital equipment; a lack of skills in that labour-intensive machinery requires more skilled labour than capital intensive techniques, and a general policy of import substitution resulting in a high concentration of ownership and a relatively small number of large capital-intensive businesses.

However, in making the growth calculations at the 27 major subgroup level that characterises SA manufacturing industry, the picture is markedly different. First, there is a vast range of the capital stock in the sector, from as little as R44m in the leather and leather goods industry to R17bn in the broad chemical and chemical products industry. Equally there is a considerable range in capital intensity per employee, varying from R1 511 in the clothing industry to R151 094 in the chemicals industry (at 1989 prices).

There was also quite a spread in experience of growth rates of the capital:labour ratios, varying from a significant decline of 3,4% a year in the clothing industry to a large positive growth of 8,5% for the chemicals industry during 1974-89. But the main fact that emerges from the analysis is that the broad capital intensity developments have simply been due to certain very specific lumpy investments having been made at certain times.

Thus, during 1974-81 when capital intensity seemed to be soaring, as reflected in the average growth rate of the capital labour ratio of 5,3% a year, the Sasol synthetic fuels development was taking place. The growth rate of capital intensity for the heavy chemical industry in that period was 19,8% a year!

For the whole of manufacturing industry, but excluding the chemicals industry, the growth rate of the capital:labour ratio turns out to be a negligible 0,5% a year.

Similarly, during 1981-89, the major new heavy industry was the pulp and paper industry — Sappi and Mondi. The growth rate for the pulp and paper industry was 6,5% a year, and if that is excluded from the manufacturing sector as a whole the growth rate adjusts downwards from 2,8% to a mere 1,1% a year.

In short, what has appeared on the surface to be an alarming growth of capital intensity in the manufacturing sector turns out to be the impact of developments in some specific heavy industries — in the early '70s of the iron and steel industry, in the late '70s of the synthetic fuels industry, and in the early '80s of the pulp and paper industry.

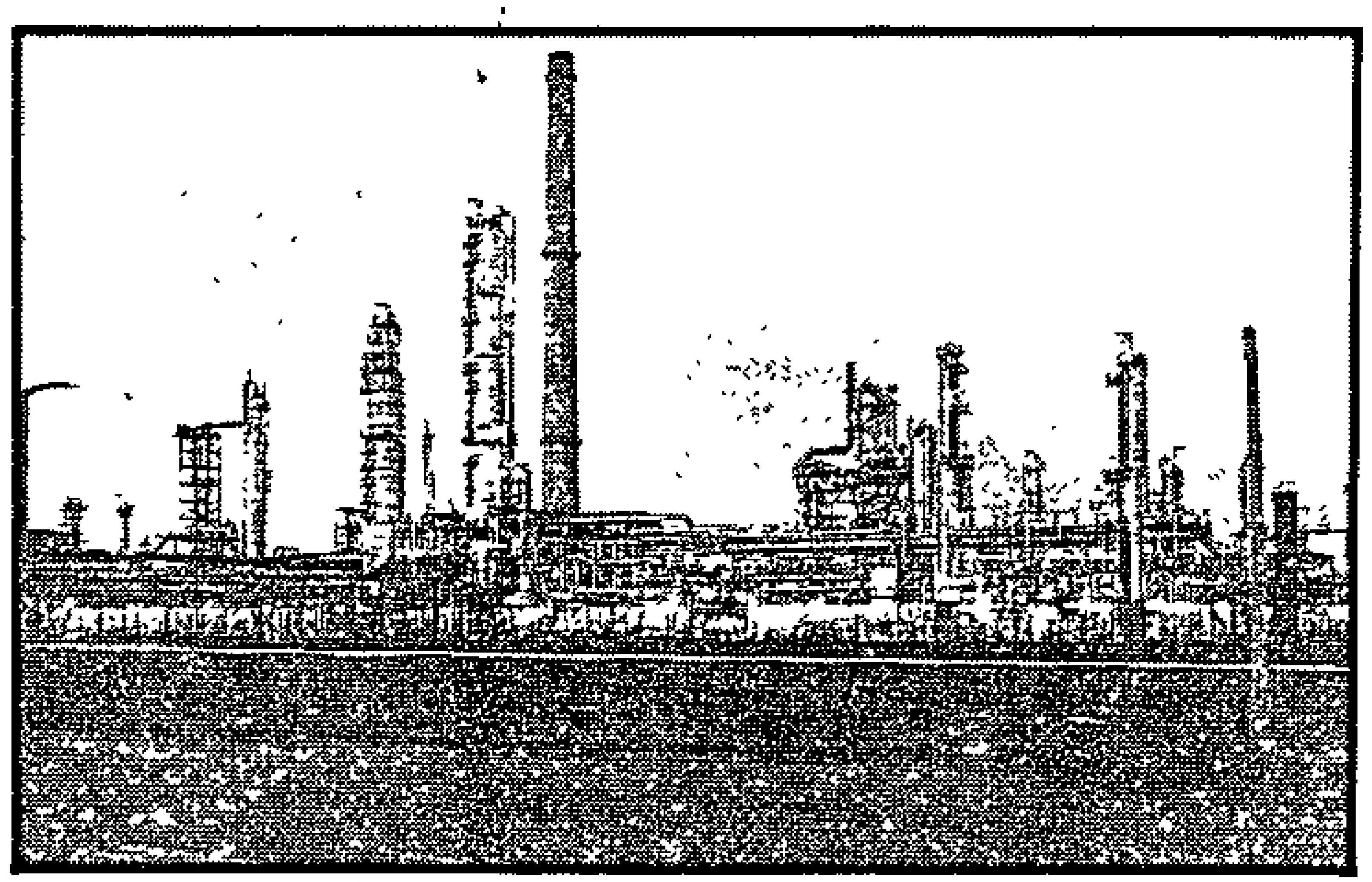
This is a very different picture from that conjured up by the overall results at the aggregated level of general capital thickening across all manufacturing industry. The policy implications are equally stark.

For one we must eschew the negative attitude towards capital that seems to intrude official thinking, that capital somehow is inimical to the interests of labour as if there is a trade-off for each and every industry. This overlooks the main essence of modern industry: that its production structure is largely technology driven. Many policy prescriptions have been advanced to combat an apparent general rise in capital intensity in order to generate the much needed employment opportunities. Hence the abolition of investment allowances, the levying of differential import tariffs on capital goods; and the maintenance of high positive real interest rates.

The World Bank recommendations which advocate direct controls over the utilisation of technology in favour of labour intensive techniques and the introduction of subsidies linked to a requirement that investment per employee be below a specified ceiling are also suspect.

Industrial policy should give full recognition to all the characteristics of an industry and its market environment and should not be forced into a common mould fashioned on preconceived social and economic objectives. The success of an industrial policy is not guaranteed merely because it identifies measures that are socially desirable within the current circumstances of the SA economy.

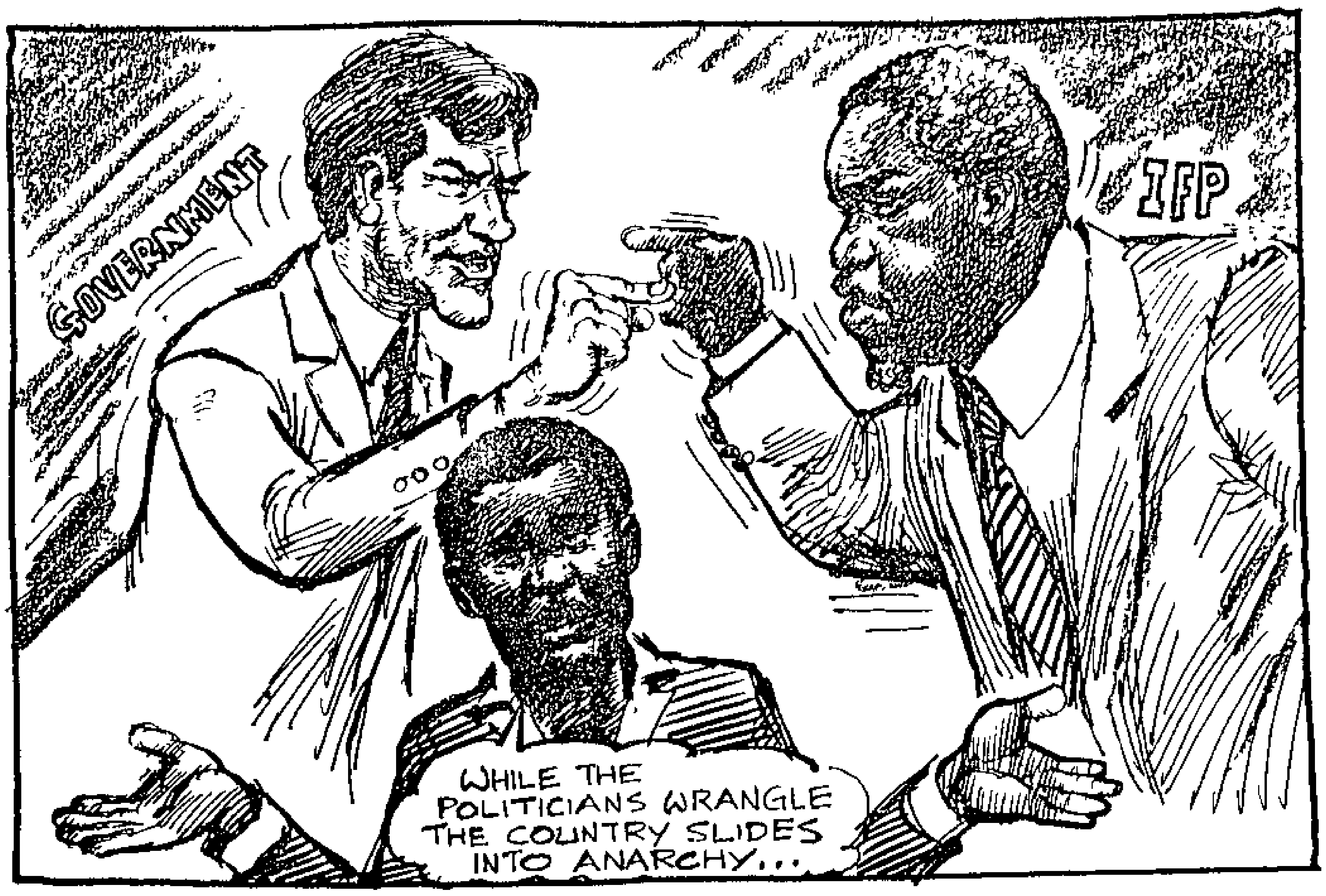
☐ **The authors are Nedbank economists.**



The Sasol project boosted capital intensity in the '80s.

SPOT DESK

FOCUS *PAC calls for a socialised economic order*



focus on economics

The evolving economic policy positions of the Pan Africanist Congress of Azania represents a serious attempt by the organisation to bring about a progressive, democratic and democratising economic order

The PAC recognises the need to balance the redistribution of means of social consumption and production with the necessity for accumulation processes of the economy and economic development that does not marginalise any of the members of a democratised society

A democratic and democratising economic system is a socialised one with the following critical attributes:

- The democratic ownership of the means of production and the democratic management of socio-economic national institutions or organisations,
- The democratic right, opportunities and capacity to engage in wealth - creating economic activities and the enjoyment of the resulting products of social labour by all;

The promotion and upholding of democratic labour relations and processes; and,

- The democratisation of critical decision-making processes at all levels of the state and society by all the citizens of the country

As a starting point, it is worthwhile, to clear self-imposed confusion by a number of "progressive" forces or people with respect to nationalisation versus socialisation as instruments of redistribution on non-land economic wealth or assets (industrial, mining, financial) on one hand, and the redistribution of the land from the evolving PAC's economic policy's point of view

Nationalisation means taking over the private ownership of productive economic assets (normally represented by private business corporations) and transferring this ownership to the state with or without compensation When a state starts its own state enterprises, this does not represent nationalisation

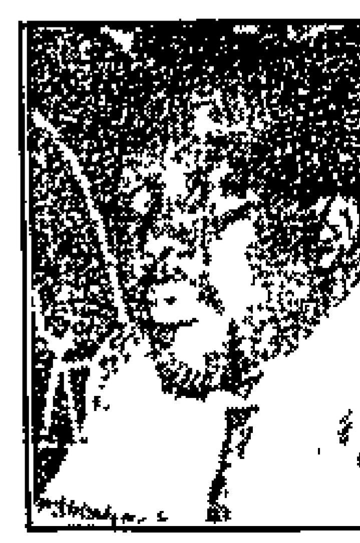
The rejection of a nationalisation strategy does not, therefore, mean that the state cannot start its own enterprises: nor does it mean the state should privatise its existing state enterprises

The weaknesses of traditional nationalisation policy (which has been used by both leftist and rightist forces in the world) as an instrument of redistribution and economic development are as follows

By and large, the beneficiaries are easily the economically and politically strong and organised urban based middle-class elites, organised workers and state political bureaucrats It does not benefit the real poor folks who are economically and politically weak in the urban, peri-urban and rural areas,

It is difficult to nationalise and redistribute the skills components of the redistributed physi-

In this article, the first of a two-part series by PAC secretary of economic affairs, **Mr Sipho Shabalala**, on their new economic policy, the organisation argues that a democratising economy, and not nationalisation, should lead to economic parity:



"Given the existing inequitable distribution of ownership of economic resources - skills, knowledge, access to information, international division of labour, and the balance of economic, military and political power - a one stroke economic policy decision cannot be conceived."

49

Sowetan 2/12/92

cal assets these skills are normally possessed by individuals where assets are nationalised,

Financing the acquisition and the running of the nationalised corporations is very difficult and tempts state bureaucrats to print more money which, through time, creates macro-economic instabilities such as high inflation, weak exchange rates and declining real interest rates, and

The prevailing international mood and opinion are very hostile to nationalisation, and due to this position capital flight and the difficulties in conducting international economic transactions can be expected to face the new state that has pursued a nationalisation programme

Participate in critical financing

It should be stated in no uncertain terms that nationalisation does not, by itself, democratise the ownership of economic resources by the citizens of the country (especially the poor, the unskilled, the disorganised and the rural folks), it does not by itself democratise decision-making systems and processes within political and economic institutions, it also does not empower workers to gain part ownership of business corporations and to participate in critical financing, investment, production and employment decisions

As a result of these weaknesses the traditional nationalisation policy is not recommended within the evolving economic policy positions of the PAC

Given the existing inequitable distribution of ownership of economic resources - skills, knowledge, access to information international division of labour, and the balance of economic, military and political power - a one stroke economic policy decision cannot be conceived

A properly phased socialisation programme is necessary this socialisation programme must be both democratic and democratising It must be equally restructuring and constructive of a new economic order rather than being merely and only destructive of what is there

The socialisation process as preferred by the PAC must achieve the following

- It should spread the ownership and management of economic assets and institutions to the disadvantaged African people and to individuals directly involved in social production,
- It must provide time, opportunity and resources for Africans to acquire requisite economic resources, technical and managerial skills,
- It is important that such a thrust must democratise decision-making processes at macro and micro levels of the state and at the economic arena

Policy interventions to promote the socialisation programme, with regard to non land productive economic assets, call for the following action

- The redistribution of equity-ownership accompanied by voting rights and participation in critical decision-making processes to workers and African community based trusts,
- The redistribution of power, influence and control within existing private and public corporations to actual and potential managers,
- The promotion of industrial, commercial, financial and agricultural entrepreneurship among Africans, and,
- The introduction of anti trust legislation

Accordingly the PAC recognises the agencies for economic development as being the state, corporations started and controlled by workers, collective co-operatives democratised private enterprises, workers peasants and professionals

Brighter year ahead — economist

BDay 3/12/92

LINDA ENSOR 49

CAPE TOWN — Consumers could look forward to a brighter economic scenario next year when they would benefit from further falls in interest rates and inflation, Old Mutual chief economist Dave Mohr said last night.

Addressing the Worcester Sakekamer, Mohr said the worst of the recession could be over and a steady improvement in the business climate was possible next year. Business sentiment would be boosted by further interest rate cuts. Recent declines in rates would be felt in 1993.

"Interest rates and inflation have a close relationship and we expect inflation to fall again in the early part of 1993, allowing Dr Stals to provide overborrowed consumers and companies with further relief."

Furthermore, the SA economy could benefit from a gradual upswing in the US economy which had gained momentum in the final three months of the election campaign.

Agriculture could have a normal year next year and the upward pressure on food prices would lessen. Also, the effect of the lifting of sanctions had not yet been felt.

Mohr warned however that consumers should not expect tax cuts in the next Budget as the recession had hit government tax revenue hard and the budget deficit could reach R26bn.

Economic Forum gets off the ground

Sowetan 3/12/92

■ **Business, organised labour and Government officials meet to map out a new economic framework for SA:**

By Mzimkulu Malunga

CAUTIOUS optimism prevailed among the major parties as the National Economic Forum got off the ground.

The three major players in the country's economy - business, labour and Government - met last week to map out a new economic framework for South Africa.

"One of the reasons I am optimistic about the future is a change of attitude in relations between business and organised labour," said South African Chamber of Business representative Ben van Rensburg.

While relations between labour and big business were in the past dominated by confrontation, the new emphasis was on reconstruction above everything else.

The labour movement said the NEF's headway would depend mainly on the success of the wider political process.

Despite an earlier reluctance to get involved, the Government said it was approaching the forum with an open mind and hoping for consensus.

"We joined the forum so that we can get proper co-ordination with two other major players for a future economic growth," said Japie Jacobs, special adviser to the Minister of Finance.

Black business, which was part of the broad delegation to the NEF, also had its own expectations.

Fabcos' Zolile Makaba said they hoped resolutions of the forum would go somewhere towards levelling the economic playing field.

The forum has been divided into three structures, the executive structure to oversee two working groups - the short-term and the long-term.

The short-term group is charged with looking into current burning issues like job creation, retrenchments and the restructuring of the public sector.

Retrenchments, one of the flash points of disputes between business and labour, is expected to provide this group with a big test.

'We need to establish a work security fund to cater for the needs of retrenched workers'

(49)

While organised labour was aware of business' dilemma on retrenchments, it believed there were still alternatives to minimise their impact.

"We need to establish a work security fund to cater for the needs of retrenched workers," said Tommy Olifant, a representative of the National Council of Trade Unions at the NEF.

Both big business and government would be expected to contribute to the fund financially. Another strategy which could give such a fund a kick-start was the mobilisation of the Unemployment Insurance Fund's resources, argued Olifant.

However, Van Rensburg was doubtful that the corporate world would heed calls to halt laying off workers under the prevailing economic conditions.

The key issue was not the availability of finance to fund projects but establishing business confidence. "We need to be confident about the future. That is one of the things which will stimulate both local and international business to get involved," said Van Rensburg.

All sides were aware of the limitations of the NEF. There were other sensitive issues, among them the contentious issue of Value-Added Tax, industrial restructuring as well as trade and exchange rate policy.

Already, there was a strong belief in the labour movement that although the Government had finally agreed to be part of the NEF, it was still tempted to unilaterally restructure the economy.

As the forum got down to work, observers would be closely following developments and assessing whether the parties can successfully turn their backs on the past and emerge with a blue print for a future economic framework.

The poor are not getting any richer as the new SA continues to take shape, writes **R W Johnson**

Redistribution of wealth an awkward subject

Star 3/12/92. (49)

REDISTRIBUTION of wealth should take place within a realistic economic framework, not so much taking away from the wealthy but as a means of addressing social imbalances.

The disadvantaged majority who are excluded from the market at present should be brought on stream. We should have a mixed economy but I don't think we should be prescriptive of the type of economy we should have.

There should be no labels such as capitalist or communist but there should be more concentration on human problems.

Ten points for identifying the speaker. Obviously someone who's pretty moderate — or at least, confused.

How can one redistribute without taking away from the wealthy? What is meant by bringing the poor "on stream"? Why so evasive about prescribing the type of economy?

Sounds like a soft liberal with plenty of good feeling but not too much direction, maybe a DP MP recently moved over to the ANC. Or Barend du Plessis sounding a progressive note from retirement? Actually, it's Chris Hani.

You have to sympathise. On the one hand, redistribution is eminently reasonable — the inequalities of South African life are glaringly great. You only have to drive from the plush suburbs to a squatter camp to feel that simple humanity requires that something be done.

So any ANC or SACP politician will want to tell the "have nots" that they should get more. But you can't talk realistically about that without making the "haves" feel extremely threatened. Which makes redistribution an awkward subject in a pre-electoral period, which in turn doubtless explains some of Hani's vagueness.

But the problem goes deeper than that. Consider, for example, the fact that Natal-Kwazulu is the country's second poorest region (after Transkei) and that it is also the most populous, with nearly a quarter of the country's people.

Poverty is most extreme and widely spread in Zululand, which also happens to be the area with the highest Aids rate. Clearly, a future government with a proper concern for social justice will pour more resources into this area than anywhere else.

Indeed, it is essential for the sake of the rest of the country, let alone Zululand, that this region be treated as a medical emergency area: everything that can be done to slow the progress of Aids in this, its epicentre region, will save an incalculable number of lives elsewhere in South Africa.

At least, that's what redistribution ought to mean. But this area is the heartland of the IFP.

Chris Hani . . . wants to tell have-nots that they should get more.

Can one really imagine Hani or Mandela, for that matter, telling Sowetans that they actually have the highest black per capita incomes in the country and must be patient a while longer while resources are diverted into Buthelezi's redoubt?

Moreover, the bulk of the other poor are concentrated in the other homelands. Will a future government really do what its predecessors, from Verwoerd on, have failed to do, and pour most resources into the former bantustans?

Of course, redistribution has been going on apace for some while. One of the most striking inequalities has been that of age.

As unemployment soars, the young are particularly hard hit. Unemployment is, however, notably less common in the parental generation, which is typically sitting on assets acquired over a lifetime of full employment.

This contrast is especially marked among whites where the parental generation also enjoyed decades of earnings bolstered by job reservation and the long post-war boom.

No politicians of any stripe are, however, planning to do anything to counter these stark and growing inequalities of age. Whites overall have been losing ground economically, but the decline has been particularly steep amongst the lower professional and white collar groups and among poorer whites vulnerable to unemployment.

In the main, their losses have been the gains of the black middle class and the organised black working class. This, rather than any transfer to the broad masses of the really poor — getting poorer still, thanks to mass unemployment — seems likely to be the key to the form that redistribution will continue to take in the future.

The Model C school system is a classic example of this. Sharply higher fees are levied on white parents and the schools are simultaneously integrated. This enables middle class blacks to purchase a better education for their children.

Meanwhile, the resources released by higher fee payments allow higher expenditure on township schools. This is of net benefit to all township dwellers but overall it is the more middle class and "respectable working class" elements who, as always, take greatest advantage of the improved opportunities.

Moreover, the bulk of the new money gets spent on retraining, better conditions and more jobs for black teachers, a middle class group.

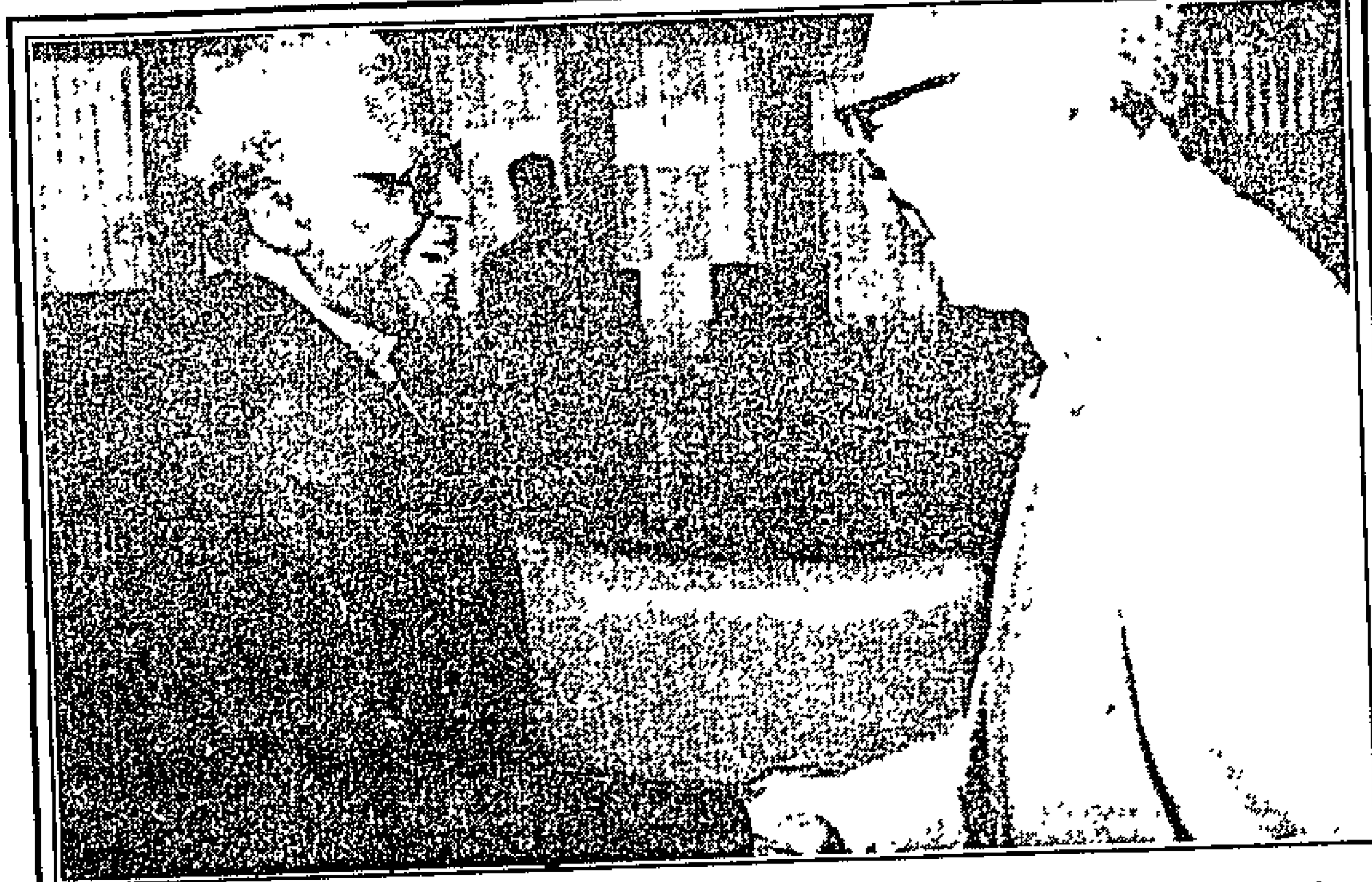
Less affluent white parents, meanwhile, are squeezed by the imposition of higher fees and respond by cutting back on other forms of consumption and by laying off black domestic servants.

In the extreme case, really poor whites have to put their children into township schools — involving a dramatic reduction in the life-chances of the next generation of poor whites.

Add up all these transfers and you find a striking process of redistribution, but hardly of the type socialist dreams are made of. □

● *Johnson is a former Rhodes Scholar on sabbatical at the University of Natal in Durban.*

OPINION *Domestic demand must generate production*



THE ARCHBISHOP AND THE PRESIDENT ... European Economic Community Commission president Jacques Delors (right) greets the Archbishop of Cape Town, Desmond Tutu, prior to talks at the EC Commission headquarters in Brussels, Belgium.

Access to land is a basic human right

Sowetan 3/12/92

ECONOMIC RESTRUCTURING

This is the last part of an article by **Sipho Shabalala** *of the PAC:* (49)

Access to the use of land for residential and economic purposes is considered by PAC as a human right to be available to and enjoyed by all the citizens of a democratised society

Such access cannot be dependent on the level of economic and political power possessed and wielded by any person Citizenship is the overriding criteria to have access to the land

Land is, therefore, according to the evolving economic policy position of the PAC, the PROPERTY OF THE NATION (it is not State land as generally specified under the existing conditions) which must be managed and allocated to the citizens for use

The redistribution measures of the land takes the following form

Constitutional provision

Constitutional provision of the right of all the households to have a piece of land for building their houses and this to be allocated by the State free of charge

Decision will need to be made by an appropriate State body on the optimum size of a farm to be under the use and control (not ownership) of one household and one company under a policy of one family (household, company), one farm

Excess land from the white commercial farmers to be redistributed and allocated for housing and farming purposes by the landless For purposes of bringing about peace and stability, affected farmers, whose excess land is to be redistributed, should be compensated on their determinable investment in the excess land A land restoration and redistribution fund should be established to compensate farmers in cash/and or government bonds

Land must, therefore, be decommoditised Every citizen should have access to the land on a lease entitlement and the right to pass this lease to the children but not to sell the land itself

Strategies for development

The essential strategies to promote socio-economic development, should, according to PAC, include the following

Massive investment to meet politicised but absolutely necessary social consumption needs of the African people Social consumption needs include housing, health facilities and services, nutrition, education, recreation, clean and safe water, feeder-roads, quality sanitation, electrical sources of energy, environmental protection and resuscitation

African entrepreneurs should be provided with land, finance, technical managerial skills, extension services, credit venture capital to be the main players in these construction and building-based economic activities

Access to employment

This redistribution and economic development approach emphasises access to productive employment and economic assets that will generate viable incomes It is not welfarist

This strategy is positioned to be, initially, (in relative terms) labour-intensive and to have a less demand for specialised and sophisticated skills outside the reach of the majority of the African people

There is a better possibility to generate employment of the relatively less skilled and educated members of the African community

The multiplier effect is also relatively higher here with respect to the generation of domestic demand for manufactured and agricultural products

Access to land, physical and financial resources by the African people is the key here

Training and development

Supportive training and development programmes will be highly needed Social, economic and political stability will only be ensured or assured by the success of this strategy No higher-order economic development will take place without this stability

The manufacturing sector has to be restructured (including its technological dimensions) and be strategically repositioned in domestic and global markets

The manufacturing sector should be promotive of a network of smaller entrepreneurial units producing most of its basic requirements (components parts, maintenance services, wrappers etc) and agro-based raw materials

Foreign investment

New foreign investment should promote the participation of Africans in the main stream of the economy, be supportive to increasing competitiveness of the manufacturing sector internationally, and should provide us with strategic alliances and access to important global resources

Smaller scale agricultural activities must be prompted among the Africans Land must be made available for this This is not negotiable

The commercialised agricultural sector should be restructured including the scaling down of individual units, emphasising efficiency and productivity Land reclamation and reforestation will need massive promotion

Regional co-operation

The provision of electric and non-electric energy sources for all areas of settlement and effective transportation are required

The need for regional economic co-operation cannot be over emphasised The region should develop through the redistribution of economic productive resources to the majority of its people, supportive incentives and institutional arrangements should be put in place to motivate economic activities

All these activities should aim at increasing demand for products and services emanating from the region The region should aim at relative self-sufficiency with respect to food production, basic raw materials, agricultural equipments, requisites, including veterinary medical requirements

Swift action vital for economy

(49) CT 4/12/92

SOUTH AFRICA'S economic potential is considerable and there is much that can be done now to commence reconstruction of the economy, according to Mr Mike Levett, chairman of Old Mutual.

In his address yesterday to the organisation's annual general meeting, he said further delays in creating a favourable climate would make a recovery progressively more difficult to achieve.

Mr Levett said it was now very evident that rapid progress would have to be made towards resolving the political deadlock. Uncertainty was preventing economic growth because critical decision-making by businessmen, consumers and public policymakers was being deferred. Further delay would simply make a recovery progressively more difficult to achieve.

Unfortunately, over the past year, the major political players have not succeeded in building on their successes. Considerable political uncertainty, social disruption, violence, loss of business confidence and increased unemployment have followed the current downward spiral.

All groups involved in political negotiations need to take responsible attitudes towards the desperately urgent requirements of putting in place the environment needed to achieve economic growth, investment formation and job creation. South Africa needs to become more dynamic internally and far more competitive internationally. To achieve this, efficiency and productivity must rise rapidly.

"A problem area is that the State consumes a high and rising share of the national product," Mr Levett said. "Taxes have risen to alarming levels, undermining individual incentives and reducing the attractiveness of South Africa as an investment field.

"A challenge in years to come will be to limit and, if possible, reduce the size of government while ensuring that it does its job better.

"The current macroeconomic situation is relatively stable but government budget deficit is soaring and, if it expands much further, government debt and inflation could rise to dangerous levels.

"While the problems may seem daunting, I am sure we have the collective ability to tackle them successfully, provided there is goodwill and common understanding."

Given appropriate economic and social policies, and a satisfactory resolution of the political situation, the economy could recover quickly and move back to sustained growth which would materially aid the transition to a successful democracy, Mr Levett said.

New economic forum launched

(49) CT 4/12/92

By PETER DENNEHY

POLICIES to stimulate economic growth cannot await a political settlement, Western Cape Economic Development Forum convener Dr David Bridgman said at the launch of the new body yesterday.

The economic forum, formed at UCT yesterday, brings together powerful constituencies from business, labour, central and local government and parastatals, politics, and development organisations.

It has a budget of just R200 000 for its first year, but its strength lies in the power and influence of its participants.

The 36 organisations which make up the forum are among others, the Chambers of Commerce and Industry, the Handelsinstituut and Sakekamer, Cosatu, the ANC and SACP, Sanco, DET, Eskom, Spoornet, Development Bank and the Small Business Development Corporation.

One example of what the forum might do is to facilitate agreements between local authorities, Eskom and civic groups to jointly promote electrification of new areas, Dr Bridgman said.

All committed themselves in the founding document to seek consensus on development strategies in South Africa's period of transition.

Mr Herbert Hirsch, the president of the Cape Town Chamber of Commerce, was elected as the first chairman of the forum. Among those on his steering committee are Mr John Neels of Sanco, Mr Adrian Sayers of Cosatu, and Mr Leon Markovitz of the Cape Town City Council.

Swift recovery 'hinges on political solutions'

(49) CT 4/12/92

By AUDREY D'ANGELO
Business Editor

THE SA economy can recover quickly if political problems are solved soon, Old Mutual chairman Mike Levett said at the agm yesterday.

But, warning that urgent action is needed to reach political agreement, he said: "The economy can be likened to a fire, which can recover quickly after a limited amount of smothering but which takes much longer if it is smothered more heavily or for longer.

"Our future would indeed be dark if the SA economy were to be smothered to the extent that meaningful recovery becomes extremely slow and difficult."

Mike Levett

Senior executives of Old Mutual normally avoid commenting on the political situation.

In a departure from this practice Levett told an audience including many of SA's leading businessmen and some from other African countries: "It is now very evident that rapid progress must be made towards resolution of the political impasse.

"Uncertainty is preventing economic growth because critical decision-making by businessmen, consumers and public policymakers alike is being deferred.

"Further delay will simply make it more difficult to achieve a recovery."

However, he stressed:"There is much that can be done now to commence reconstruction of the economy.

"All groups involved in political negotiations need to take responsible attitudes towards the desperately urgent requirements of putting in place the environment needed to achieve economic growth, investment formation and job creation.

"SA needs to become more dynamic internally and far more competitive on the international scene. Its efficiency and productivity must rise rapidly.

"There are many problems that need to be addressed including the high level of government consumption expenditure, the high burden of taxation, the low level of fixed investment and the high rate of inflation.

"While the problems may seem daunting, I am sure that we have the collective ability to tackle the problems successfully provided there is goodwill and understanding.

"SA's economic potential is considerable. It has a functioning market economy, an element crucial to growth that is largely missing, for example, from the former socialist countries of Eastern Europe and from many African economies."

"It has an excellent transport and communications infrastructure, its technological abilities and scientific base are impressive while its financial system is among the most advanced in the world."

SA must be cautious about freeing capital movements

B/DM 4/12/92. **GRETA STEYN** 49

GOVERNMENT virtually outlawed foreign investment by SA companies last week, bringing to an abrupt end the rush offshore. The move to tighten controls comes at a time when the whole world is freeing markets. While it has been welcomed by an embattled finrand market, economists have criticised it for being a step backwards.

If it is a step backwards, how quickly should SA move forward in lifting controls on capital movements? Once the political situation improves, should SA move speedily towards free financial markets?

Econometrix's economists, including Azar Jammine, Mark Addleson and Chris Torr, have called for the abolition of exchange controls — doing away with the finrand and other barriers. They argue lifting exchange controls would reflect confidence in the country's future.

"The ultimate solution lies not so much in preventing SA companies from investing abroad via finrands but rather in an SA government expressing its confidence in the country's future by doing away with exchange controls and the finrand mechanism altogether. . . . (It) would also go a long way towards reducing the trend towards increased financial concentration in the SA economy and obviate the need for anti-trust legislation to achieve this."

Their view is that freeing capital movements should form an integral part of an economic restructuring programme.

While the country cannot now afford such a sweeping move, many argue it should proceed gradually towards that goal. Last week's announcement erected new barriers.

The trouble with barriers is that clever players will find ways around them, especially if there are nebulous definitions that defy objective judgment. Finance Minister Derek Keys said last week new investment could be granted when it "can be seen to be of more immediate benefit to the country in the short term. . . . Those that may only have a longer term benefit will have to be held in abeyance." Is there an objective measure whether a deal has immediate benefits or not?

Reserve Bank Deputy Governor Pierre Groenewald explains that the benefit refers to the balance of payments (BoP). "Companies will have to prove that their investments will either create export opportunities, or save on imports of goods or services," Groenewald says. But even if a company could prove a BoP benefit, the Bank's exchange control division could still withhold approval.

Groenewald does not see the BoP criterion as nebulous, as the direction of a deal's effects on the BoP should be "easily quantifiable". Time will show whether creative ways will be found around the BoP rule, or whether it is cast in iron. A cynic would say construing "savings on imports" would not be impossible if one really set one's mind to it.

Those companies that do succeed in obtaining permission will have to finance the deal with loans abroad. The Bank monitors all foreign loans to evaluate their effect on the BoP. When a loan is taken to finance an equity investment, it must now be repaid from income earned on the investment. How will an SA company guarantee that a profit is made offshore? An obvious possibility is through cheap exports from SA to the offshore company. Profits could be "exported" to solve any problems arising from the rule. Will the Bank take account of this when it examines the effects of foreign investment on the BoP?

But the fact that a control measure might be open to circumvention does not necessarily mean it does not have a function. Economic policymakers' reason for the move is the wish to see the financial rand trade at a level above \$0,20 to the rand. Bankers say without this intervention it could have fallen considerably below that level.

Why does it matter if the finrand goes into free fall? The mechanism was designed to protect the "real" currency; does it matter if the "funny money" behaves strangely? Prices give signals and the weak finrand was signalling that South Africans were prepared to pay a premium to take capital out of the country while foreigners were not investing. Controls remind one of killing the messenger. It does not change the message.

But SA had too much to lose by leaving the finrand to find its "true" level. Economic policymakers were forced to act. At stake was their credibility in the eyes of potential foreign investors.

The country had painted itself into a corner, starting late in 1990 when former Finance Minister Barend du Plessis told foreigners: "We would like to see the financial rand's demise, we want to get rid of it. Use it while you can." Over the next year, the discount declined from 33% to a low of 7%.

In line with this policy to encourage foreign investors to use the currency, the Reserve Bank scuttled a move by Inland Revenue to tax non-residents' interest earnings. It also announced it would intervene in the finrand market for the first time. The stage was set for narrowing the discount and achieving one currency.

But the SA move offshore upset the plan, and the Bank had to field the irate calls from foreigners when the finrand fell. The foreigners' views were relayed to Keys, and a statement was issued last week. That foreign investors are still not enamoured of SA was obvious this week when the currency hit the \$0,20 level again.

If the move is a temporary deviation from a strategy towards one currency and no exchange controls, what kind of timetable should SA set itself for doing away with controls? Jammine, Addleson and Torr argue that an interim government could lift foreign exchange controls as part of a general economic restructuring package. They argue foreign investment would "pour in".

However, there are good reasons why such a move should be last on an economic agenda. The World Bank, in its 1989 development report on financial systems, concluded that financial reform implemented "prematurely" could lead to volatile financial flows that magnify domestic instability. The Bank argued for a "sequencing" of financial reforms, starting with controlling the fiscal deficit and establishing macroeconomic stability. SA still has some way to go on that score.

The World Bank also argued trade should be liberalised first and capital movements later. Latin America's experience in the '70s and '80s suggested simultaneous liberalisation did not work. An inflow of capital could lead to an appreciation of the exchange rate, the bank argued, undermining the foreign trade performance.

Other economists have argued that the removal of exchange controls in Latin American countries in the '70s was a major reason why their economic performance has lagged that of Korea. The latter's financial markets had tight controls that are only new being lifted. These controls helped shield the country against external shocks such as the high real interest rates associated with the monetarist policies of the industrialised world in the early '80s. It did not suffer the capital flight as the Latin American countries.

Even if SA's politics is worked out and there is an interim government, SA should proceed with caution on freeing capital movements. We, like other developing countries, cannot run before we can walk.

Old Mutual calls for political progress

BIDR 4/12/92

LINDA ENSOR

(49)

CAPE TOWN — Political uncertainty was preventing economic growth because critical decision-making by businessmen, consumers and public policymakers was being deferred, Old Mutual chairman Mike Levett said yesterday at the assurer's general meeting.

He said further delays would make an economic recovery progressively more difficult.

Levett said a rapid rise in efficiency and productivity was required for SA to become more dynamic internally and more competitive internationally. He said the time had come to focus on industrial regeneration through the encouragement of manufactured exports and investment in exporting industries.

He expressed concern about government's soaring budget deficit, warning that if it expanded much more, government debt and inflation could rise to dangerous levels.

Levett urged extreme caution on the tentative proposals made by the Jacobs committee to amend the tax treatment of retirement fund contributions,stressing that incentives for retirement provision should not be removed by changes in taxation.

The regulation of the financial services sector had to be kept to a minimum , Levett said, and had to take proper account of business realities. Levett also noted that the distinction drawn by the Jacobs report between financial intermediaries acting as principals and those acting as agents was not always very clear.

Levett welcomed the scrapping of the Sixth Schedule to the Income Tax Act and the introduction of a four fund approach to the taxation of life offices.

During the year to end-June Old Mutual's total assets under management had increased 20,5% to reach R87,3bn, while premium income grew 27% to R10,2bn and operating expenses by 14% to R1,4bn. Its market share had risen to the highest recorded level, he said.

Current account surplus plunges

BIDAY 4/12/92 (49)

HILARY GUSH

A SMALL surplus on the current account and continued net capital outflow saw SA's total net gold and forex reserves fall almost R600m in the third quarter.

The latest Reserve Bank quarterly bulletin released yesterday said although SA was currently in the grip of a "long and severe recession" — normally characterised by low-volume merchandise imports — the current account surplus had dropped sharply to R0,4bn in the September quarter from R1,3bn in the June quarter.

While part of the slide was attributed to seasonal factors, when seasonally adjusted and annualised the figures still pointed to a fall in the surplus from R6bn to R3,7bn or from 1,8% to 1,1% of GDP.

Economists said the drop was a result of sliding agricultural exports and a substantial hike in food imports due to prolonged drought.

AHI chief economist Nick Barnardt said drought had played a predominant role in the surplus's decline, but "the very low prices SA received for many of its commodity exports" had also contributed.

The bulletin said in the third quarter SA had become a net importer of agricultural products for the first time since the drought of 1983. Total agricultural imports had increased from a seasonally adjusted and annualised R2,9bn in the first to R5,3bn in the third quarter. In the past three years net agriculture exports had averaged R2bn a year.

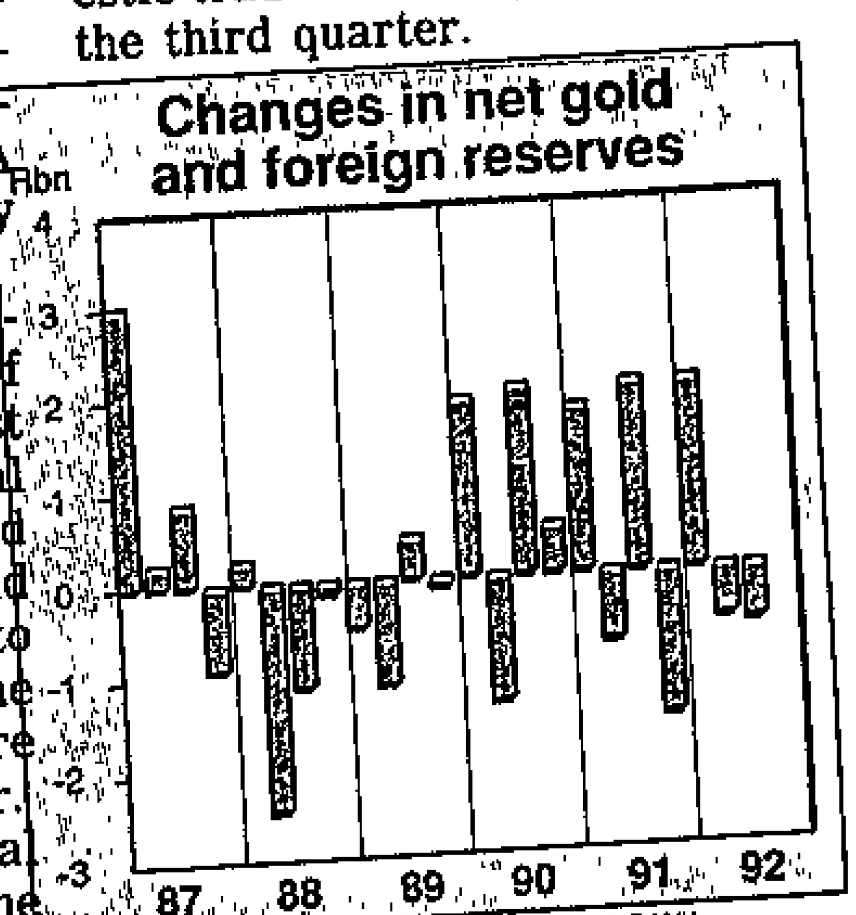
The bulletin showed that capital outflow had slowed to R1bn in the September quarter from R1,9bn in the previous quarter. Most of the outflow — R0,7bn — was in short-term capital, largely a result of foreign debt repayments of about R500m inside the net.

Barnardt said in light of the scheduled debt repayment in August and the worsening political situation in the third quarter, capital outflows were lower than expected.

Total net outflow for the first nine months of the year reached R2,9bn compared to the R1,4bn posted for the same period last year.

Barnardt predicted the outflow for the year at between R3,5bn and R4bn, which, although lower than R6,1bn recorded last year, was "still unsatisfactory".

Due to easing local interest rates which reduced the cost of domestic credit, the bulletin said "considerable" switching from foreign to domestic trade financing had occurred in the third quarter.



Graphic RUBY-GAY MARTIN Source RESERVE BANK

ECONOMIC OUTLOOK

FM 1?| 4/12/92

Better and better (49)

Economic indicators in the US have been volatile for more than a year. What seemed like encouraging signs of an upturn in February and March dissolved in April and May and gloom persisted long enough to lose President George Bush his second term in the presidential elections on November 3

FM 4/12/92 (49)

A provisional third-quarter figure, published just before the election showing 2,7% growth in GDP, was treated with scepticism. However, the final figure was revised up to 3,9% last week — the biggest increase since the fourth quarter of 1988. Then, on Tuesday, the US Commerce Department reported that government's main economic forecasting gauge, the index of leading indicators which forecasts economic activity six to nine months ahead, rose 0,4% in October, after falling in three of the previous four months.

Comfirmation of a recovery comes from Commerce Department figures which showed incomes from wages and salaries up 1% in October — the strongest monthly rise since 1,2% last December. The Labour Department reported initial claims for State unemployment insurance dropped by 12 000 in the week ending November 14 and the National Association of Realtors said sales of single-family homes rose, in October, to their highest level in nearly four years.

Stock markets responded. On Wall Street equity prices began rising last week and the rally gained momentum on Monday The Dow Jones average of 30 industrials, which rose 54,84 points last week, rose another 22,96 on Monday to close the day at 3 305,16 It was the first close above 3 300 since September 21 when it closed at 3 320,83.

This influenced activity on other major stock markets. In London, on Monday, shares resumed last week's upward climb and the FTSE 100 index hit a new trading high of 2 784,1 and reached its third consecutive closing high of 2 778,8. The Paris bourse ended on a two-week high with the CAC-40 index at 1 771,37 Tuesday morning saw a small retreat but this was described as a consolidation and dealers reported that sentiment remained fundamentally positive.

But, after so many months of ambiguous data, the latest figures must be treated with caution. The crisis in European currency markets has still to be resolved. Germany is grappling with inflationary pressures and in Tokyo markets are nervous and growth uncertain.

Until confirmation of a recovery in the US comes from further economic indicators, the world can't bank on an upturn early in 1993. ■

FM 4/12/92.

MONEY SUPPLY (49) (453)

Looking for omens

With hindsight, it is easy to see that growth in money supply is a useful indicator of future economic activity — as well as inflation. However, it is more difficult to predict events by looking at monthly or quarterly growth in the various money supply aggregates. The figures require constant smoothing and can only be viewed over a long period because there are:

- ☐ Unpredictable lags between money supply growth and changes in the level of economic activity; and
- ☐ Technical distortions which do not reflect economic fundamentals.

Basing forecasts on these movements is further complicated by debates over which is the best monetary measure to use. Growth in M1A is an early sign that people are preparing to spend. This measure consists of money and coins in circulation plus cheque and transmission deposits. Money supply figures for September show that 12-month growth in M1A was 23,55%, compared with 10,27% the previous month; monthly growth in the measure was 6,7%.

This sharp upkick was also seen in M1. This consists of M1A and other demand deposits. The rate at which it is increasing was sharply up at 23,15%, from 14,92%; in the month it grew 4,7%

However, growth in M2 (M1 plus other short- and medium-term deposits) and M3 (M2 and term deposits longer than six months) was only 12,77% and 8,73%. This was little changed from the previous month. And monthly growth was only 1,4% and 1,2%.

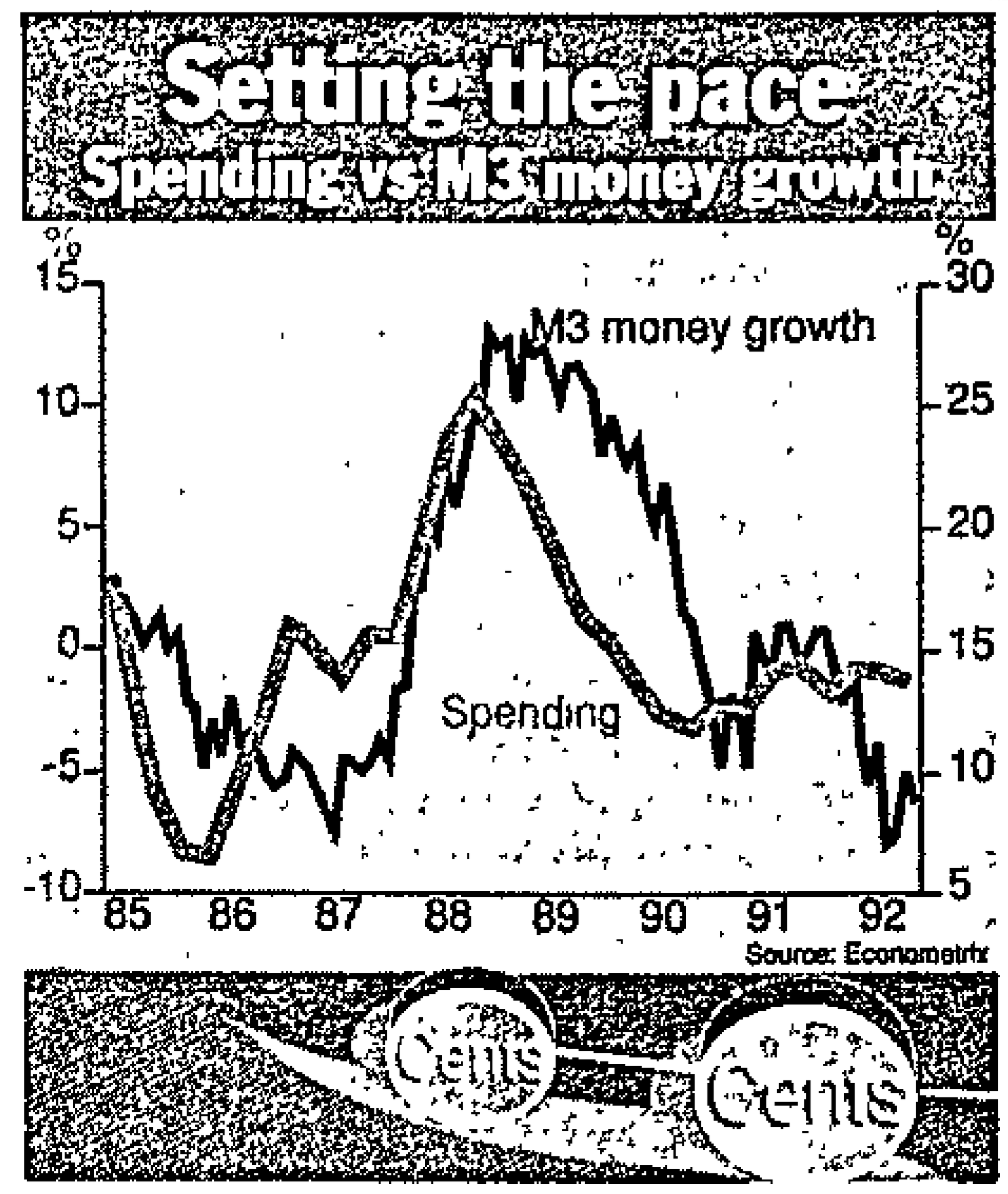
These figures show a shift out of longer-term savings and into cash and short-term or balances. As interest rates on call money remain below those on longer-term deposits, this does not seem to be simply a shift in personal portfolios. If the trend persists, it will be a signal that consumer confidence is improving and economic activity is about to increase. This is good news.

If money increases out of all proportion to the country's ability to increase output, however, it begins to lose its purchasing power. Because of this inflationary potential, the Reserve Bank sets guidelines for M3 — currently 7%-10%. When decisions are made about changes in interest rates, the performance of money supply growth in relation to the target range is a major factor

Though not as early an indicator as the narrower measures, M3 does not reflect shifts within portfolios and is, therefore, more reliable, says a Reserve Bank spokesman.

Growth is measured from the base of the target year, which is mid-November, and then seasonally adjusted and annualised and measured against the guidelines. For most of the current target year, it has been safely within the guideline range. The figure for September is 9,33% to a seasonally adjusted R195,2bn. A provisional figure for October shows growth of 9,14% to a seasonally adjusted R196,3bn.

Figures on the monetary base, M0, are not published but are available on request. This



consists of cash and coins in circulation (which are reflected on the central bank's books) and the cash reserves held by the banking sector at the Bank. They show growth of 18,5% to September and a provisional 18% to October. But these figures are inflated by changes, effective from July, in the level of cash reserves banks are required to hold against their short-term liabilities

Figures on credit aggregates show:

- ☐ Claims on the domestic private sector grew 8,61% year-on-year to R204bn; 1,52% in the month;
- ☐ Net claims on the public sector were up 2,8% year-on-year to R2,5bn; this represents a decline of 50% in the month; and
- ☐ Total domestic credit extension grew 8,53% to R206bn; 0,28% in the month ■

FM BOARD OF ECONOMISTS

FM 4/12/92 (49)

Restructuring and adjustment

This *FM* Board of Economists' discussion focuses on structural issues in the economy. Participants are JCI's Ronnie Bethlehem; Aubrey Dickman, of Wits Business School; and the ANC's Tito Mboweni. Sacob DG Raymond Parsons as usual asks the questions

***Parsons:* What do you see as economic restructuring, and what kind of structural adjustment programme do we need?**

Mboweni: There's an important distinction between structural adjustment and restructuring. Restructuring normally takes place within a country which sees a need to bring about some change in its economy, and perhaps in other aspects of society. Structural adjustment is related to a situation where, say, you have a balance of payments deficit and exhaust an IMF facility. We are basically dealing with the former. The first key question is the need to devise a package that will increase savings and investment; the second revolves around industrial strategies.

SA can no longer depend on mining, so we need cost reductions that will make us internationally competitive. We must develop an indigenous capital goods sector which will allow a significant cut in the import of goods and invest in R&D and the type of human resource development that will enable the industrial strategy to proceed.

The other element of restructuring concerns government, its size and role. The structure of incomes also impacts significantly on the structure of demand.

Dickman: We must be careful about talking about restructuring the whole economy. We have what people now call a civil economy, we don't suffer from the terrible legacy of a command economy. The basis of our economy is there. Anything we want to achieve, be it redistribution or whatever, can be achieved only in terms of economic growth.

Bethlehem: Selective restructuring is a contradiction in terms If one accepts that restructuring is necessary, as I do, then it has to be approached holistically. Links between income, production and expenditure are important, and circular

Restructuring has to be in the context of a market economy, not just because we might so decide but because we are set in a global market economy, and many important influences on policy and strategy are exogenous.

***Parsons:* Can we draw a distinction between economic restructuring aimed at efficiency and that focused on equity?**

Bethlehem: We must. Even had there been no apartheid, this would have been an unbalanced society because of the way in which the economy would have developed. This is a small, open economy. It has to stay efficient and competitive in a global context. Setting about restructuring for one reason can in the short — or even medium — run apparently conflict with the other need.

Mboweni: The dichotomy between efficiency and equity should not be over-emphasised. We should emphasise how to bring about their unity. Equity relates not only to social development but to the whole structure of the economy For example, the virtual exclusion of black entrepreneurs from the main productive economy cannot be dealt with just by social expenditure.

The board meets ... clockwise, from the left, *FM* deputy editor Michael Coulson, Mboweni, Bethlehem, Parsons, Dickman and *FM* assistant editor Ethel Hazelhurst

Dickman: To achieve all this and still get growth would be much easier if we'd had consensus on the context in which economic activity takes place. Talk about nationalisation, not having foreign investment, or telling foreign investors what to do, are the sort of thing that have deprived us of foreign investment — which is vital for growth

***Parsons:* Why does restructuring feature so strongly in our economic debate? Would it indeed raise the ceiling on our growth and job-creation potential?**

Dickman: Even if they weren't liberal politically, liberal economists — all the way back to Hutt in Cape Town in the Twenties — railed against a system which excluded most people from the opportunities of economic growth and being drawn into the economy. If we restructure correctly, it must raise the ceiling of growth and job creation.

Mboweni: There are major and fundamental structural rigidities inherent in the economy Our economy was founded mainly on mining, which depended on cheap labour As we developed an agricultural and industrial base, they too were supportive of the mining sector. Import substitution did not focus on the serious development of an indigenous manufacturing capability but still depended on the import of capital goods Now after 1973 you no longer have cheap labour, as a result of the growth of powerful trade unions. This is a major structural challenge.

Bethlehem: Structural adjustment or restructuring are necessary for two reasons. One, the global economy has changed, but the SA economy has not. Secondly, internal socio-political change necessitates economic change. Previously the mass unemployed were disenfranchised. The moment you enfranchise them you change everything from the point of view of policy formulation.

When we talk about growth, there is no harmony of understanding. Some people talk about real GDP growth; others about return on investment growth; others about growth of earnings per share adjusted for inflation, or share price growth Then there are real labour earnings and employment growth Of course, it can be convenient sometimes to talk about growth and mean different things

Dickman: I sense a touch of *dirigisme* here. Why should an economy which once exploited a comparative advantage in a certain world setting, faced with a change in that setting, not respond, if you remove impediments to the use of labour? There seems to be an implicit assumption that markets will not work. But we are only now creating the conditions for markets to work

Bethlehem: In SA there can be no restructuring of the kind that is desirable without the State, so we must think hard about what the State's role should be. Implicit in the neoclassical model is that, if you leave the economy to itself, in the long run we will achieve full employment. All we need to do is abolish apartheid and deregulate and in the fullness of time all imbalances will just disappear I don't accept that.

Dickman: No, nor do I, and I never said so!

***Parsons:* If we get things right, what is our maximum potential growth rate?**

Bethlehem: You can't talk about sustainable growth separately from the global economy and cycle The rate of growth SA can generate has changed in relation to the global economy In the Sixties and even the Seventies SA grew faster than the global economy. As global growth has come down, SA's growth rate has fallen well below that of the

Continued on page 25

FM 4/12/92 (49)

Continued from page 22

global economy, for all sorts of reasons. We must also distinguish between growth of GDP and trade growth.

But, if you can stabilise SA socially and politically — which is a big question — and have reasonable growth in the global economy, SA has huge potential China, with 1,2bn people, is achieving sustainable growth of between 7%-10% a year. Surely we can have sustainable growth, given the appropriate environment, of over 5%?

Mboweni: I agree with that 5% but the key thing is that growth must be raised to twice the rate of population growth· 5%-6%

Dickman: Our connection with the world economy sets a limit. One problem up to 2000 will be the work ethic and backlog in training. I would look for 5%.

Bethlehem: Job creation is important too. The past relationship between GDP growth and job growth was unsatisfactory.

***Parsons:* What specific improvements are broadly needed in terms of international competitiveness and the global economy?**

Mboweni: Primarily, our costs and prices should at least be competitive internationally. For that, a number of critical issues must be addressed One is to interact in terms of restructuring our industrial base. There may be some disagreement whether SA can develop a large indigenous technology base. But it needs to be done as part of this competitiveness You cannot forever depend on technological progress from outside.

'Conglomerates or big firms are not bad by definition'
MBOWENI

The other element of competitiveness is human resource development We must ensure that our workers and management are sufficiently skilled. You can't compete effectively if your productivity continues to fall, whereas in the global players it rises.

Clearly we have to take advantage of areas where we have some competitiveness, like mining, but we must work out a further programme to beneficiate mineral products, in such a way as to develop a world-class mineral-based industry.

Dickman: This is what we all want, and people are striving to do that all the time. But it demands foreign investment, and this all comes back to confidence in the economy

Bethlehem: Where is the global economy in its cycle? For four years there has been no growth in the global economy. If the global economy is going into extended stagnation our strategising becomes different. We can't forever sit on our hands waiting for the global economy to lead us out of a recession.

Dickman: The IMF and others have argued that our tax levels are pretty high and we need to switch from direct to indirect taxation. This brings us to corporate tax and the problem of using tax breaks, which go against tax neutrality. We might say that we need a properly working VAT, because this will enable us to bring down corporate tax and be more competitive. But that is all bound up in the political process. Perceptions and perceived equity are important in relation to tax. Just remember that every potential new worker is a potential new taxpayer.

Bethlehem: Only when you have objectives for the macro-economy can you consider tax. The economy is suffering from serious decline and low investment but, reciprocally, a big rise in consumption expenditure. The problem is that many people live below the poverty datum line, and their consumption cannot be depressed to elevate investment. If you want investment, you have to restructure. VAT can play an important role in that. It's regressive, but on the whole it hits consumption, encouraging people to save more

If we tell First-World SA, you've been consuming too much, we're going to attack to depress your consumption, you'll trigger capital flight, with all sorts of consequences You must give people an incentive to save as well as consume

***Parsons:* What should be the major elements in any new industrial strategy and what kind of tariff protection is appropriate?**

Mboweni: I've already covered the basic points. One other question is what to do with the military industrial establishment. Are we just going to let it disappear, because we no longer need the goods produced by Armscor, or should we find a way to use its technology and capacity to facilitate further development of the capital goods we are talking about? I think we should

Clearly in the medium to long term we would prefer protection policy to be more in line with the development pattern and demands. It is a global village and we will be expected to abide by its rules, so a programme of tariff reduction will have to be put in place. But that should be related to a programme of industrial competitiveness.

Dickman: This comes back to prices, wages, productivity, exchange rates and exchange control. There are also complexities with upstream and downstream industries like textiles and clothing. This will take time.

Bethlehem: In a normal society, we could ask: "Do we need an industrial strategy? Who is to decide what industry's objectives should be?" I wouldn't want the State to intervene, I'd want business to determine where its best advantages are

But we are not in a normal situation, so we can raise the question. The first objective of strategy, particularly bearing in mind global restructuring, should be to make SA more part of the global economy, not less.

***Parsons:* How important is foreign investment in facilitating restructuring?**

Dickman: I found it disturbing at a recent debate to hear that we don't need the IMF or the World Bank, because they're conspiring to make a successful market economy in the southern part of Africa. Surely that's just what we want! To achieve that, foreign investment is vital. Obviously, in the present political situation we can't abolish exchange controls, but I can only echo the desire to get rid of them as soon as possible.

Bethlehem: Developing countries, like SA, don't save enough to generate sufficient growth to match population increases. We can't do without foreign investment. It's in that context that we must deal with exchange controls, which block the inflow of capital and encourage its outflow.

Mboweni: Foreign investors will play an important role in both restructuring and growth, including introducing new competition for our monopolies. At the same time, one must not get too excited about the prospect of major inflows of capital The Bank for International Settlements has found that only about US$25bn of the $177bn of available international capital flows goes anywhere near developing countries, and all developing countries have to share this

Exchange controls should be phased out in the medium to long term, unifying the currency and making it freely convertible — which will instil some confidence.

***Parsons:* How significant is the debate about conglomerates and the size of business in the context of future economic performance? How do you see the role of small business?**

Mboweni: The debate about conglomerates, bigness and monopolies goes to the heart of private-sector restructuring. However, there is some confusion Conglomerates or big firms are not bad by definition; it is a question of how within the conglomerate structure monopolies and oligopolies can thrive, and stifle competition If Adam Smith were to wake up and come to SA he would be appalled by the overconcentrated, uncompetitiveness of business

Some research I have been doing indicates that there are many instances in which conglomerates and pyramids within the conglomerates actually stifle investment initiatives by smaller investors, particularly within the conglomerate. So one could argue that the conglomerate structure does constrain other members of the conglomerate from making independent investment decisions.

One must not ignore big companies, but small and medium-size enterprises (SMEs) will play a major role in economic regeneration. I suspect that the major growth areas of the global economy are likely to be in the service sector, in which there are more opportunities for SMEs. The informal sector offers clues rather than solutions.

Dickman: Competition is important, but may not always be a sufficient condition for the

continued

Recovery prospects dimmed by lack of fixed investment

STAR 4/12/92

49

By Sven Lünsche

Chances of a sustained recovery are being undermined by a renewed decline in fixed investment.

The Reserve Bank says in its quarterly bulletin that fixed investment, generally viewed as a key to job creation, has slumped by 21 percent since the third quarter of 1989.

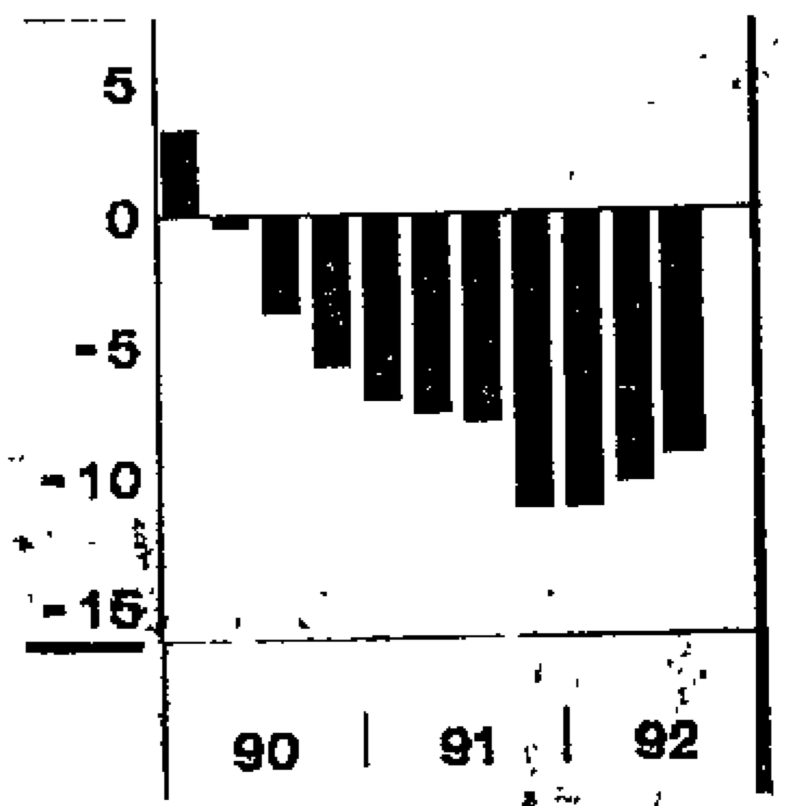
Relative to gross domestic product (GDP), fixed investment declined to its lowest level ever of 16 percent in the third quarter this year.

This compares with an average of 23,5 percent in the 1980s and with 21 for industrial countries and 31 percent for newly industrialised countries.

The Bank says investment in new plant and equipment was constrained by the poor outlook for domestic and global growth and a "generally conservative attitude towards capacity creation in an environment of political uncertainty".

The poor performance of the SA economy in the third quarter — it contracted by 5,5 percent — was further fuelled by a depletion in stock levels and a decline in spending by all sectors, including the Government.

The three percent fall in real consumption spending by the Government in the third quarter and followed two quarters of sharp increases and, according to the Bank, was mainly due to cutbacks in spending on goods and services.



Real gross fixed investment (percentage change over a year)

The Bank, however, remains critical of the public sector's burgeoning deficit before borrowing, which amounted to nine percent of GDP in the first half of the 1992-93 fiscal year.

Labelling fiscal policy as expansionary, it says the deterioration in government finances was largely due to the soaring deficit, but also to the fact that the surplus of TBVC countries and self-governing states had declined to R500 million so far this fiscal year from R2,3 billion in 1991-92.

Overall domestic expenditure fell by 7,5 percent in the third quarter, after dropping seven percent in the preceding quarter, fuelled mainly by a three percent decrease in private consumption expenditure.

The cutback by households was particularly evident in the spending on durable and non-durable goods, both of which recorded declines of six percent.

Latest output figures show the overall economy contracting by 3,5 percent since the beginning of the downswing in the first quarter of 1989 and leads the Bank to suggest that GDP will fall by two percent this year.

Turning to foreign trade accounts, the Bank says the surplus on the current account dropped sharply to R400 million in the third quarter from R1,3 billion in the second quarter.

This was mainly due to the drought which forced SA to become a net importer of agricultural products.

However, on the capital account the net outflow slowed to R1 billion in the third quarter from R1,9 billion in the preceding quarter.

So far this year R2,9 billion has left the country, compared with R1,4 billion in the first nine months of last year.

The outflow of funds took place largely in short-term capital, largely due to a R500 million debt repayment in terms of the standstill agreement.

The net outflow of long-term capital increased to R300 million in the third quarter.

As a result of the smaller surplus on the current account total net reserves fell by almost R600 million in the third quarter, although the gross gold and forex reserves continued to rise.

The Reserve Bank says that in April the local foreign exchange market handled on average transactions worth $4,2 billion per working day, of which spot transactions accounted for 56 percent.

Swift action vital for SA's economy

Sowetan 4/12/92

(49)

☐ **Economic potential 'considerable'**

SOUTH AFRICA'S economic potential is considerable and there is much that can be done now to commence reconstruction of the economy, according to Mr Mike Levett, chairman of Old Mutual.

In his address yesterday to the organisation's annual general meeting, he said further delays in creating a favourable climate would make a recovery progressively more difficult to achieve.

Mr Levett said it was now very evident that rapid progress would have to be made towards resolving the political deadlock. Uncertainty was preventing economic growth because critical decision-making by businessmen, consumers and public policy-makers was being deferred. Further delay would simply make a recovery progressively more difficult to achieve.

Unfortunately, over the past year, the major political players have not succeeded in building on their successes. Considerable political uncertainty, social disruption, violence, loss of business confidence and increased unemployment have followed the current downward spiral.

All groups involved in political negotiations need to take responsible attitudes towards the desperately urgent requirements of putting in place the environment needed to achieve economic growth, investment formation and job creation. South Africa needs to become more dynamic internally and far more competitive internationally. To achieve this, efficiency and productivity must rise rapidly.

"A problem area is that the State consumes a high and rising share of the national product," Mr Levett said. "Taxes have risen to alarming levels, undermining individual incentives and reducing the attractiveness of South Africa as an investment field.

"A challenge in years to come will be to limit and, if possible, reduce the size of government while ensuring that it does its job better.

"The current macroeconomic situation is relatively stable but government budget deficit is soaring and, if it expands much further, government debt and inflation could rise to dangerous levels.

"While the problems may seem daunting, I am sure we have the collective ability to tackle them successfully, provided there is goodwill and common understanding."

Given appropriate economic and social policies, and a satisfactory resolution of the political situation, the economy could recover quickly and move back to sustained growth which would materially aid the transition to a successful democracy, Mr Levett said.

DEVELOPMENT (49)

Beyond the feuding

Development Bank of Southern Africa chairman-designate Wiseman Nkuhlu says an independent panel to co-ordinate the efforts of development agencies and determine priorities is essential if an interim government is to have any chance of tackling demands.

In an interview with the *FM* this week he outlined, for the first time, proposals he will make to major political players and development agencies for the establishment of what will in effect be a national commission for economic restructuring and development.

It will be more than an advisory body and could put members in a position to influence government spending, economic restructuring and development strategies.

FM 4|12|92

Energy and resources

Nkuhlu, who is also CEO-designate of the Independent Development Trust and on several corporate boards, including Barlows, Old Mutual, Genbel and Standard Bank, believes the interim government — the first phase of which is expected in the first half of next year — will not be able to devote the necessary energy and resources to development.

There's a danger that it will face massive demands and high expectations but have no development programme to implement, no way of determining priorities and will be unable to make significant progress on development issues while also wrestling with the creation of a new constitution.

cont →

FM 4|12|92.

The panel must have advisory and executive powers as well as direct input to Cabinet on issues such as spending priorities and budgeting for development

Using the considerable research information and talent already available through the development community, it would work in tandem with the interim government to identify development needs, plan strategies to address them, advise and assist in budgeting for projects and raise additional funds to meet budget shortfalls

It would have to bridge party political differences which have until now tended to label development proposals as the initiative of one or other group and, thereby, undermined their credibility in some communities and blunted their effort.

Nkuhlu says it is important for the panel to be nonpartisan. Participants must be selected on expertise, not simply as representatives of political groups or agencies. They will have to rise above their party or agency loyalties and consider the good of SA above all else.

The panel would also provide a single channel for development grants from foreign governments and loans from international agencies.

Nkuhlu does not want the panel to become simply another development agency — its only full-time staff will be a secretariat — and says it will not usurp the functions of

(49)

agencies such as the Independent Development Trust, Kagiso Trust and Development Bank. They would carry on operating in their areas of expertise with the panel's support and co-ordination. ■

Living standards continue falling

BDM 4/12/92

(49)

GRETA STEYN

CONSUMERS' living standards fell further in the third quarter of this year as personal disposable income shrank 2,7% in real terms, Reserve Bank figures show.

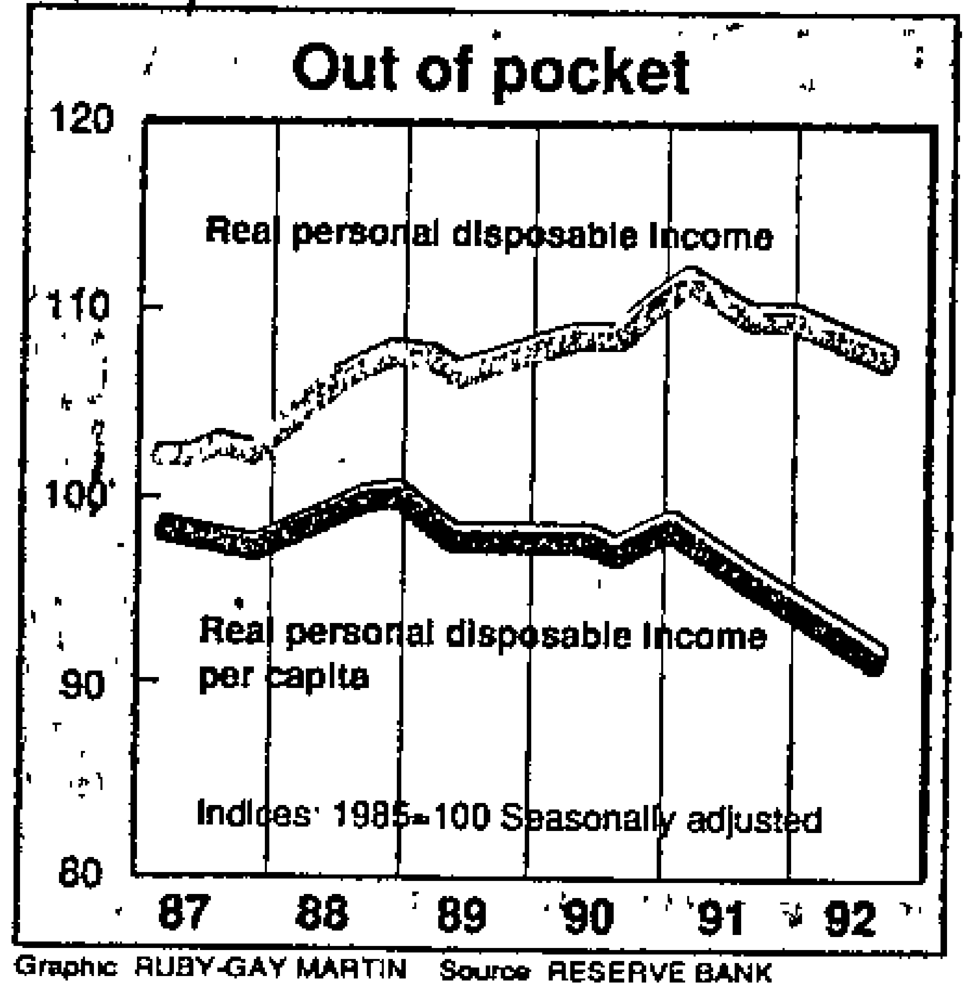
The Reserve Bank Quarterly Bulletin released yesterday said personal disposable income fell uninterrupted in the past three quarters. (The figures are annualised and seasonally adjusted.)

Economists said per capita incomes were falling at an even faster rate as the population was increasing while personal incomes were shrinking.

The bulletin painted a picture of economic gloom — falling incomes and production, depressed spending, inadequate savings, a huge fiscal deficit, persistent inflation and record low investment.

Apart from falling disposable incomes, the bulletin noted the general lack of job security and a decline in households' net wealth as factors putting a damper on spending. Private consumption had fallen for six consecutive quarters with spending on durables such as furniture and household appliances taking a big knock.

The number of new cars bought was 11% below last year's figure.



Graphic RUBY-GAY MARTIN Source RESERVE BANK

But the Bank noted that even spending on non-durables, such as food, alcohol and cigarettes, had fallen at an annualised rate of about 6% in the third quarter.

The bulletin said total employment in the non-agricultural sectors fell by 2,3% in the second quarter (seasonally adjusted and annualised — with no third quarter figures yet available). This followed

□ To Page 2

Standards

BDM 4/12/92

(49)

□ From Page 1

declines in the first quarter and in the preceding two years

Unemployment was the main reason for the increase in remuneration of employees falling to only 12% (before adjustment for inflation) in the third quarter from 14,5% in the second quarter. The Bank had also discerned "some moderation" in wage demands and settlements.

It said growing insecurity about future earnings and employment opportunities in an environment undergoing sweeping social and political change had resulted in an increase in personal savings.

The portion of personal disposable income saved had risen from a low of 1% in the third quarter of 1990 to 3,5% in the third quarter of 1992. However, huge dissaving by general government caused a weakening in the overall savings performance. Annualised dissaving — the practice of using long-term loans to finance consumption spending — amounted to a record R21bn in the third quarter.

"Although this dissaving by the general government does not pose any immediate financing problems for private sector investors in the current slack economic conditions, crowding-out of private investments could become a serious problem if dissaving by the government were to be continued by the time the economy starts approaching full capacity utilisation," the Bank said.

A further issue of concern was the low level of fixed investment spending. The ratio of fixed investment to GDP, at 16% in the third quarter, was at the lowest level yet recorded. The Bank said it was "of the utmost importance" that this ratio be strengthened and that the productivity of investment be increased.

It noted the ratio for newly industrialised countries was 31% in the 1980s. From a high point in the fourth quarter of 1989 to its current low, fixed investment spending has fallen by 21% in real terms.

● See Page 3
● Comment: Page 8

Debt orders soar

49 CT 5/12/92

Staff Reporter

SUMMONSES for consumers in debt have increased more than threefold this year over those last year.

Nearly 100 000 consumers countrywide have so far this year been summonsed for debt every month, according to figures released by the Information Trust Corporation.

For the same period in 1991, the total was more than 361 000 individuals, which was an eight percent increase on the previous year.

The corporation keeps track of the credit ratings of more than 10 million consumers nationwide, 85% of whom are creditworthy.

ITC senior executive officer Mr Dave Rosin said 15% are in some kind of financial difficulty.

In Cape Town, about 1 200 people appear in the Magistrate's Court each month on debt charges.

Of the 33 148 debt summonses that have been issued since the beginning of the year, 9 600 cases have been heard.

The city's senior magistrate, Mr Johan Venter, yesterday said many people lost their homes as they were retrenched and were unable to pay their bonds.

In Mitchells Plain, 4 000 people have already appeared in court this year, while another 6 000 were summoned to appear.

Last month, 669 people appeared in court.

Mr Rosin said credit experts predicted the debts of those consumers summonsed could run into billions of rand.

urt judgment Monday

Growth seen as saviour of the destitute

STAR 5/12/92. (49)

ANGLO-AMERICAN dusts off a plan to abolish poverty, inspired by Nelson Mandela, in which the State adopts a 'market-friendly' line, reports PATRICK LAURENCE.

ANGLO-AMERICAN, stout advocate of a market-based economy with minimum government interference, has called for State intervention to help address poverty.

But it emphasises that State intervention should be short-term and serve as an auxiliary action, rather than the main thrust of an anti-poverty programme.

Anglo's contribution to the debate on how best to tackle the problem — and danger — of widespread poverty in South Africa is contained in an article in the latest issue of Optima.

It summarises the chief ideas proposed by Anglo in a much longer document, drawn up, in part at least, in response to the challenge thrown down to business leaders by Nelson Mandela shortly after his release from prison in 1990.

Highlighted

In an address to businessmen after his release, Mandela highlighted the inequalities of wealth, affirmed the ANC's commitment to nationalisation as one means of addressing the problem, and challenged business notables to put forward their own ideas.

Draft copies of the original document were sent to key political actors, including the ANC. But — as Anglo puts it — "political groupings approached did not take up the invitation to debate the ideas and proposals contained in the draft".

Anglo is unequivocal on the primary importance of economic growth as the best way of combating poverty. It is in the context of that axiom that its advocacy of short-term State action should be seen.

"Economic growth is the only meaningful way to reduce poverty over time," Anglo declares. "It empowers the poor by creating formal and informal jobs; at the same time it promotes the maximum sustainable level of public and private programmes for poverty alleviation."

Economic growth, it adds, generates additional money for expenditure on social services and poverty-reducing mechanisms to address the needs of "the very poor" (as distinct from the poor).

Anglo warns that "direct transfers" — subsidies and handouts of food and services — do not succeed in alleviating poverty.

"They are, typically, not sustainable. They often benefit the middle classes and not the poor. Because of pressures to extend their coverage, they lead to fiscal and balance of payments crises, and a subsequent collapse of growth."

Anglo cites Zimbabwe, noting that that country's financial and economic crisis has led to the collapse of many socio-economic programmes — including free education — which it introduced with high hopes in the 1980s.

One of the best prescriptions for economic growth and poverty reduction is a "market-friendly approach" by government, facilitating a situation where the two forces work in harness.

A positive and powerful spin-off from economic growth is a decline in the population growth rate. Once the process starts, it can be reinforcing: as the population growth rate declines, so the economic growth rate can rise and, with it, the average income per capita.

Anglo adds: "There is a special obligation on all policy-makers, despite political and cultural difficulties, to energetically confront the issue of population control."

Illustrating the importance of stimulating economic growth, Anglo makes a series of calculations: a 1 percent growth rate between now and the end of the century would create 400 000 new jobs; a 3 percent growth rate would add 1,4 million new jobs; and a 5 percent growth rate would generate 2,5 million extra jobs.

The benefits of growth and job creation in the formal sector of the economy would add to the size of, and raise income levels in, the informal sector of the economy.

Anglo notes that the 1990s have thus far been years of negative growth, but says important steps have been taken to stimulate growth, including abandonment of the financially ruinous policy of apartheid, and acceptance of the need to negotiate a fully democratic constitution.

Further hopeful signs include steady growth since 1984 in the volume of non-gold exports, and the increase in manufactured exports from 18 percent to more than 30 percent of total exports.

Much, however, will depend on the economic policies adopted by a post-settlement government and, in particular, whether or not it has learnt the imperative need for a "market-friendly approach".

But, while Anglo subscribes to a market-driven economy in general, it accepts and argues for a State-directed programme to alleviate the plight of the "very poor".

It defines the very poor as those mainly rural people who lack access to fundamental resources. People who have jobs in the formal sector, however badly paid they may consider themselves, are excluded from the definition.

Directed

The Anglo document cites two examples of State-controlled anti-poverty strategies: those directed at providing rural people with fresh water and employment.

It envisages the formation of "job brigades" in which the poorest of the poor will be drafted to extend the infrastructure through the building of dams, roads and the like.

Anglo stresses the importance of working closely with people, of listening to them, and of the State or its functionaries not assuming they know what is best.

The contracting economy — the third quarter of this year registered an annualised shrinkage of 3 percent — and the looming budgetary squeeze underline the need for economic growth as the motor force behind poverty alleviation.

The debt crunch is coming

SA is living way beyond its means and it is only sharply increased borrowing that enables the State to pay the salaries of civil servants, maintain hospital services and so on.

Unfortunately loans have to repaid and figures supplied by Finance Minister Derek Keys show the stage is fast approaching where alternative sources of income will have to be found to keep State finances afloat.

Citizen

He estimates that if the current trend continues government debt will increase to a record R22-billion in the new fiscal year.

6/12/92 -

The big question is where is the money to come from?

As elsewhere in the world, there is only one real source for govern-

☐ MONEY TALK

ment: our pockets. But simply increasing taxes in a declining economy is not only foolish, but it can be dangerous in that initiative and motivation to work hard are killed. Why should you work hard if most of your income lands in the inefficient hands of the State?

(49)

Apart from the disincentives created by SA's high tax rates, there is also the question of rising unemployment. Highly qualified people, who should be paying subtanstial amounts of income tax, are walking the streets trying to find a job – any job – to keep the wolf from the door. How weak our economy has become is reflected by a remark made by Keys: cigarette and beer sales have fallen for the first time on record.

As increases in income and company taxes will be counter-productive, Keys will have to look at indirect taxation to raise the required revenue. This means that we will have to pay more for items such as petrol, cigarettes and beer while a fresh look is needed as far as VAT is concerned.

It will have to be increased, but at the same time the country simply cannot afford another round of national stayaways and other mass action.

Whatever decisions are eventually taken to raise more revenue, we can expect to feel the impact in coming months.

ANC debate on business

C/Pren 6/12/92

SENIOR management from private companies sparred with the ANC on Friday over the organisation's movement towards anti-trust legislation.

Opening the ANC's workshop on the issue, ANC president Nelson Mandela said anti-trust policies would help create competition in the economy. (49)

He also believed such strategies would help address the distorted patterns of ownership that arose out of apartheid government and had contributed to the conglomerates' stranglehold.

However, private sector officials suggested anti-trust laws would decrease the country's international competitiveness and domestic investment ability.

Adviser to Anglo American Corporation chairman Michael Spicer said high inflation, interest rates and exchange controls created a "parlous investment climate".

However, the big companies had access to large amounts of capital at lower costs and ensured good returns on investment and were therefore crucial for the good of the country, he said.

ANC tax advisor Dennis Davis said it was difficult for smaller companies not within the conglomerate stable to gain access to investment funds. – Sapa

Chickens of government profligacy home to roost

S/Times (Buss) 6/12/92 (49)

By AZAR JAMMINE

AS MEASURED by the extent of decline in South Africa's gross domestic product from its pre-recession peak, the current one is officially no more severe than the recessions of 1982-83 and 1984-86.

However, such an assessment is somewhat misleading. It says little about the duration of the recession which, at almost four years, is by far the longest in 85 years. It also masks the fact that the current recession is probably hurting a broader cross-section of the population than any of its predecessors.

Not only is it hurting the lifestyle of most people, but never since the Great Depression of the 1930s has there been so much stress and fear of losing one's job, or one's company in the case of many small businessmen. In addition, it has never been more difficult for school-leavers or graduates to find the jobs to which they aspire. The only ones benefiting are those few at the receiving end of some of the excesses in government spending on the public service and homeland administrations in the past two decades.

STIFLE

It is primarily the constant rise in this type of expenditure which has masked the severity of the decline in overall economic activity reflected in the GDP figures and which has contributed to a sharp fall in private-sector economic activity.

The growth of government consumption lies at the heart of the long-term decline of the South African economy. By taxing people more and more over the years to pay for such expenditure, the Government has progressively impoverished the population.

However, the chickens have come home to roost.

It is no longer a matter of State spending being at the heart of the long-term decline in the economy It now threatens to stifle even a short-term recovery

Ironically, this is not so much because the Government is overshooting its expenditure budget for this year, but because the base of its budgeted spending has risen over the years to such a high level that the kind of shortfall in revenue from taxation and excise duties currently being experienced as a consequence of the severity of the recession has left a gaping fiscal deficit, the likes of which this country has never seen.

In looking to 1993, the Government faces the unenviable choice of borrowing at an unprecedented rate to finance this deficit, raising taxes steeply or slashing the public service, or a combination of all three.

If it continues borrowing the funds required at the present rate, the interest burden on the rapidly growing public debt will soon rise to such an extent as to dwarf all other forms of State spending.

Expenditure on vital social upliftment projects will have to be forfeited in the process.

To an extent this has in fact been going on for many years. But it now threatens to get totally out of hand. In 1975 the interest on public debt accounted for no more than 5% of the annual Budget. By last year this figure had climbed to 16%.

This year it is likely to surpass education as the biggest area of State spending at almost 19%. If the Government wishes to avoid raising taxes or firing public servants and instead continues borrowing heavily to accommodate the huge fiscal deficit, then by 1995 the interest bill could amount to more than a quarter of the Budget.

As has been seen in Latin American economic history, once a state's interest bill starts increasing to this extent, its cash flows are under such pressure that money has to be printed to meet the interest payments, with tremendous inflationary consequences.

In other words, by borrowing heavily, a government may avoid dampening economic activity in the short term, but a heavy penalty will have to be exacted from the economy in the longer term.

EQUAL

The alternative of raising taxes steeply may be a sounder measure in the longer term. But in the short term it will depress economic activity still further and prevent inflation from declining the way it ought to do on the basis of declining credit demand and associated monetary growth.

If, for example, VAT is raised to 13% and the fuel levy is increased by 15c a litre, then in the short term real disposable income will fall by 2%, other things equal, and inflation will rise once-off by two to three percentage points.

The third option, reducing government expenditure drastically through large-scale retrenchment of public servants, will not only risk generating socio-political upheaval, but will depress economic activity in the short term.

The Government is therefore faced with a Hobson's choice between not depressing growth in the short term with major longer-term risks or taking actions which will prolong the recession and boost inflation in the short term but which are fiscally more sound from a longer-term perspective.

Either way, the prospects for 1993 are not particularly exciting and the choice outlined revolves around whether to have some low-growth, longer-term risks or no growth at all for the sake of fiscal discipline.

POSITIVE

So long as external factors were reasonably stable, the Government was able to keep plodding along with reasonably sized Budget deficits without facing the kind of dilemma now confronting it.

Unfortunately, three factors beyond its control hijacked its position in the past year. The poor state of the world economy and associated low commodity prices, the drought in the summer rainfall areas and the political impasse and associated unrest combined to scupper any nascent recovery.

Moreover, by depressing State revenue, they contributed to the crisis in State finances.

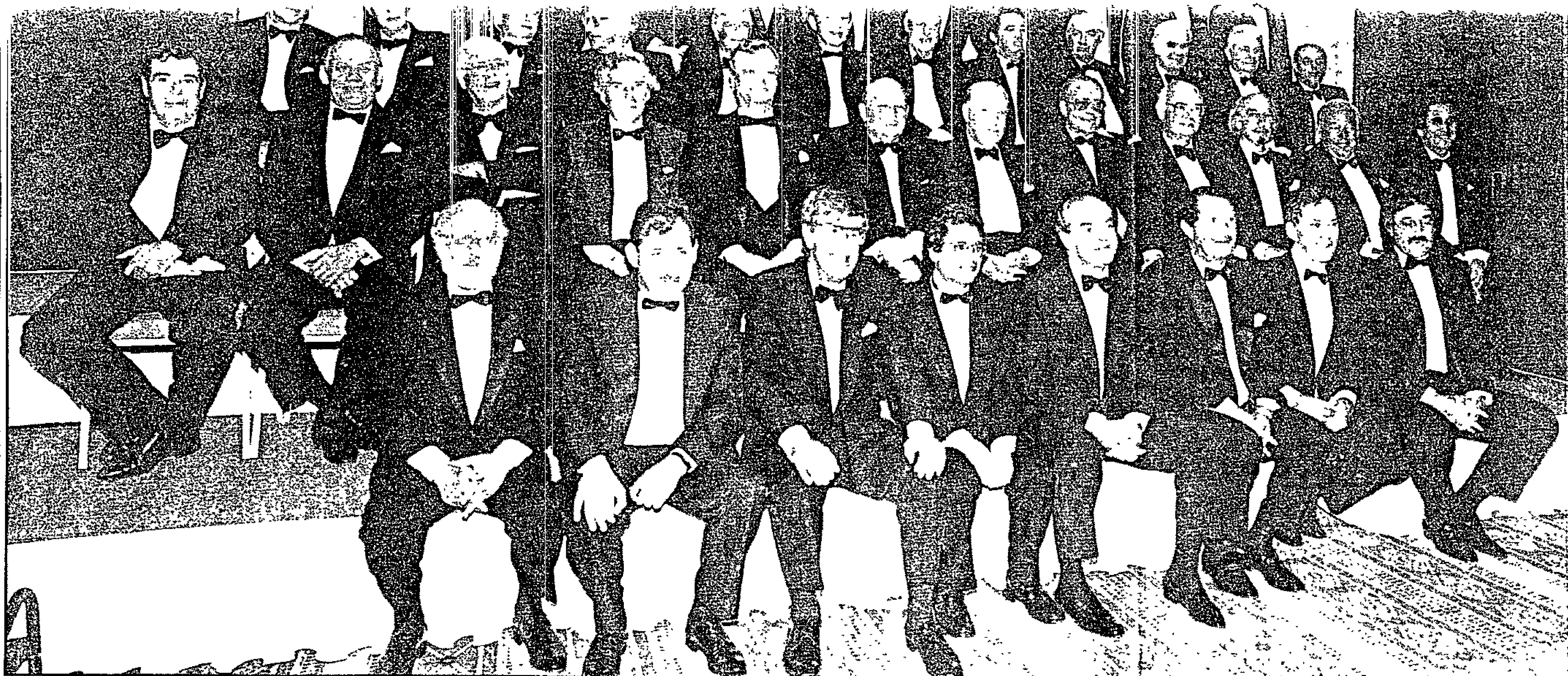
On the positive side, there is a reasonable prospect of slightly improved world economic growth and a better agricultural season. However, the probability that inflation and interest rates may not decline as much as previously expected because of the parlous state of State finances will tend to neutralise any benefit which might accrue from the amelioration of the external factors mentioned

The final question that arises is whether the socio-political situation can maintain a semblance of stability in the face of yet another year of dismal growth. One cannot deny the possibility that if the recession continues for much longer, the entire political social and economic fabric of society could degenerate into anarchy next year.

One's hopes that this will not happen rest on the fact that, in spite of three years of recession, the country has still not come off the rails and that the forces of stability are strong enough to allow the economy to emerge gradually from recession on a growth path that can sustain itself

Given the present constraints on growth, that could be a tall order.

■ *Dr Jammine is director and chief economist of Econometrix*



FRONT ROW (left to right). Sydney Press (Edgars, 1974); Stephen Koseff (Investec, 1992); Gary Maude (Gengold, 1992); Brian Joffe (Bidcorp, 1992); Mervyn King (Tradegro, 1987); Eric Ellerine (Ellerine Holdings, 1972); Natie Kirsh (Kirsh Industries, 1981); Jeff Liebesman (W&A Investment, 1990).

SECOND ROW. Chris Stals (Reserve Bank, 1992); Nic Wiehahn (Labour Law Reformer, 1981), Kobus Loubser (SA Railways, 1976), Clive Menell (Anglovaal, 1979); Derek Keys (Gencor, 1987); Donald Gordon (Liberty Life, 1970); Ian MacKenzie (Stanbic, 1978); Aaron Searll (Seardel Investment, 1982), Conrad Strauss (Standard Bank, 1986); Len Miller (OK Bazaars, 1968); Bert Cottrell (NCR, 1971); Eric Samson (Macsteel, 1989).

THIRD ROW· Peter Wrighton (Premier Group, 1991); Michael O'Dowd (Anglo American, 1985), Francis Le Riche (Sentrachem, 1980); Henri de Villiers (Standard Bank Investment Corporation, 1985); Ronnie Lubner (Plate & Glass, 1985); David Brink (Murray & Roberts, 1991), Ian McRae (Eskom, 1989); Leslie Boyd (Anglo American Industrial Corporation, 1988), Gavin Relly (Anglo American, 1981); Brian McCarthy (McCarthy Group, 1987), Piet Badenhorst (UBS, 1986); Eugene van As (Sappi, 1990).

FOURTH ROW· Neil Jowell (Trencor, 1991), Cecil Jowell (Trencor, 1991), Ton Vosloo (M-Net, 1992); Christo Wiese (Pepkor, 1988); Louis Shill (Sage, 1969), Grant Thomas (Malbak, 1989); Peter Joubert (Afrox, 1991); Vic Hammond (Edgars, 1990), Chris Saunders (Tongaat, 1970), Bill Venter (Allied Technologies, 1977)

Fixing the debt trap, the doubt trap, the down and out trap

S/Times (Buss) 6/12/92.

(49)

Business Times Reporter

TRUCKING and manufacturing company Trencor scooped — for the second time in a row — top prize in the Business Times Top 100 company award

Accepting on behalf of the company at a black tie function at the Carlton Hotel on Monday night group managing director Ray Hasson attributed success to the efforts of Trencor staff many of whom never get to don a tux and attend lavish affairs

He said most of the staff had stuck with the company since its infant years in the transport industry and remained dedicated to it

Trencor has rewarded investors with a simple average annual return of 246,26% over the past five years

Hot on its heals is Investec with 172,32% and Pepgro, with 129,15%

The awards excluded companies that showed too little trade on the JSE as well as trusts holding companies pyramids exploration companies and non SA companies

Paying tribute to Business Times Five Businessmen of the Year Finance Minister Derek Keys said four - Brian Joffe Stephen Koseff Gary Maude and Ton Vosloo — were in the business of making worthwhile money, while Reserve Bank governor Chris Stals was trying to make making money worthwhile

Mr Keys says SA faces three traps a debt trap a doubt trap and a down and out trap

He says a recent confidential report on SA by the IMF criticised the growing budget deficit, saying that it was feared that it may be as high as 6% or 7% of GDP

Mr Keys says latest estimates show that the deficit is likely to be about 8% which will mean that Government's interest bill the second highest item of expenditure after the R23-billion spent on education is likely to jump from R18-billion to R22-billion next year

DEREK KEYS ... Keynote speaker at this week's Top 100 banquet

"This is a higher rate of growth than any other item of expenditure

The solution to the debt trap was to cut expenditure raise taxes or allow inflation to take its course

The third option was not acceptable but raising taxes and cutting expenditure required the mustering of the necessary political will and required national consensus

Mr Keys says capitalism has its periods when it loses its way, when people start losing confidence in what tomorrow may bring

He says the US economy under George Bush is a case in point, and that in SA "we have plenty of this doubt"

The lack of investor confidence has had added to it a lack of consumer confidence

Mr Keys says sales of beer and cigarettes dropped in August for the first time in living memory "This is doubt"

He says the economy needs to be restarted to take SA out of the cumulative doubt trap "We need to do this before too long

Mr Keys says there is an enormous cost to delayed growth one percent growth forgone is social pensions for one million people for ever

"We've thrown away more than 1% during the past few years"

Mr Keys says underdevelopment has firmly established itself in SA during the past few years This sector is characterised by low incomes, high fertility poor nutrition bad health poor work potential and poor education

This Mr Keys describes as the down and out trap

He says that when he came to government he was fond of saying he was there to do deals The deal he is offering to business is simple "I'll fix the debt trap you fix the doubt trap and together we'll fix the down and out trap

DIVERSE INTERESTS SEEK A SANE CENTRE

STimes (Buss) 6/12/92.

(49)

By PIERRE DU TOIT

WHEN South Africa's Top 100 companies look at the future, the basic ingredients are no different for them than for anyone else. They, too, look with concern at the economic decline while politicians and administrators fiddle and filch.

When their executives look at that future, they, like so many fellow South Africans in "business", feel the pressure of their concern for their families and themselves in a world that is moving from certain disaster to uncertain hope.

But the thing that characterises them without exception is that they can pursue the future in the face of the present — that they can have the faith that gives the drive and success even while the moment looks desperate.

In the nation's tax life, as everywhere else, the moment looks desperate indeed. The State is overspending hugely, the pressure on the taxpayer can be felt in a new aggression from legislator and administrator alike, and out in the streets the language of tax revolt, that classic definition of revolution, has become common-place yet real.

The immediate future also looks brittle — politically the demands and expectations of angry and deprived generations are intimidating and the need of 16,4-million people living below the minimum living level (Vatcom — a government commission) is awesome. And unless we plunge into the suicidal whirlpool of doctrinaire socialism, all that stands between that infinite need and finite resources is the besieged tax system.

But the Top 100 are at the top because they can look, not past, but through the blood and dust and grief and fear of now and see a remarkable process taking place.

A little out of the mainstream of emotion, yet today deeply in contact with the realities that surround them, diverse interests are working to a sane centre.

An Albie Sachs can confess at an investment conference that Maputo has cured him of "shoes for the masses" socialism; Derek Keys can state in Washington that, in spite of some things that still bother him, ANC economic policy is workable.

Common ground is developing. In that common ground, the tax system will be vital. But here, too, those who look beyond the obvious are quietly confident.

There is a great need for a balance of perception — if the producers of wealth believe that they are unreasonably burdened, they will leave or stop producing and the people will starve; if the people believe that their needs are not at least partially met, they will stop the producers in their tracks with anarchy.

What is again remarkable when one looks behind the hysteria of the headlines, is the degree to which both sides of the producer-beneficiary divide today subscribe to this balance of perception.

The New South Africa which ultimately will, repeat will, emerge from the chaos and violence of its birth, will not bring lower tax rates for some time, but nor will it see drastically increased rates; it will see some new wealth taxes, none of them crippling.

SURVIVAL

In short, it will see very little that will not be recognisable from today's perspective.

But the top 100 in any group are not in Top 100 companies because they think faith and courage can do it alone; even thoughts and concepts, no matter how astute, do not make money. Only actions do.

There are two things even the Top 100 must do.

First, they must regard tax as a merely another cost. Girded with their own absolute legality, they must plan their taxes, manage their taxes, and ultimately reduce them within the law, with a combination of sober aggression, sound strategy, uncompromising expertise and the sustained energy warranted by the fact that it is a cost representing much more than 50% of their hard-won profits. On this depends their survival.

Second, they must jealously guard their right to do so, for in that lies the difference between the prosperity of the rule of law and the destitution of anarchy or despotism. The strong ones, those at the top, must never waiver in their defence, on their own behalf and on behalf of everyone else, of the law as the sole arbiter between the State and citizen, corporate and individual, in tax and in all else.

That defence must be against all comers; this government, an interim government and a new government. For on this depends the survival of the nation, also the New nation.

■ *Pierre du Toit is senior tax partner, Arthur Andersen & Associates*

W Cape exports to lead recovery

(49)

By JEREMY WOODS

THE Western Cape is set to lead South Africa out of recession, probably by the middle of next year.

"The Western Cape's strength in exports will cause the region to lead the country out of recession, says Dr David Bridgman, executive director of Wesgro, a leading source of economic and business information on the Western Cape.

"Traditionally, a rise in the gold price has been the trigger to lead South Africa out of a recession, but I doubt that will happen this time," Dr Bridgman said yesterday.

The outlook for the gold price is pessimistic. Low growth in the world economy saps demand for the metal and make it an unattractive investment.

"Most of the country's metal and heavy mining exports are centred around the Johannesburg area because that's where the mines are. Over the years the Western Cape has concentrated on products it can produce and has been very successful in exporting these," Dr Bridgman said.

"The Western Cape is a big exporter of commodities like fruit, wine, vegetables, clothing and light engineering. Its export markets are established and as the world economy picks up, so will it export into the demand."

STimes (Cape Metro) 6/12/92

Drought

Another heavyweight economist confirmed this week that the economy in the Western Cape was in better shape than that in the rest of the country — and was poised to lead the way out of the recession.

Mr Johan Louw, chief economist at Sanlam, said: "The Western Cape is less affected by the recession because it is not dependent on minerals, nor does it have to contend with the effects of drought.

"With its export potential, it is well placed to lead the rest of the country in any upswing.

"It is too early to say we are coming out of the recession yet. The latest statistics from the Reserve Bank are still telling us we are in recession.

"By the middle of next year we should be able to see the end of the recession as a country."

By then, interest rates should be lower and, it was to be hoped, inflation would have declined further.

"For the man in the street, I think it will be the second half of the year before he starts to feel any of the benefits."

Pro-business slant to ANC anti-trust policy

STAR 7/12/92

By Sven Lunsche

Anti-trust legislation by the ANC is likely to have a "pro-business" bias and is to be separated from policies aimed at addressing the concentration of economic ownership, says ANC economist Tito Mboweni.

He was speaking at the conclusion yesterday of a three day workshop on anti-trust, monopoly and merger policy.

The workshop was attended by ANC economists, private sector managers and a range of international experts on anti-trust laws.

The ANC's strong focus on anti-trust legislation is an indication that it will take the place of large-scale nationalisation as the major tool to redefine the largely white-controlled patterns of ownership.

Mboweni said the ANC had identified a set of key issues in dealing with anti-trust legislation, including setting-up an investigative arm similar to the UK's Monopolies and Mergers Commission.

Legal powers to take action on such findings should rest with the Department of Trade and Industry, he added.

"We are certainly not convinced that the SA Competitions Board, which has a very weak profile, can serve as a basis to investigate monopolies and mergers which impede competition in the economy."

Mboweni said anti-trust legislation could not be seen in isolation from "the power of the conglomerates and a long-term industrial strategy".

Yet, he added, the overriding tone of the workshop suggested that anti-trust policies should be "pro-business" and the ANC identified with this sentiment.

He said the organisation would use the input from the participants in the workshop to draw up a comprehensive anti-trust document, possibly by the end of February next year.

It also seems that the ANC will heed the advice of the senior economist of the UK's Monopolies and Mergers Commission, Geoffrey Sumner, who told the workshop that the confluence of economic power in the economy should not be redressed by retroactive competition policy.

Sumner said investigatory and tribunal agencies should be set up which "as far as possible should not have political bias".

The ANC was also warned that anti-trust policies alone could not achieve a radical change in the patterns of ownership and control.

JSE president Roy Andersen said the inward-looking policies of exchange controls, import tariff protection, import substitution and self-sufficiency during the apartheid years had played a critical role in the development of this concentration.

"These are the underlying causes of concentration which need to be dealt with," he said.

Despite the focus on anti-trust policies, the ANC has not ruled out partial nationalisation of mining groups.

In a paper to the workshop, ANC minerals economist Dr Paul Jordan said the state had a right to equity participation in private mining companies because of its ownership of the natural resources of a land.

Strategies proposed by Jordan included nationalising cross share ownerships between mining groups, particularly De Beers and Anglo American, and giving the state a minority equity holding of about 20 percent.

He said joint control of a mining group was working well in the case of De Beers and the Botswana government through the jointly contolled Debswana operation.

Furthermore, white control could be diminished by "a meaningful employee share holding scheme, which is not based on income".

Mboweni said the proposals addressed the problem of inter-locking directorships, but added that it remained to be seen whether this should be dealt with through nationalisation or anti-trust policies.

Palladium rises to 18-month high

By Neil Behrmann

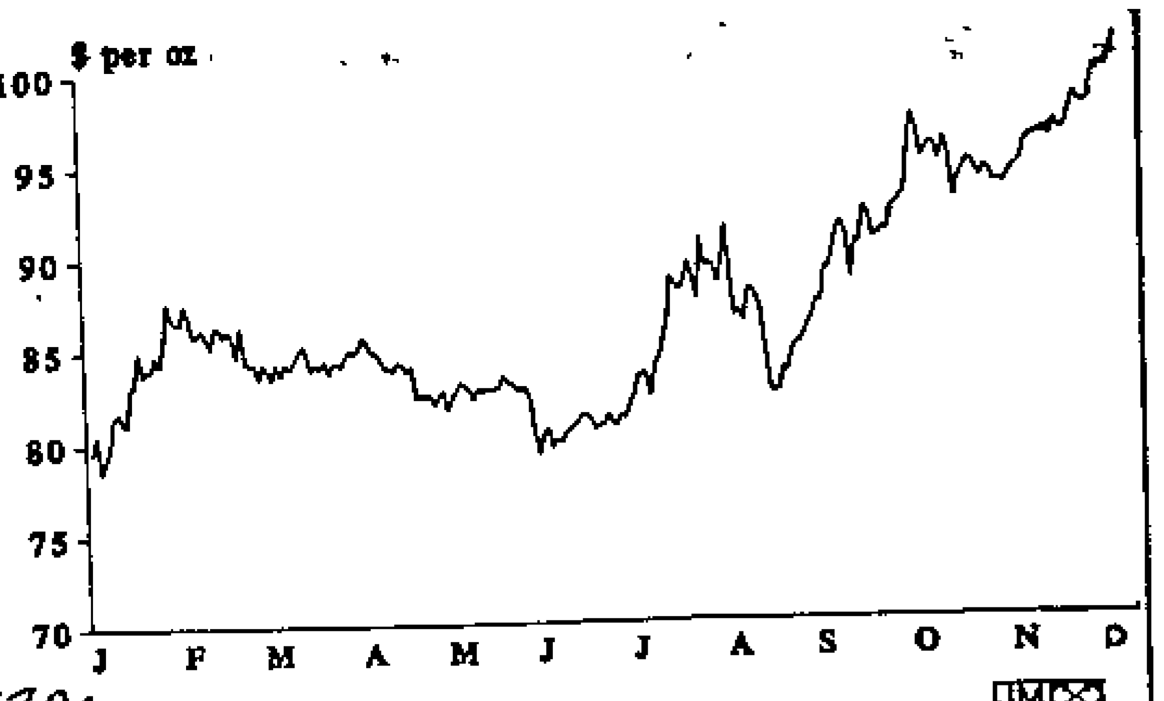
LONDON — Palladium prices surged to their highest levels in 18 months last week in response to lower Russian supplies and a sharp increase in orders from Japan.

At $103 an ounce, palladium, the main by-product of platinum, is 25 percent higher than levels in August. Its trading range was $80 to $85 for most of this year.

Palladium, by far, has been the best-performing precious metal. Its appreciation since August compares with a four percent increase in the price of platinum, a constant silver price and a four percent decline in gold.

The rise in palladium prices is a welcome boost to SA platinum companies.

SA palladium production is forecast at 1,28 million ounces this year, compared with 2,82 million ounces of platinum, according to Johnson Matthey.



STAR 7/12/92.

The price of palladium this year

For each $10 increase in the palladium price, revenue for Rustenburg, Impala, Western and others rises by $12,8 million — not an insignificant sum.

Platinum's price increased by about $13 in the same period.

Since the rand has fallen against the dollar, platinum companies which were under pressure earlier in the year, should be on a better footing.

Yet actual revenue gains will depend on contract prices.

A palladium futures contract was introduced in August on Tokom, Tokyo's commodity exchange. Dealers say that on Wednesday volume reached a quarter of a million ounces and on Thursday 650 000 ounces.

Thursday's trade alone equalled activity for the whole of last month, say dealers.

London dealers are perplexed about the sudden burst of buying on the Tokyo futures exchange.

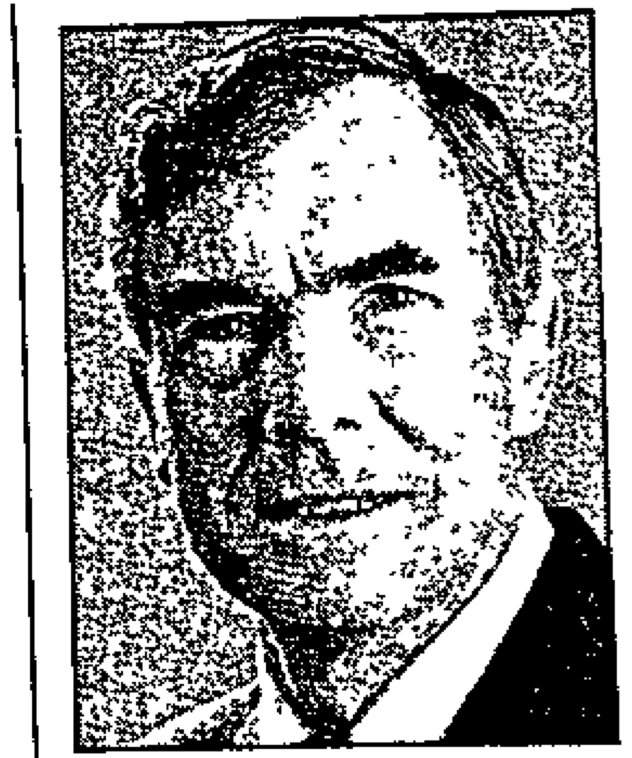
Some believe that Japanese motor companies intend using more palladium in anti-pollution auto catalysts.

Others say that "cold fusion" energy experiments are keeping the palladium pot boiling.

Cold fusion requires palladium to generate energy, but so far there is no scientific proof on whether the process will work.

According to some scientists, energy is produced when an electric current is sent through palladium electrodes that are immersed in a jar of heavy water enriched by a heavy form of hydrogen known as deuterium.

Japan, totally dependent on oil imports, is anxious to develop alternative energy sources.



Robbie Williams . . . taxing food is untenable

IDC disposes of Senchem shares

STAR 7/12/92

Finance Staff

The Industrial Development Corporation (IDC) has placed its R90 million shareholding in chemical group Sentrachem with 14 fund management groups.

IDC senior general manager Gerard Morse said at the weekend the IDC had sold its 13,5 percent stake as part of its policy of realising mature investments to fund new industrial projects.

Morse said the IDC had had a long, happy and productive association with Sentrachem, but that its development role had now been fulfilled and it was appropriate that it should realise its investment for other projects.

He said Alusaf, the Columbus stainless steel project and Namakwa Sands were some of the projects requiring IDC support.

The IDC is currently investigating the unbundling of Industrial Selections and National Selections, its two listed investment trusts.

All 14 institutions accepting the shares have committed themselves to supporting Sentrachem's proposed 40-for-100 rights issue.

The rights issue will go ahead only if the purchase of Chemplex Australia is successfully completed.

While the transaction has been delayed as a result of the Government's move to limit the use of the finrand for off-shore acquisitions, Sentrachem chief executive Dr John Job is said to be leaving for Australia soon to finalise the deal.

Job said the IDC's disposal provided an ideal opportunity to broaden shareholder participation in Sentrachem.

Seven of the institutions, which accepted the shares at 575c each, are new holders.

Williams favours export incentives

STAR 7/12/92

By Stephen Cranston

Tiger Oats chairman Robbie Williams has urged the Government to retain export incentives and not to succumb to pressure them.

In the annual report for the year to September, Williams says group exports and international sales now exceed R1,2 billion.

But it would be most unwise to expect SA to be able to compete effectively without such incentives when export subsidies in one form or another are commonplace worldwide.

"As a group we are acutely aware of the need to be internationally involved and competitive."

While Tiger Oats supports VAT as a better method of indirect tax than GST, the company feels strongly that for food, zero-rating should be applied across as broad a front as possible.

"The argument that this would allow the rich to eat tax-free is more than outweighed by the crying need to feed people as cost-effectively as possible.

"Unless adequate arrangements are made through food aid schemes to provide basic sustenance for the poor, we believe taxing food is untenable."

Tiger Oats should narrow its focus

STAR 7/12/92

By Stephen Cranston

Earnings growth at Tiger Oats has been consistent over the last three years.

After two years of increases in earnings per share of about 13 percent, the group turned in an 11 percent increase in the year to end-September.

This is not the kind of performance that would normally lead to Tiger's demanding rating of a 20,1 P/E ratio and a 1,7 percent dividend yield.

But investors like Tiger because it has taken a long-term view of its food basket. Market share, rather than short-term profitability, is king.

The group seems to tolerate a mediocre performance in some divisions — returns in the edible oil business have been poor for some years — but it has been able to acquire a formidable portfolio of companies and brands which have compensated for this.

Unlike arch-rival Premier, Tiger has held on to its interests in poultry and eggs, even though they have undoubtedly been a drain on margins and profitability.

The exact contribution of these interests cannot be determined from the annual report.

But margins for County Fair and Golden Lay were poor and under pressure and Tiger is waiting for rationalisation in these industries. It has the financial muscle to ride out such attrition.

It is surviving a price war in the animal feed area, for example. The group says a number of rival animal feed mills have closed down because of over-capacity in the market, but Tiger can afford to live with negligible margins.

But is it in the interests of Tiger shareholders to persist with a group with such an inconsistent profit mix?

In the agri-business and food processing division, for example, Langeberg, with a third of the turnover contributed, two-thirds of the profits.

Tiger is counting on improvements and can point to edible oils, margarine and peanut butter, which lifted operating profit by 48 percent, though off a very low base, and which still have a negligible opeating margin of less than three percent.

Tiger can still rely on certain divisions ensuring that its growth at least exceeds 10 percent.

Pharmaceuticals now contribute a quarter of operating profit.

Forefront

Adcock Ingram continues to be at the forefront of new product development and has the country's best portfolio of pharmaceutical brands.

Spar continues to show good growth. Perhaps the best opportunities will arise from its international shipping and trading operations.

It is well-placed to meet new opportunities after the R21 million expansion of its Durban bulk shipping facilities.

Tiger's advantage over other food suppliers is that it is represented in all the staple categories — and in the case of rice is the only producer, so if there is swapping in consumption between maize, bread, rice and pasta Tiger will be represented.

But is such breadth always an advantage? Tiger might be advised to take a look at its portfolio and concentrate its resources and efforts on areas providing the best returns.

The economic terrain must be levelled for take-off, argues **Stephen Meintjes** (49)

Grounding high fliers to let labour and capital so

STAR 8/12/92

HOWEVER far, fast or high we want economic growth to fly, it will remain land-based. For no one has yet invented any means of creating wealth other than by applying labour and capital to land.

Yet, despite all the talk about levelling the economic playing field, it is astonishing how little thought is given to that end.

All that is needed is to replace taxation by site-value user charges — the players on the High Ground (best metropolitan sites and arable land) pay more than those on the Low Ground.

The advantages enjoyed by High Ground players are reflected by the prices they pay — for example, R5 000 sq/m for land in the Johannesburg CBD as against R50 per hectare in an arid region.

So the market is telling us that the best land is many times more productive than the poorest.

Clearly not all can play on the High Ground and no matter how skilfully the players on the Low Ground use their capital and apply their expertise, they will be outplayed.

In golf, where the terrain is the same for all players but it is accepted that skills differ, handicaps are used to give weaker players a chance to win.

So on the economic playground, one would think that the High Ground players would incur a "handicap".

On the contrary, due to the "oversight that caused all the trouble", it is the Low Ground players who are handicapped! Quite apart from the ruinous effect of VAT and petrol taxes on the ultra-poor millions eking out a subsistence in remote rural areas, formal economic activity there is also effectively penalised.

Even companies merely breaking even on the Low Ground — and hence paying no company tax — are not let off the hook.

In addition to VAT, hefty imposts are payable via PAYE, petrol levies and other indirect taxes.

As Ben Vosloo, MD of the Small Business Development Corporation, points out, small and medium-sized enterprises — many of whom are Low Ground players — actually pay taxes at much higher rates than High Ground corporations enjoying export, sponsorship, and other allowances.

No wonder there is little formal economic activity outside the metropolitan areas and there is an irresistible compulsion on the part of Low Ground players to flee to the High Ground, even if it means squatting there.

So what was the "oversight that caused all the trouble"?

Briefly it was the failure of governments since the Industrial Revolution to see that locational advantage is the one indisputable input in the process of creating wealth for which the state, by underwriting security of tenure, can take full credit.

That process consists simply of applying labour and capital on land. The primary claims on the resulting wealth are earnings, profit and rent, respectively.

Rent is the term used by economists to describe the additional output on better land compared with that on the least productive, given the same imput of labour and capital. It is the natural source of revenue.

By ignoring locational advantage, and taxing instead the fruits of labour and capital, governments penalise all who work and venture their capital. This attitude encourages underutilisation of land and natural resources.

So capital and labour fight like two dogs while the third, ownership of natural resources, walks off with the bone of unearned income.

Ironically, by socialising locational advantage via site-user charges, governments would, for the first time, create truly free and efficient markets in natural resources, thus ending what Winston Churchill called "the oldest monopoly in the world".

He inveighed against the curious system in which five percent of the human race can appropriate the face of the earth and charge the rest through the nose for the "privilege" of living and working on "their" planet.

Site-value user charges would end all that nonsense because owners of natural resources, who now understandably may prefer the leisurely wait for risk-free capital appreciation to the effort and risk of fully developing their property, would have a clear incentive to do so.

Those without the inclination or ability would dispose of their properties.

Moreover, the closer the annual user charge came to capturing the full locational advantage, the closer acquisition costs of land would tend to zero. Property prices would therefore reflect the value of improvements only.

Separate auction or tender mechanisms for the user charges would ensure that they accurately reflected the annual market value of the land. Such auctions would be held between sale and registration of property with bidders being obliged to furnish security to ensure the seller got his price if they won and the original purchaser failed to match their bid.

The effect on the economy would be electrifying. Market forces would immediately ensure the efficient use of all land and effect a rational redistribution.

Political pressures for arbitrary land redistribution would be satisfied and the massive alienation of black South Africans from the free enterprise system would end overnight.

The curse of inflation, in large part due to the claim on production by ownership of land for no equivalent input, would be dealt a mortal blow. □

Stephen Meintjes is an investment manager.

JSE could gain from Hong Kong crash

STAR 8/12/92

By Neil Behrmann

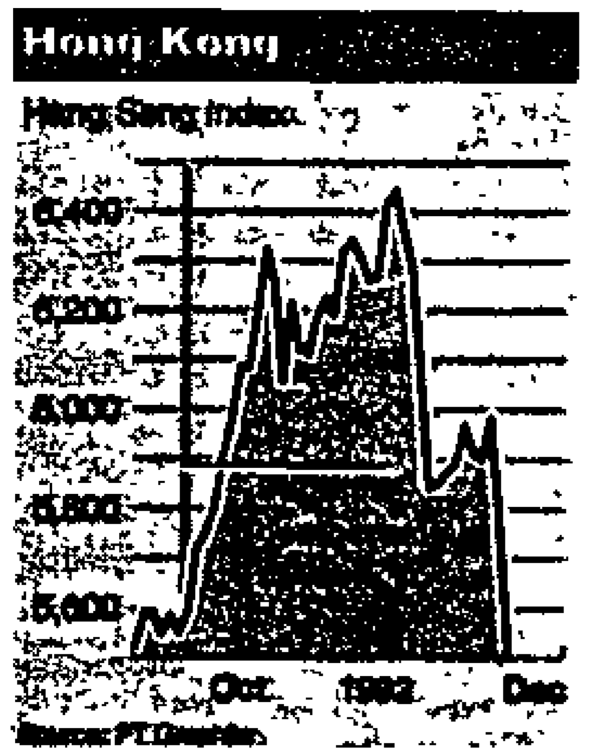
LONDON — The crash on the Hong Kong share market might benefit the Johannesburg Stock Exchange indirectly.

International investors may begin to perceive that the abnormally high international returns of South African investments are compensating for the risks, while Chinese citizens may well buy more gold.

Since its low point of 2 300 points on the Hang Seng index in mid-1989, the Hong Kong market has been oblivious to political risk and soared to a peak of 6 70 points three weeks ago It was up by 50 percent on the year at that time

Since then the market has tumbled by 20 percent because international and local investors are concerned about China's intentions towards the colony The transfer of power to the Communist regime takes place in 1997

Fund managers who sold Hong Kong shares in 1989 when the Beijing regime ruthlessly



suppressed a democratic movement, poured money into the market this year Before the crash, average price-earnings of Hong Kong shares topped 15, compared with norms of 10 in the past.

Foreign fund managers, on the other hand can buy rand government bonds on yields of 23,5 percent, giving a real return of nearly 12 percent after inflation and an income payback on capital of just over three years.

Shares such as Anglo American and De Beers, huge multinationals by any standards, are on price-earnings ratios of four and five and leading gold share dividend yields are between 12 and 15 percent.

Those returns illustrate that South Africa is still being shunned. But developments in Hong Kong may well be a catalyst for a change in thinking.

The high SA returns may reflect excessive pessimism, particularly since much lower returns in "emerging markets" do not truly reflect their risks.

The crisis in Hong Kong accelerated in October when the new governor, Chris Patten, proposed some minor democratic changes to basically a benevolent colonial dictatorship of Britain.

The Beijing regime, which continues to repress its own citizens brutally, was furious.

It made an ominous threat. "Contracts, leases, and agreements signed by the Hong Kong government which are not approved by the Chinese side will be invalid after June 30 1997."

Projects affected are a $1,2 billion container terminal, power station investments, tunnels, telecom, television, bus and ferry franchises.

Earlier during the dispute, optimists argued that the China would concentrate on politics and not threaten the economy

Now there are deep concerns and many vested Hong Kong and international businessmen want Patten to back down and continue previous British policies of appeasement.

The market is worried. The United States, Britain and others are deeply concerned about Beijing's human rights record. President-elect Clinton is threatening to end China's favoured nation trade status.

Once again the market is becoming aware that Hong Kong's economic growth rate of six percent may not continue at such a pace.

UK fund managers whom I interviewed were cautious about the Hong Kong market's short-term prospects.

London brokers, who do not have axes to grind, say that Hong Kong price-earnings ratios, currently 12, should be lower because of political risk

International banks will be wary about exposure to Hong Kong. They do not like China's threats to Hong Kong government projects

If loans are not forthcoming, Hong Kong's economic growth will be adversely affected, say brokers

Faster rate

SA securities are beginning to recover on international markets because the government and ANC are negotiating for a power-sharing agreement.

Hong Kong is growing at a far faster rate than depressed South Africa, but at least SA is moving towards democracy.

The Beijing regime, on the other hand, is out of step with the rest of the world and after the latest jolt, international investors are asking what will happen to Hong Kong in four years time?

And what average price-earnings ratio reflects political risk?

DP shoots down ANC proposal

(49)

The ANC suggestion that the cross-holdings of large conglomerates be nationalised should be rejected out of hand, says Democratic Party (DP) finance spokesman Ken Andrew

An ANC economist put forward over the weekend at the organisation's anti-trust policy workshop that such a move could help to address the large imbalances in ownership patterns in white-controlled mining finance houses. STAR

"The ANC professes concern about the economy and low levels of investment, but it is irresponsible statements such as this that contribute significantly to our economic woes," Mr Andrew said yesterday.

"The mere fact that one of the ANC's economists made such a suggestion will be enough to scare off investors."

Economists say the adoption of such recommendations would cause a further outflow of capital from South Africa, which already has perilously low levels of investment. 8/12/92

— Sapa.

Close corporation registrations on rise

STAR 8/12/92

Despite the recession there was a net increase in the number of new close corporations formed in the first five months of this year, says the credit information organisation Kreditinform

Central Statistical Service figures for January to May 1992, with the total for 1991 in brackets, were:

New proprietary limited companies formed — 2 981 (7 233).

De-registered and dissolved proprietary limited companies — 2 985 (6 800).

New close corporations — 13 895 (33 069).

De-registered and dissolved close corporations 3 076 (5 521).

Ivor Jones, managing director of Kreditinform, says. "The balance of newly formed CCs versus de-registration and dissolutions leaves a net gain of some 10 000 CCs, while fewer proprietary companies are being formed.

"It appears that as CCs are easier to establish and control and require less red tape, more are being established.

"Retrenched people setting up their own businesses will have also contributed to the figure."

However, Jones warns that researchers compiling credit and business information reports have noted that CCs are also a vehicle to formalise an association and relationship between the members of various CCs.

In business, especially those extending credit, it is vital for companies to know who they are dealing with and their creditworthiness and operating credentials.

"The trick for credit-granting companies is to find the relationship between CC members and other CCs and companies — especially if they have been involved previously in liquidation.

"Fortunately, the modern systems for the database management of business information enable users to establish instantly any relationship between the directors of existing and new Pty Ltd companies and CCs.

— STAR 8/12/92.

Pressure mounts to do away with the financial rand

STAR 8/12/92

(49)

By Sven Lünsche

With pressure mounting on the authorities to scrap the dual exchange rate system, SA's full readmission to IMF facilities could play a crucial role in phasing out the financial rand.

Finance Minister Derek Keys has taken some of the pressure of the finrand by limiting access to the currency by local companies making off-shore acquisitions, which had pushed its discount to the commercial rand to a record 40 percent.

Since then the finrand has strengthened — from over 5 to the US dollar to yesterday's level of 4,67 — and the discount narrowed to 35,9 percent.

Nevertheless, the volatility of the finrand over the past few weeks has led economists to suggest a number of alternative ways of phasing out the dual exchange rate system.

In its latest edition, the SA Banker suggests three possible strategies:

- The first ties the removal of the finrand to renewed access to IMF facilities, which would provide a back-up facility of R16 billion and restore SA's creditor status among foreign banks

The process would be slow and ~~involve~~ two pha~~ses, the~~ first being characterised by a narrowing of the discount as a result of increased foreign interest in SA investments.

The second phase could involve intervention by the Reserve Bank to narrow the discount to a point where the finrand, and probably the debt standstill arrangements, could be abolished altogether.

"This could materialise once it became clear that the conversion of standstill loans into finrands would be manageable and the indications were that capital outflows from this source would be limited in the event of the introduction of a unitary rand," the SA Banker says.

- A more radical approach would be for SA to raise as much as $3 billion from foreign banks in short-term credit facilities.

Once these credits were raised, both the debt standstill arrangements and the financial rand system could be abolished and the credit facilities used to finance any short-term capital outflows that would inevitably follow.

- The finrand could also be dismantled, in line with the renegotiation of the third debt standstill arrangment, which falls due at the end of next year.

Foreign banks would need to agree to a final debt arrangement amortising all the remaining foreign debt caught in the standstill net. The finrand system could subsequently be scrapped, particularly if the discount was low.

Phasing out the finrand under all three strategies contains many risks, particularly since the political situation is likely to remain volatile, which could lead to sudden large capital outflows

Furthermore, the prospect of a unified rand settling at well below the current rate of the commercial rand could have highly inflationary consequences.

Yet the recent volatility of the finrand should at least suggest to the authorities that a rethink of the whole exchange rate environment has become essential.

Econometrix wrote in a recent release that the abolition of the finrand and lifting exchange control regulations would be an expression by the Government of its confidence in the economic future of the country.

"Foreign investors in SA's financial markets have been badly burnt by the finrand's collapse, and it is doubtful whether they will return to SA in a hurry, despite the large discount," Econometrix said.

Balladur's pragmatic view of SA's potential

BDay 5/12/92. (49)

Edouard Balladur, who today wraps up a low-key visit to SA, was France's economics, finance and privatisation minister in Jacques Chirac's last government. JIM JONES reports on a meeting with a man who is not only one of France's most respected economists but is widely tipped to be its next prime minister if the socialist government is voted out of power in March.

PRAGMATISM, particularly economic pragmatism, is a strong thread in the fabric of French politics and international relations. So, while concern over SA's turmoil forms part of Edouard Balladur's assessment of our country, his pragmatic approach is to focus on the SA which will emerge after a period of interim government.

Left unsaid, but clearly implied, is that SA can count on considerable support from the EC, provided it gets its own house in order. And that implies avoiding the ramshackle politics and economics which collapsed so spectacularly in the Soviet Union. If we are to benefit from access to the EC's trade and financial markets, our political and economic choices will be crucial. And Balladur, the committed free marketeer, has no doubts about what that means.

Certainly, SA's economy is too concentrated, Balladur believes. But while he would support policies which lead to less concentration, the pragmatist warns that we must not risk collapsing firms and businesses which form the pillars of our economy. Nor dare we adopt policies which weaken our major industrial groups to the extent that they can no longer play a proper part in our economic development, he adds.

Balladur's opinion should not be dismissed lightly. After all, he was a key player in France's privatisation programme which put overwhelmingly powerful state enterprises into private hands.

Again unsaid, but clearly believed as a matter of fact: there is no need for outsiders to make concessions if our values differ from theirs. They owe us nothing and will turn from us if we make benighted economic or political choices.

EC politics are characterised by the maturity of respect for individual rights and a market economy. Balladur sums up our position tactfully and diplomatically: SA's political life has still to attain that degree of maturity. Attaining it will call for a great sense of political responsibility among this country's leaders.

Of course the EC will continue to assist in SA's transition, but its influence will be reduced significantly if the transition leads away from the style of democracy of the EC nations.

Balladur does not underestimate our problems. The problem of economic expectations which will have to be addressed by a future government; the problem of massive unemployment which only economic growth can overcome; and the problem of our neglected infrastructure of human skills. But the example of Mikhail Gorbachev — whose ill-prepared reforms helped speed the destruction of the Soviet Union — is uppermost.

Boosting our international trade is one obvious solution, but Balladur raises a quizzical eyebrow when asked if SA should consider becoming a Lomé Convention signatory. That depends on SA's government requesting that the country be classified as developing rather than developed. Is that how we would want to see ourselves?

The Lomé Convention facilitates EC access to the food and raw materials from developing countries which were once European nations' colonies. Do we need that? Balladur wonders. Our trade with the EC depends too heavily on unprocessed or semi-processed materials. Balladur dismisses as simplistic the concept of fortress Europe. The EC, he believes, is the most open of the major world markets, and he cites the examples of Australia and New Zealand, both successfully trading with the EC.

SA should have no illusions about the possibilities for increasing its trade with the EC. But our interests might best be served by adding export value by further processing. And like Australia and New Zealand, our relationship with the EC can probably be best developed by direct association rather than indirectly under the terms of Lomé.

But this, in its turn, calls for greater economic openness — the openness which will attract the foreign capital and skills needed to augment our own. Investments go where returns are best and most secure. France, in particular, has been decentralising its industry for years — initially to its own less-developed regions, then to neighbours such as Spain and Portugal and eventually to countries such as Malaysia. Industrialists go where labour and other costs are most favourable.

Attracting investment also calls for a concerted investment effort by South Africans themselves. Local investment spending is understandably feeble at present because business confidence is low. But foreigners are unimpressed by South Africans' apparent reluctance to invest heavily in their own country's future. Nor can we count on investments remaining here even though sanctions are history. We have to ensure that investment conditions remain attractive.

Balladur the politician might see a comparatively short political transition for SA. But Balladur the economist who challenges orthodoxy expects a far longer and possibly more difficult economic transition.

LETTERS

Market economy 'a must'

CT 9/12/92 (49)

STOCKHOLM. — The winner of this year's nobel prize for economics, Gary Becker of the United States, said this week the only way African and Eastern European countries could survive was to adopt market-oriented policies.

He also said he believed the United States was currently emerging from a mild recession and did not require major investment in infrastructure to assist recovery.

Becker, 62, a faculty member of the University of Chicago's economics department, said that both in the former communist countries of Eastern Europe and in the Third World, governments had made the fatal mistake of ignoring economic wisdom which had more developed over the last 200 years.

"What went wrong was you had an experiment, that's what communism was, a disastrous economic experiment," Becker said in an interview in Stockholm, where he will receive the 6,5 million swedish crown prize tomorrow.

"Naturally, the world is very much concerned about many of the African countries...but it was not the West that grew at the expense of Africa. That is a mistake. It was African policies that prevented growth," he said.

"Government intervention, price-fixing and bribery had all taken their toll, and the best solution now was for African governments to model their economic policies on those of Malaysia and Taiwan.

"These were poor countries in the '50s, but they changed their outlook. the single most important thing that could happen to Africa is if they switched to a market-oriented policy," said Becker,

Earlier, Becker told a news conference why he believed he had won the prestigious award, which since its creation in 1968 has been dominated by economists from Chicago and other North American universities.

"I was trying to supply the economic way of thinking to broader social questions...," he said. People respond to incentives, whether they go out to buy an orange in the grocery store, or if they are deciding to get married, how much education they should be getting."

He said these very different forms of behaviour were linked with a common theme — the systematic reponse to the benfits and costs of various decisions.

The Swedish Academy of Sciences cited Becker's work in extending the sphere of economic analysis to such areas as education, marriage, divorce and childbearing, family decisions, crime and punishment, and economic discrimination. — Reuter

Zim mining shares remain lifeless

CT 9/12/92

HARARE. — Zimbabwe's mining index recorded its second unchanged position yesterday while the industrial index eased in thin trading.

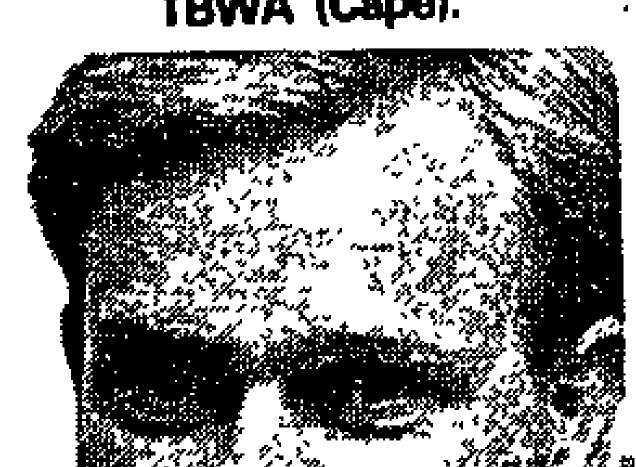
Only one counter changed hands in industrials and the index lost 2,23 to close at 892,97. The mining index was unchanged at 170,96.

The Zimbabwe Stock Exchange has lost institutional investors to a high-yielding money market as the country grapples with a prolonged recession and a severe drought.

Analysts say the index has been weighed down by corporate results reflecting the poor shape of the economy. — Reuter

Dave Sharp has been appointed client service director for Hunt Lascaris TBWA (Cape).

esbank won't



Confidence index highest this year

C9/12/92 49

By AUDREY D'ANGELO
Business Editor

THE SA Chamber of Business (Sacob) confidence index rose by 2,9% in November to 93% — its highest level since October last year.

Announcing this yesterday Sacob chief economist Ben van Rensburg said the year had ended on a more hopeful note "with the business mood being lifted by tentative signs of a turnaround in a number of sectors of the economy.

"Such improvements are encouraging and, if sustained in the months ahead, will signify a turning point in the business cycle.

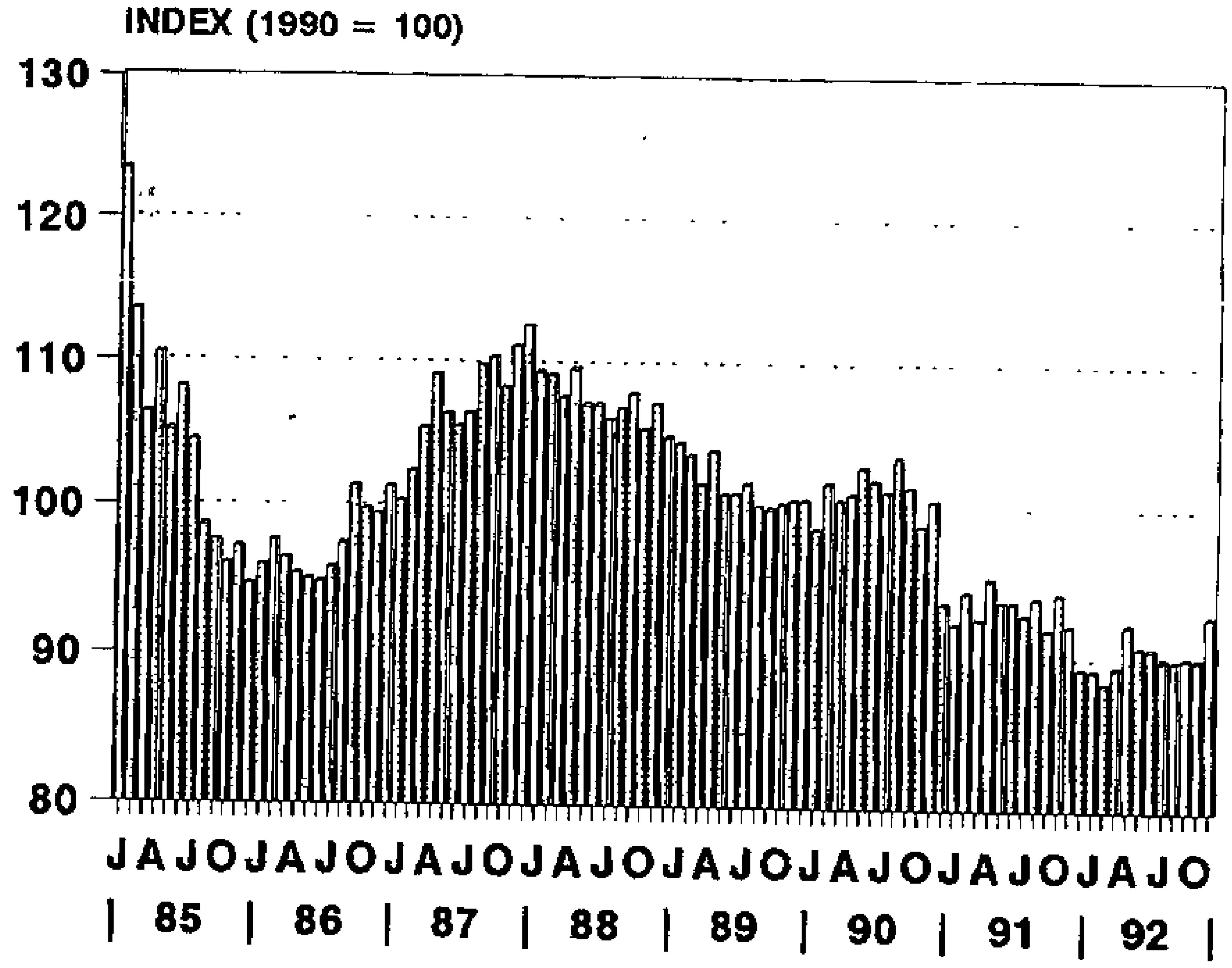
"The business mood is therefore poised to strengthen if further positive factors materialise early in 1993."

But, warning that "recent terror attacks in the Border area have served to emphasise how fluid the political situation is and how difficult it is to maintain progress," Van Rensburg points out: "There are still a number of factors on both the political and economic fronts that could stop an incipient upturn in its tracks.

"Sacob therefore urges a cautious approach at this time and asks all policymakers to recognise that the business mood remains fragile.

BUSINESS CONFIDENCE INDEX

INDEX (1990 = 100)



"Everything possible should be done to rebuild confidence amongst both consumers and business. If this is done 1993 could be a better year than 1992 for the SA economy."

Van Rensburg warns that higher taxes in the Budget in March "could also have an adverse effect on the embryonic upturn."

He says Sacob has advised Finance Minister Derek Keys that the Government's fiscal problems should be solved by cutting spending rather than raising taxes, which would be counter-productive.

The Sacob Business Confidence Index averaged 100% in 1990, and above 100% in the preceding three years. But it was below 100% for the whole of 1991, averaging 93% for the year. And 93% is the highest it has reached this year.

Van Rensburg says one of the positive factors pushing it up in November was the dramatic drop in the consumer price index (CPI) to 11,7% in October from 13,5% in September as the impact of the introduction of VAT the previous year was eliminated from calculations.

Other positive factors were a drop in short-term interest rates and in the number of registered unemployed, a sharp increase in sales of new cars in October, a rise in the physical volume of manufacturing production, an increase in the value of building plans passed and a survey showing retailers expected slightly higher sales.

He says hopes that confidence will continue to rise "must be tempered by the knowledge that there are still many unresolved issues which have the potential to influence the business mood in the months ahead.

"Too much must not be concluded from the economic evidence of a single month."

However, "it is nevertheless encouraging that a number of the sub-indices which reflect activity levels in the real economy have started to show an improvement.

"This is in contrast to recent months where improvements were largely confined to the monetary sector."

Warning that an export-led recovery is unlikely in the coming year he continues: "Most recent forecasts for growth in the world's major economies have once again been adjusted downwards — particularly in the case of Europe, where growth is now expected to average around 1% in 1993 compared with expected growth of around 1,5% a month ago.

"This suggests that SA exporters will face greater competition in the export market."

CT 9/12/92

'Africa's govts must stay out of economies'

(43)

ONE of Africa's problems was extensive government intervention in local economies, Gaby Magomola, executive chairman of the Inter Africa Group, said yesterday.

Addressing a Cape Town University commerce faculty graduation ceremony, he said this had resulted in market distortions, poor performance, stagnation and other inefficiencies.

"South Africa has not been an exception," said Mr Magomola.

"This country's economy is best described by the term 'partially free enterprise', a phrase used by a major bank to explain the extensive State involvement in the economy."

While the bulk of manufacturing, mining, agriculture, commerce and finance was privately held, State-owned firms had near monopolies on enterprises ranging from telecommunications and postal services to television, railways and harbours.

He said South Africa had to move away from the notion that blacks would have to graduate through the informal sector school before they made their mark in the modern economy of the country.

Black economic empowerment could be translated into reality before the end of the century provided an identification of opportunities became a priority.

Strategies had to be developed to ensure an accelerated integration of African business groups into the formal economy.

Turning to the question of attracting international resources to a new South Africa for all segments of the population, Mr Magomola said this could only be successful with political stability "borne out of a well-defined programme for economic redistribution of wealth.

The South African economy was in the unique position of being an industrially developed economy on a continent which was still developing.

Upturn in 1993 — Sacob

By Michael Chester

The economy will begin to recover in the next 12 months, the SA Chamber of Business (Sacob) predicted yesterday when it announced that business confidence rose in November to its highest level in more than a year.

Sacob's business confidence index increased last month from 90,1 to 93 points — its highest since the second half of last year — partly because of a rise in business optimism resulting from new bilateral talks between the Government and the ANC.

Sacob forecast a gross domestic product (GDP) growth rate of 1 percent next year, climbing to between 1,5 and 2 percent by the end of the 1993/94 fiscal year.

However, with 300 000 jobs already axed by the formal sector in the prolonged recession, Sacob feared there was still no indication that retrenchments had come to an end.

The creation of new job opportunities was unlikely to resume in earnest until production levels picked up momentum in the second half of next year — but opportunities would still fall short of the number of new entrants into the jobs market.

Economic recovery also hinged on an end to the drought, the nature of the 1993 Budget, and the performance of key overseas economies, Sacob said.

● Still nervous – Page 27

IMF now gloomier on world growth prospects

STAR 9/12/92

(49)

WASHINGTON — The International Monetary Fund is set to slash its forecast of world economic growth next year as hopes for solid recoveries in Europe and Japan fade, international monetary sources say.

The sources say that currency turmoil and high interest rates are holding back growth in Europe, while Japan's economy is hobbled by declining corporate investment and growing bad debts at Japanese banks.

The only bright spot in the world economic outlook is the United States, where the long-awaited expansion finally seems to be taking hold

The new IMF forecast, which is still being worked on by fund economists, is expected to be discussed by the international organisation's board later this month.

Monetary sources say they expect the IMF to try to avoid being overly pessimistic about the outlook out of fear that might further undermine global confidence.

In September the IMF predicted growth in the industrial world would rise to 2,9 percent in 1993 from 1,7 percent this year.

Since then the outlook has turned more gloomy, as speculative attacks by currency speculators have left the European Monetary System in shreds and Japan's economy has turned in its weakest performance in more than three years.

The Organisation for Economic Cooperation and Development (OECD), the Paris-based think-tank for rich countries, last month lowered its forecast for growth in the industrial world next year from three percent to 2,1 percent. The IMF's forecasts are usually about in line with those of the OECD.

The IMF normally makes a full-scale forecast of the world econony only twice a year, in April and September, to coincide with its semi-annual meetings.

But it has decided to update its forecast at this time to take account of the currency turmoil in Europe that began to take hold just as its last outlook was released in September.

At that time the fund forecast economic growth in the European Community would pick up to 2,3 percent next year.

Monetary sources say growth in the EC next year now looks more likely to be only about one to 1,5 percent.

That is what the 12-nation EC itself expects and compares with growth this year of as low as 1,1 percent.

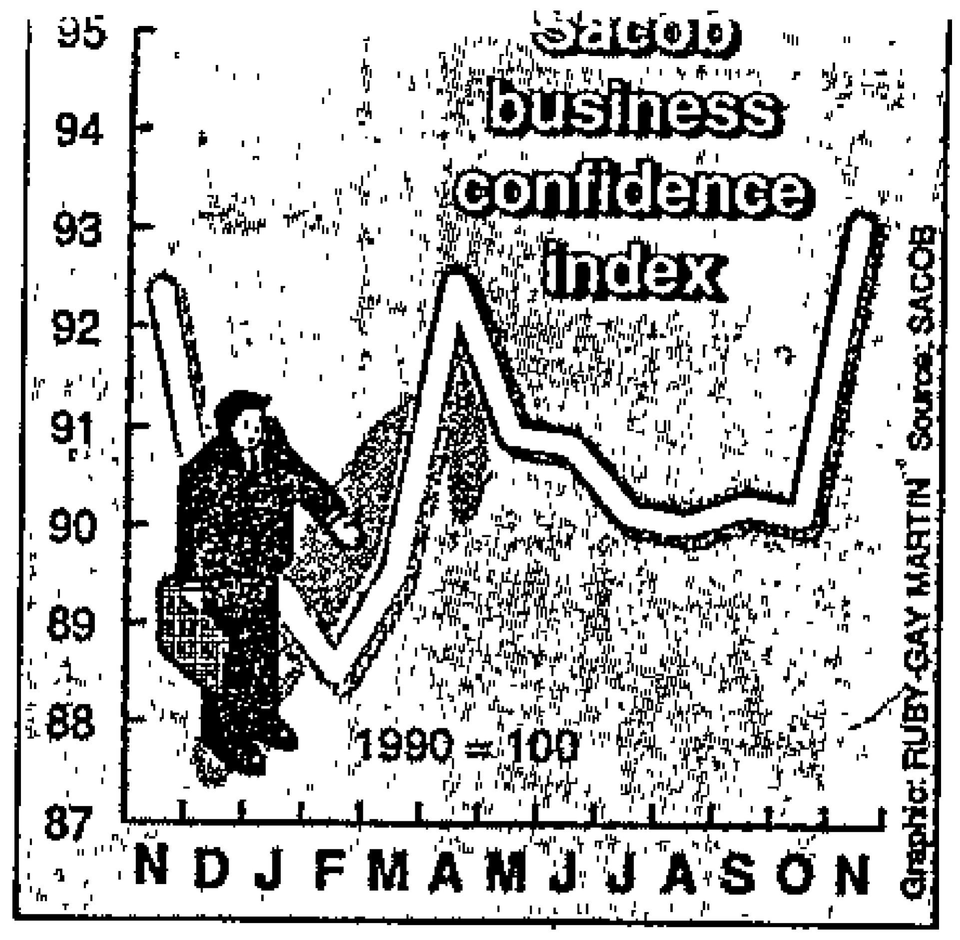
Europe's economy is being dragged down by continuing high interest rates in Germany which has fallen into recession

The Bundesbank, Germany's independent central bank, is keeping rates high to combat inflation brought on by a huge increase in the budget deficit to pay for the cost of the unification of east and west Germany.

The picture is not much brighter in Japan. The IMF predicted in September the Japanese economy would expand by 3,8 percent next year, but growth of around 2,5 percent — in line with the latest OECD forecast — now seems more likely.

Japan's gross national product shrank by 0,4 percent in the third quarter, the first decline in that measure of economy since the second quarter of 1989

Only in the United States is there much grounds for optimism. Growth there looks likely to be close to three percent in 1993.– Sapa-Reuter



Sacob predicts growth in 1993

HILARY GUSH (49)

SA COULD look forward to improved economic conditions in 1993, although growth might be tempered by negative political developments and sluggish world economic recovery, according to Sacob.

At the release of the November business confidence index (BCI) — which rose sharply to 93 from October's 91,1 — Sacob economic policy director Ben van Rensburg said prospects for growth in 1993 rested on "precarious economic and political factors". BIDAY 9/12/92

Assuming no change in tax rates, real GDP growth of 1,5%, and average inflation of 11% in fiscal 1993/94, he said government could expect to raise about R9bn in additional tax revenue.

He added: "To achieve a deficit before borrowing of not more than 6% of GDP implies that government would have to contain spending to around R108bn — a reduction of around 7,5% in real terms when compared to this year's levels."

It was unlikely that government would attempt to achieve such a reduction, and would probably resort to a hike in taxes. An increase in the VAT rate to 13% — with some exemptions on basic foodstuffs — could then be expected. This would probably push inflation up by between 1,5 and 2

☐ To Page 2

Sacob

BIDAY 9/12/92 (49) ☐ From Page 1

percentage points and undermine consumers' real disposable income.

"While Sacob is not opposed to higher rates of indirect taxes in principle, there is concern at the timing of an increase. Imposing a higher VAT rate on a contracting economy is likely to increase the severity of the recession and could result in only a minimal increase in VAT collections and a reduction in collections of other taxes."

Ultimately, increased government revenue could come only from growth and expansion of the economy, and government expenditure had to be drastically reduced to bring the fiscal deficit down to "manageable and sustainable levels".

Van Rensburg expected wage and salary increases to remain below the inflation rate next year, while employment levels continued to slide. This would lead to a slight decline in real private consumption expenditure, which would deteriorate further if indirect taxes were increased.

Despite recent rains, the effect of an end to the drought would show up only in the second quarter national accounts figures next year, he said.

"If production in this sector returns to pre-drought levels, it will add about 1,3% to GDP growth. An end to the drought will also have the important effect of reducing inflationary pressures on food prices, which could serve to strengthen consumer confidence levels, and would also result in a reduction in the import bill."

SA must be wary of misguided experts as it reshapes economy

BDM 10/12/92 **JIMMY GIRDLESTONE** (49) 262

WHATEVER their own political persuasions, governments of virtually every other southern African country undoubtedly desire a negotiated end to SA's internal disagreements. Most African administrations would probably consider the more important issue not so much the form of SA's new political dispensation but the substance of its economic policies.

SA commentators have suggested that policy could result from a kind of international shopping trip to select the most suitable economic model. In practice, if experience in Zimbabwe — probably the closest precedent — is any guide, SA's future policies are more likely to emerge through consensus on the most desirable economic ends and the relevance, or otherwise, of existing means of achieving them. If so, the second phase of the settlement process could be as contentious and protracted as the first.

The controversy over the magnitude of capital flight from SA illustrates the wide gulf to be bridged before agreement can be reached, for example, on the foreign sector's place and future role in development. Against the substantial capital flight estimates advanced in certain academic studies has to be set the convincing challenge to the whole basis of their calculation recently mounted by Nedbank in Capital Flight: Myth, Reality or Political Means? — Nedbank Guide to the Economy, August 1992.

Unless such presumed "expert" opinions are rigorously tested there is a real possibility of their uncritical adoption as the basis for future decisions, with predictably disastrous consequences. Zimbabwe's experience provides a disturbing demonstration of the dangers in this respect.

The government assuming power in Harare following independence was already convinced of the desirability of reducing foreign capitalist, colonial and white influence throughout the economy and particularly in the foreign sector. Respectability for the political objective was willingly furnished by academic economists in Harare who estimated that, in the early '80s, Zimbabwe was losing annually Z$300m, or about one-fifth of its domestically generated investable surpluses, as a result of over- and underinvoicing and other forms of transfer pricing.

As with SA's capital flight figures, no firm statistical evidence existed to support such conclusions. However, academic backing for the presumption that the country's foreign sector constituted a kind of "crooks' corner" or refuge for multinationals, speculators, colonial renegades and other undesirable influences consorting with the common aim of stripping the country of its wealth and exporting it undoubtedly exercised a major influence over the formulation of official policy. The foreign sector was subjected to even tighter control of its activities and more marked indifference to its requirements.

Even at that time the only underinvoicing which could have been practised on any significant scale was in the export of metals and minerals. To bring these activities under control the government established the state Minerals Marketing Corporation. Yet, as in SA, metals were — and still are — exported essentially by a small number of reputable companies highly unlikely to engage in malpractice.

Paradoxically, the one area to escape the worst excesses of bureaucratic overregulation has been the trade in curios and the provision of safari and hunting trips undertaken by small-scale, fringe operators which have much less to lose by engaging in illicit foreign dealings. The panoply of controls on export sector activity has probably cost more in reduced generation of investable surpluses than any gains it has achieved in curbing illicit export practices.

To prevent the possible overinvoicing of imports, the government contracted an international agency to provide pre-shipment inspection in the country of supply of virtually all imports with an fob value of $10 000 or more. Again, while it is impossible to quantify any benefits accruing from this arrangement it has undoubtedly increased the cost of imports as importers are required to pay the equivalent in Zimbabwe dollars of 1% of the fob value of customs' "clean report of findings".

Academic justification for a policy which considered the foreign sector's claims for increased input requirements as basically invalid had even more disastrous consequences for export growth. Successive development plans accorded next to no priority to export sector import needs.

Indeed the influential 1981 Riddell commission went so far as to recommend that, as foreign trade was a constraint to income redistribution, measures should be taken to reduce the openness of the economy. Until 1987 import allocations to agriculture and mining which, excluding basic steel and ferroalloys, together provide about two-thirds of total export earnings, became progressively less adaquate in a situation of general inadequacy. As a result investment in agriculture and mining, which averaged more than 22% of total gross capital formation in the '70s, fell to half that level in the '80s.

Poor world commodity prices were partly to blame but the inability, particularly of the mining sector, to reap the benefits of the higher world prices ruling between 1987 and mid-1990 was also a factor. The consequent failure of total exports to rise more than marginally in real terms throughout the '80s and the country's current precarious balance of payments position — which was parlous even before the impact of the 1991-92 drought — were all in large measure due to a chronic lack of concrete support for the foreign sector.

Zimbabwe's experience in this respect also shows up a major oversight in the academics' consideration of what constitutes capital flight. With Draconian controls over foreign exchange expenditure and totally inadequate forex allocations a wide spectrum of producers was continually faced with the unenviable choice between substantially reduced activity — if not closure — and illegally acquiring foreign exchange.

While the latter practice clearly distorted trade prices it is doubtful whether it can reasonably be categorised as capital flight. Even more questionable is whether it damaged the economy. Bureaucrats would contend that it diverted foreign exchange away from other uses, or users, with higher priority.

But if such malpractices enabled businesses to continue producing and if firms were able to remain viable notwithstanding the higher cost of imports obtained by illicit means, this is more an indictment of price distortion and of the misallocation of resources resulting from over-extensive controls than evidence on capital flight. Indeed the practice raises the question of whether the state or the market is more efficient at allocating scarce, imported resources.

In opting, under its structural adjustment programme for, among other things, import liberalisation, greater availability of foreign exchange through retained export proceeds and increased export incentives, Zimbabwe's policy has now come down firmly on the side of the market. Regrettably, the damage caused to the foreign sector by policies based upon narrow chauvinism sanctioned by specious academic arguments will take years to rectify.

Too close an analogy between Zimbabwe's experience and the process of economic policy formulation which SA still has to undergo obviously cannot be drawn. But as SA seeks new economic policies more accommodating to the needs of all its peoples it could do worse than reflect upon the fact that not all advice given it, even by academics, will necessarily be sound and correct, still less altruistic.

☐ **Girdlestone is adviser to the Zimbabwe Banking Corporation CE. Views expressed in this article are personal and unattributable to ZBC.**

Anti-trust policy must target SA conglomerates

BDAY 11/12/92

(49)

WILLIAM SHEPHERD

IMPORTANT lessons for the future structure of SA industry were offered at the ANC's recent conference on anti-trust policies. It seemed obvious to those present that the ANC is developing a sound grasp of anti-trust realities as it shapes its business policies.

Nationalisation was scarcely mentioned; modern policies appear to be on the way.

The meeting was extraordinarily broad and open to public view. It included more than 40 professional specialists ranging from leading SA economists, ANC officials, representatives of Anglo American and other corporate interests, stock market officials and specialists, to five anti-trust experts from abroad and official foreign observers.

Tito Mboweni, the ANC official who is developing ANC policies towards business, made this an open forum, drawing on the best thinking in SA, and on leading experts from Holland, Germany, the UK and the US. I have never attended a more ambitious, earnest and professionally solid meeting to discuss how anti-trust can be applied responsibly.

We participants from abroad gave detailed papers and discussions about our countries' experience, as it may help in planning SA's anti-trust future. There was consensus on two points: that the leading conglomerates pose major problems for democracy and economic progress, and that monopolies in many industries seem to call for stricter anti-trust treatment.

Mboweni is well informed about anti-trust experience around the world from his studies in the UK, Europe and the US. From this conference, and from discussions with other ANC officials and a variety of economists on several SA campuses, I am convinced SA is on the way to developing a firm and responsible set of anti-trust policies.

The new policies will bring SA into line with modern practice in other leading countries. They will be developed carefully and with technical skill. SA is fortunate that the CC, with all the pressures on it for radical actions, is focusing instead on anti-trust and related possibilities.

Anti-trust is a pro-business policy, which seeks to level the competitive playing field with an absolute minimum of intervention. It gives fairer chances to the huge constituency of small and medium businesses (and some large ones too) that may suffer disadvantages when there is monopoly power or collusion.

Delegates agreed generally that two problems — excessive concentration in the SA economy of a few conglomerates, and monopoly in specific markets — call for serious action.

The leading conglomerates hold an extremely high share of industrial and financial assets. In other countries such concentrations have undermined democracy, because these power blocs often bend and harm the democratic process. The social progress that may be conferred by these conglomerates would be largely paternalistic, and that is just the opposite of a shared democratic solution.

Excess conglomerate control frequently also causes an economic drag, by overcontrolling and stifling the entrepreneurial spirit in the subsidiaries. That is why conglomerates are increasingly passé in the US where, for example, the huge IBM is now busy dividing itself up to avoid such stifling. The larger conglomerates in SA may need to liberate many of their enterprises in order to promote lasting growth and progress — and more profits.

There is substantial monopoly power in many individual markets. This is well known, of course, and it is much higher than is found in comparable well-performing economies.

☐ MBOWENI

Representatives of the conglomerates naturally opposed this consensus, but they have an admitted private interest in doing so.

There was strong interest in a dual approach to solving the problems of overall concentration and specific monopolies. The conference resolved that the conglomerate problem should be addressed by creating a conglomerates commission with a lifespan of two or three years.

The commission would seek to reduce the total scope of the conglomerates and to remove the pyramiding and entangled mutual holdings within them. This would entail adopting the modern business practice widely recognised elsewhere of enforcing adequate clarity and disclosure. The commission would also focus on those conglomerate subsidiaries which hold specific monopoly positions in markets and would separate them from the advantages which large financial parents can give.

The commission would do its once-off job briskly and with technical skill, using financial experts as commissioners and staff. Similar programmes against the Japanese and German combines after the Second World War had spectacularly positive results, ushering in decades of remarkable economic progress. The US, for its part, enforced equally fundamental restructurings of its financial combines and related monopolies between 1907 and 1940. Straightening out the conglomerate problem is probably a prerequisite for modern industrial and financial growth in the SA economy.

Turning to the specific monopolies, they present a more focused challenge for anti-trust policy. Actually, monopolies and dominant firms are only one part of anti-trust; the other two are collusion and anti-competitive mergers. The existing Competition Board has made valiant efforts in these three directions but the board's powers and resources — and political support — appear to have been modest.

The ANC would have a strong professional and research case for a major expansion of anti-trust, creating a new anti-trust authority with greater powers and resources. It would, of course, apply stricter enforcement against price fixing and other collusion, as is common elsewhere. It would also screen mergers, sifting out those few which raise market power for possible revision or prevention.

The authority could also begin a series of cases which explore the more acute examples of monopolies and dominant firms. Some of these can be justified by economies of scale or overwhelmingly superior efficiency or innovation. But others are simply monopolies and they are likely to be overcharging their customers while simultaneously being inefficient and slow to innovate. The authority would garner evidence, hold hearings and decide what remedies, if any, are appropriate.

Such methods may emerge from the ANC's current policy discussions. But the past few weeks have planted the anti-trust agenda firmly in the limelight, to SA's future benefit. Nationalisation is nowhere to be seen or heard, though of course it may be dragged out as a bogeyman on occasion by others.

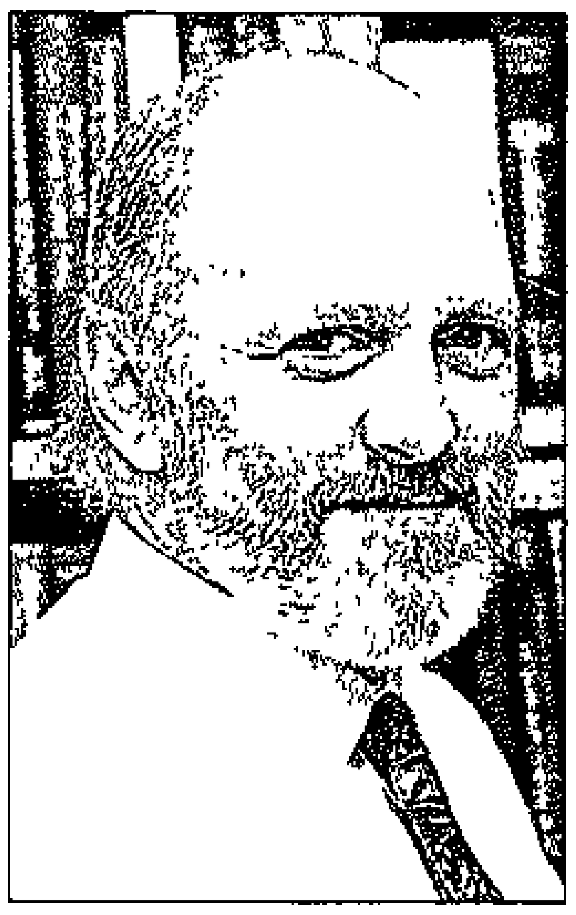
Unfortunately the representatives of leading conglomerates — having insisted on numerous seats at the meeting and complete with their own paid US economist — took a largely negative stance. They insisted that any changes in their conditions would be useless and harmful. But their own economist eventually joined in the consensus that substantial changes are appropriate.

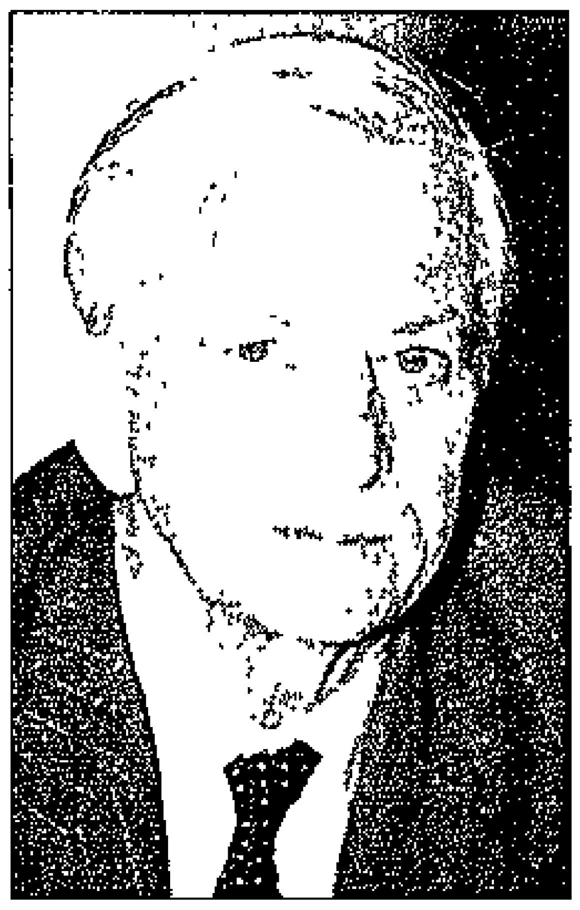
The invited foreign experts were impressed with the quality of local talent. We are hopeful that a free and fair debate — which is what the ANC is conspicuously trying to encourage — will make substantial progress towards modern, responsible anti-trust policies. These policies should be tailored to SA's own conditions and could markedly improve the chances for long-term confidence and growth.

☐ **Prof Shepherd is chairman of the University of Massachusetts economics department.**

tunities it will be able to offer the electorate, expecially new jobs flowing from domestic and foreign investment

There is a temporary difficulty over an immediate removal of exchange control In 1985, as foreign credit lines were severed and repayment of existing loans was demanded, SA was left with US$24bn outstanding debt, mostly short-term Government imposed a four-month standstill on repayments. A multi-year rescheduling was arranged early in 1986 and renewed at regular intervals.


Mohr


Osborn


Maynard

The present agreement expires at the end of 1993. Most of the $6bn debt still in the standstill net would have to be renegotiated were the standstill ended and exchange control lifted. So SA cannot fully restore its credit status until it has repaid the remaining debt due and it cannot repay the debt until it is granted new lines of finance.

However, it is slowly working through the problem "on a managed basis of steady repayments through the maintenance of a current account surplus," according to Osborn.

A representative government would have an advantage "It would have the backstop facilities of the IMF in the event of balance of payments difficulties," says Osborn. "It would also be accorded a measure of respectability by the formal restoration of advisory links with the World Bank." If that government was reasonably secure and its policies sound, SA could re-establish credit lines and attract investment capital

Though UK experience is not analogous, it is useful to look at what happened there in 1979 when exchange control was suspended

The City of London University's Geoffrey Wood explains "There was a substantial outflow of funds, mainly by pension funds and insurance companies (This) was not a flight from the UK, but a re-allocation of portfolios to the kind of division between home and foreign investment that always seemed prudent but could not be attained while exchange controls were in place"

Says Carmen Maynard of stockbroker Martin & Co "A major trend in investment management over the past decade has been the tendency towards global diversification of portfolios to reduce risk. SA institutions have been limited to acquiring shares in offshore operations quoted on the JSE

"While the average UK pension fund holds a quarter of assets offshore, SA's institutional investors were not allowed to hold directly any significant assets offshore. Foreign diversification can hardly be regarded as capital flight. It would merely be the implementation of sound investment policy aimed at reducing portfolio risk"

Geographical diversification by UK investors did not erode confidence in its currency. Woods points out that during the period of fastest outflow, sterling rose rapidly on foreign exchanges. He identifies two reasons, a determined anti-inflation strategy and the discovery and exploitation of North Sea oil

The windfall effect of the oil discovery on investor perceptions is unquantifiable; so it is

cont

EXCHANGE CONTROL FM 11/12/92 (49)

Making SA investor-friendly

It will take a carrot and not a stick to build SA's forex reserves

There is only one way to stop domestic capital seeking investment opportunities outside SA — a risk-reward ratio comparable with other countries'. Simply, SA must at least offer investment opportunities comparable to those available elsewhere

Finance Minister Derek Keys's recent restriction of the use of the financial rand for outward investment did not stop the unit's decline (*Leaders* December 4), from nearly FinR4,9 to the dollar on November 27, before the curbs were announced, to test R5 by December 1 — presumably as deals already in progress were completed and possibly also in response to a surge in political unrest

It rose a little over the following days but is still vulnerable and will no doubt remain volatile Its value has fluctuated sharply this year, with the discount against the commercial currency ranging from 12% to 40%. And the exchange rate against the dollar had fallen 36% by end-November

As a measure of investors' perceptions of SA, this is a dramatic thumbs down.

In the short term, exchange control may be partially effective in a small economy, though administratively costly, constantly open to abuse and at a heavy cost in misallocated resources In the long term, it is destructive because it distorts financial markets and signals to foreign investors that the country is high-risk. Though introduced to attract capital (by giving non-residents a more attractive exchange rate), it keeps it out as effectively as it keeps it in

The trouble is that, once in place, it is hard to remove without destabilising financial markets and sending shock waves through the economy. Unlike industrialised countries, developing countries make "a discontinuous rather than smooth and incremental adjustment" to the removal of control, says Wits economics professor Merton Dagut.

UAL economist Dennis Dykes adds. "Removal would be seen as a temporary opportunity to get capital out, unless government could convince people it is committed to a broad and long-term policy to make SA viable." He suggests that, if all forms of control were ended simultaneously and no reinforcing economic measures put in place, the value of the single currency could fall below the present level of the financial rand.

Dykes

Dagut

But, properly managed and given political confidence, a huge devaluation is not inevitable. Phased removal, coinciding with the introduction of a co-ordinated economic policy, would stabilise flows — especially if done at a time when there is a reasonable prospect of a cyclical recovery. So right now may be propitious for a careful consideration of both the question of exchange control removal, and the important surrounding policy issues

How economic restructuring, which includes an end to exchange control, can best be achieved will form part of research which Dagut, Wits's Charles Simkins and Rhodes's Trevor Bell will work on over the next 10 months Their project, *The opening up of the SA economy to the world economy*, has won the inaugural award of Sanlam's Fred du Plessis Bursary for Economic Research and R30 000 in funding

"In a developed country," says Dagut, "exposure to the world economy immediately brings it into line with its trading partners. In SA, the process is more complicated. I can only make a tentative suggestion that the foreign exchange market should be the last element to be liberalised"

Whatever the order of policy changes, liberalisation of the foreign exchange market must be accompanied by sound fiscal and monetary policies, progressive removal of trade barriers and domestic deregulation.

The key to economic stability is a political settlement Only then will investors begin to believe that they will not face a battery of controls and a barrage of policy changes once they embark on major projects If the ANC leadership fails to accomplish that, it will find itself, like the National Party, unable to achieve economic credibility

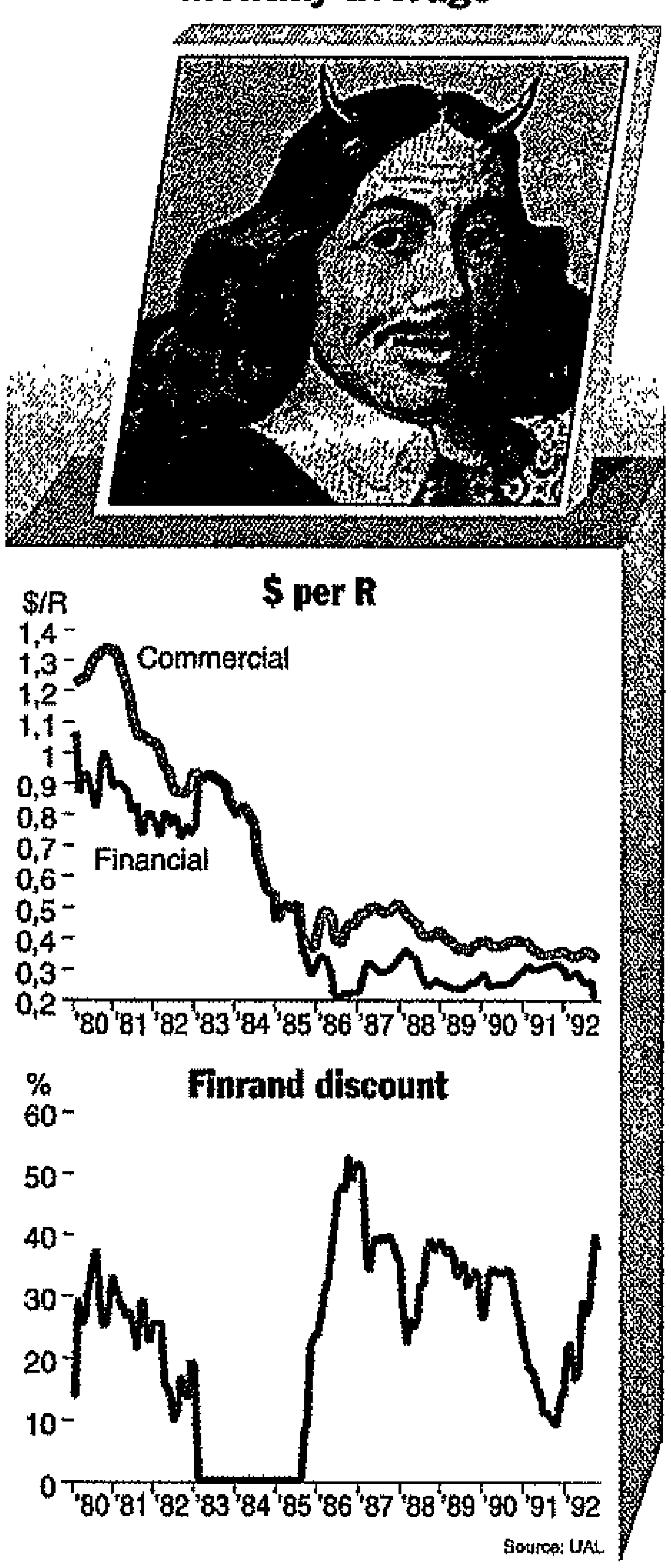
Residents have been subject to exchange control regulations which have prevented them from freely investing offshore since 1939 In June 1961, following the 1960 tragedy at Sharpeville and in the face of huge balance of payments pressures, the blocked rand (later the securities rand and finally the financial rand) was introduced to prevent nonresidents freely repatriating assets.

The investment currency was suspended in February 1983 and re-introduced in September 1985 when credit sanctions triggered a financial crisis.

Sanctions, of course, will be lifted when a representative government is in power, but the transition will be difficult Says Nedcor Bank economist Edward Osborn "Retention of exchange control is an inevitable concomitant of political transition because of the attendant uncertainties that private capital has about the security of their capital and business relationships with the new regime."

So the harder the ANC works now at gaining investor confidence, the more oppor-

Tracking confidence
Monthly average



FM 11/12/92 (49)

impossible to gauge the impact of economic policy on the currency.

But Wood lists direct and rapid benefits from the suspension of exchange controls: "It was highly desirable that the UK invest a good part of its oil and gas income. That income was so large that if invested at home, the return from the investment would soon have fallen very low. Less and less profitable investments would have been undertaken as diminishing returns set in rapidly. So building up a portfolio of foreign investments was the right thing."

This is relevant to SA. In 1980, liquidity that flowed in from the soaring gold price was dammed up in the economy, giving a huge boost to inflationary pressures. That inhibited fixed productive investment.

"A second and clearly related benefit," says Wood, "was that British industry was compelled to be less insular. (It) had for many years been able to pay little attention to the rate of return on investment overseas — for UK savers had to invest in Britain . . . Suspension of exchange controls meant that UK industry had to compare its performance with that of industry worldwide."

It is this process that ensures resources are properly allocated. Without impediments, funds will go to the most productive projects.

Important benefits can be derived from outward investment A recent Bank of Lisbon *Economic Focus* points out that a listing of an SA company on a foreign exchange:

- ☐ Could make its shares more marketable;
- ☐ Would give companies access to a much larger potential pool of capital; and
- ☐ A wider geographical spread of ownership would buttresss a share price in times of market weakness. "For SA companies (this) may prove particularly beneficial since there is no guarantee that such companies will be able to go on tapping SA institutional cash flows. This will help to stabilise financial markets and stimulate the economy."

Economic Focus also argues that "direct foreign investments enable SA companies to keep abreast with the latest technological developments in their fields and provide opportunities for training and development of their staff."

There is evidence that developing countries can lift controls without destabilising their currencies — if they have stable, legitimate governments. Argentina, Mexico, Chile and Costa Rica reversed the effects of long periods of mismanagement (though all have their problems). The package included freeing capital flows, liberalising trade, deregulating business and privatising public corporations. It succeeded in attracting capital.

Says Unisa's Philip Mohr: "Domestic investors brought back massive deposits" According to IMF reports, these repatriated resources are being channelled into fixed capital investments As Britain had the North Sea windfall, these countries had their share of luck in attracting capital. Mohr points out that the inflow was promoted by a fall in interest rates on dollar deposits, which reduced the opportunity cost of repatriation.

But, essentially, these countries worked to inspire confidence Says Mohr: "They are generally now more democratic and more stable than at any time since the war"

What would, in addition, cushion the removal of exchange controls would be an improvement in competitiveness. There is increasing agreement on this but less on how to achieve it Consensus may be emerging on issues such as the need for labour to be more cost-effective — by providing more training opportunities and relating remuneration more directly to productivity. This would remove a major rigidity in the market

With the removal of exchange control, concentration of control, seen by some as a negative factor, would crumble as giant corporations took advantage of international opportunities. This would reduce the price of SA assets, making them accessible to more South Africans — and there could be no more effective form of empowerment. ■

 FM 11/12/92 (49)

ANTI-TRUST DEBATE

Beyond outback

The open and public debate, called for by the ANC's Albie Sachs, into unbundling took a step forward last week when a conference on the adaptation of anti-trust policies was hosted by the ANC.

SA business approached the forum with some trepidation — with cause. The conference predictably got off to a poor start from business's perspective, punctuated as it was by heated rhetoric delivered by impassioned speakers representing specific constituencies. Of course, the ANC is, after all, an alliance and it is a logical corollary that vested interests and special groups will want to be lyrical on occasions such as these.

Despite that, businessmen were pleasantly surprised at the relaxed attitude of most participants, many of whom proved more pragmatic than had been expected.

There should be no doubt about the primary objectives of the conference. They were articulated by Nelson Mandela when he opened proceedings: how to reduce the perceived concentration of power in the economy and how, in particular, to accord black participants (especially black businessmen) a bigger stake in the economy without retarding growth.

Businessmen say the conference achieved a lot more than they had expected. One positive aspect was that it was conceded, after two days of discussion, that much more research was needed before the ANC would be in a position to formulate an acceptable and reasonable competition policy. Another was that the US system of anti-trust legislation was generally seen to be inappropriate in the SA context.

The more favoured example and one which gathered support as the conference delved deeper, were the UK and European competition models "Don't get me wrong," says one participant, "that doesn't mean, if they are adopted, that it will be easy sailing for business. This is the real world and the going will be tough. But at least we will have an equitable playing field."

As many delegates expected, the position of an efficient sole supplier (namely the SAB) was attacked; however, there was no indication of any doctrinaire determination to break it up. Conglomerates were also attacked but the view that spinning off some of their interests would be better achieved by political normalisation and the relaxation of exchange controls was not seriously challenged.

The matter of pyramids, which has exercised some formidable minds in the SA context recently, was left largely unresolved. So was the matter of democracy in companies. Issues relating to corporate governance were scarcely debated.

One paper which electrified some sections was that delivered by ANC minerals economist Paul Jordan. He argued essentially that the State has an entitlement to equity participation in mining companies because of its ownership of SA's natural resources. To support his thesis, Jordan quoted the success of the partnership between De Beers and the Botswana government. Extending the principle to Anglo American and De Beers crossholdings would give the State a minority holding of about 20% in the two giants.

Your correspondent must confess to a certain sense of *déjà vu* About 24 years ago, he attended a meeting of the Economics Society of Zambia at which an erudite and guilt-ridden British socialist set out a mechanism for the nationalisation of the country's great copper mining industry. Two years later, the plan was put into effect.

Twenty-two years later, a new Zambian government cannot wait to roll it back.

David Gleason

FM 11\12\92

d infinitum

(49)

The impact of the drought on economic activity is dramatically shown in the inventory component of GDP in third-quarter national accounts figures. The latest *Reserve Bank Quarterly Bulletin* reports "substantial fur-

FM 11\12\92 (49).

ther destocking," largely due to a decline in agricultural stocks-in-trade and, to a lesser degree, the running down of industrial and commercial inventories.

The former was an involuntary response to drought, the latter reflected expectations about future consumer demand.

The inventory decline contributed 2,3 percentage points to the 5,7% decline in GDP. This is the biggest impact inventories have had on GDP since second-quarter 1982, when a contribution of 8,7 percentage points to the decline was only partially offset by growth elsewhere and GDP fell by about 3%. (Quarterly changes are all seasonally adjusted and annualised.)

If inventories had even remained constant, the fall in GDP of 5,7% would have been converted into a rise of nearly 7%. But this is purely an arithmetical exercise and could be applied only if all the growth had come in local production. As much of the inventory build-up would have come from imports, the additional expenditure would have had to be deducted from the final sum — GDP.

But at least some of the 12,7% difference would have come from output, which augurs well for the future. In the event of a normal agricultural season, inventories will presumably perform far better next year.

The additional output may be buried in the residual item, added to or subtracted from expenditure figures, to reconcile them with data on output. This item has been negative for 15 consecutive quarters. But the latest *Bulletin* shows a smaller negative residual — which made a positive contribution of 1,7% to GDP growth in the third quarter

If output and expenditure were identical in fact, as in theory, the item would reflect only errors and statistical distortions But the correlation between the residual and changes in GDP suggests a link. The residual became negative in the third quarter of 1988, two quarters before the slump started.

When the 1990 figures were first published, it seemed that output figures failed to capture activity in the informal sector while expenditure figures did However, a Central Statistical Service survey showed growth in the informal sector over 12 months to October 1990 was only 12,5%, while inflation was 14,4%. If the survey accurately monitored reality, it disproved this theory.

But it's not certain that changes in informal activity can be surveyed accurately at a time of vast demographic change. The release of figures on black unemployment, for instance, was suspended in August 1990 because migration to squatter camps made them unreliable.

There is another explanation for the residual becoming negative when it did. It could reflect a lag between changes in output and changes in expenditure. In 1990, figures showed a slower decline in spending than in output. Gross domestic expenditure, which includes the residual, fell 2,6%. But if the residual is taken out of the calculation, the shrinkage was only 1,5%.

Private consumption was buoyed by:

☐ Income redistribution to poorer households with a greater need to consume; and
☐ Political developments which raised black consumers' expectations about future earning power.

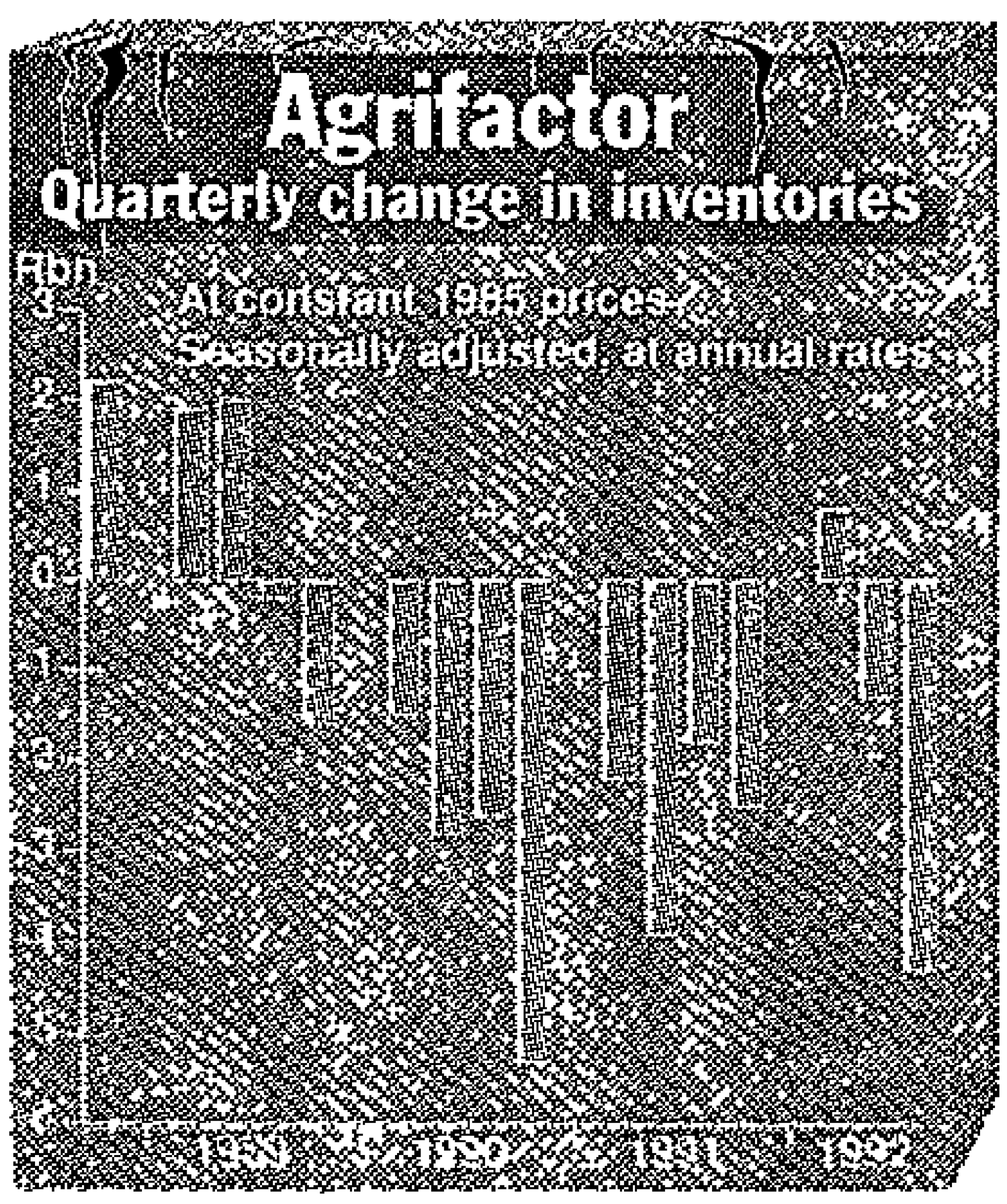
So, though value added in the economy fell, the erosion was in profits rather than remuneration, which rose from 57% of GDP in 1988 to nearly 60% in 1990. As the effects of falling profits were passed on to workers — through smaller increases or retrenchments — overall spending began to fall into line with output This argument is supported by a falling rate of inflation.

If this analysis is accurate, consumer demand is now presumably lagging production

The adjustment has been costly. Consumer confidence is needed to trigger a chain of demand and, at present, it's abysmal. Private consumption expenditure fell by more than 3% (seasonally adjusted and annualised) in each quarter this year. And expectations for the final quarter are no better

It's to be hoped adjustment has also been worthwhile. Real growth can be sustained only if spending is in line with output and remuneration directly linked to productivity

If this relationship can be maintained when the cycle turns, spending is less likely to overflow into higher prices. Nominal growth is the sum of real growth plus higher



prices. The smaller the role of higher prices the more scope there is for real growth.

There is little else in the *Bulletin* to inspire confidence. Gross domestic fixed investment, for instance, fell to 16% of GDP in the third quarter, from 16,3% in the second, 18% in 1991 and 28% in 1977.

We can only hope for political settlement domestically and a good summer rainfall For the rest, we must look to the US economy for stimulus.

Recent US statistics are encouraging:

☐ Unemployment has eased steadily from June's eight-year high of 7,8% to 7,2% in November. New claims for unemployment insurance fell in seven of the nine weeks to November 21,
☐ The National Association of Purchasing Management's monthly index of manufacturing rose to 55, from 50,6 in October and 49 in September This was attributed to a sharp increase in production and new factory orders, which climbed to a six-month high. The average for the first 11 months was 52,4. The association says an index above 50 suggests that manufacturing, which accounts for nearly 20% of GDP, is expanding;
☐ The index of leading economic indicators rose 0,4% in October; and
☐ Construction spending rose 1%, to the highest level in more than two years ■

GNP

Ratio related

In the third quarter of 1992, gross domestic product fell 5,7% while gross national product fell 12%, according to the latest *Reserve Bank Quarterly Bulletin* These are seasonally adjusted and annualised quarterly changes.

The difference between the two aggregates is that the second includes net factor payments to the rest of the world. These are payments for, and earnings on, the factors of production. capital, labour and land. SA's main outflows are remuneration of migrant workers from neighbouring states, interest and dividends paid on loan and equity capital and royalties for the use of copyrighted goods and services And it includes any rent payments to non-resident owners of land and property. Factor payments to SA only partially offset this, so the net amount is negative and GNP, therefore, smaller than GDP.

There is another difference between the two measures

Real GDP is the volume of value added in the economy It is represented in the national accounts in constant 1985 rands, but this simply serves as an index for which 1985 is the base year. GNP, on the other hand, appears in the national accounts in nominal terms. So it has to absorb relative changes in import and export prices

Which of these differences caused the third-quarter disparity?

Not the first. As outflows are many times larger than inflows, they have a far greater influence on net changes. But these outflows would not have risen; the recession has eliminated jobs and suppressed corporate profits which would reduce remuneration and dividend payments. The rate of interest charged on short-term loans would have risen only if these were raised in Germany. Borrowings from most other countries have been subject to a falling pattern of interest rates.

The main contributor to the steep fall in GNP was the terms of trade adjustment — the change in the rate at which export and import prices are rising. The figure is not published and the Bank is not prepared to divulge it.

This ratio is continuing to deteriorate, which will widen the disparity between GDP and GNP changes in the current quarter. ■

No business trust in anti-trust

w/mail. 11/12 - 17/12/92 (49)

Weekly Mail Reporter

PREDICTABLY, the N-word uttered at a conference on anti-trust policy attracted most media attention.

African National Congress mineral economist Paul Jordan suggested that to address the concentration of ownership by whites in mining industry cross-holdings between South Africa's large mining finance houses should be nationalised.

This drew an immediate reaction from big business which saw it as a threat of direct attack on the corporate sector. Johannesburg Consolidated Investment economist Ronnie Bethlehem warned of capital flight and a loss of foreign investor confidence as well as problems of compensation.

Jordan went to the heart of the ANC's qualms about South African business, however: much of the conference concerned the concentration of economic power and the exclusion of blacks from the formal economy.

ANC Department of Economic Policy economist Tito Mboweni said that anti-trust policy must be clearly focused on issues such as market dominance and anti-competitive behaviour.

He says it emerged from the conference that the over-concentration of economic power does not fall specifically within anti-trust policy.

Mboweni stresses that over-concentration does pose problems and will have to be addressed.

"Perhaps we need to put in place a short-term commission to look at measures to bring about a more diffuse and dispersed organisation of business without jeopardising operational questions."

Explaining this, he says that big is not necessarily bad but aspects of concentration of power are bad.

Anti-trust policy must not be confused with fostering black economic empowerment, Mboweni says. This requires a separate policy.

However, less concentration of economic power might spur the growth of small and medium sized businesses, which might aid black economic empowerment.

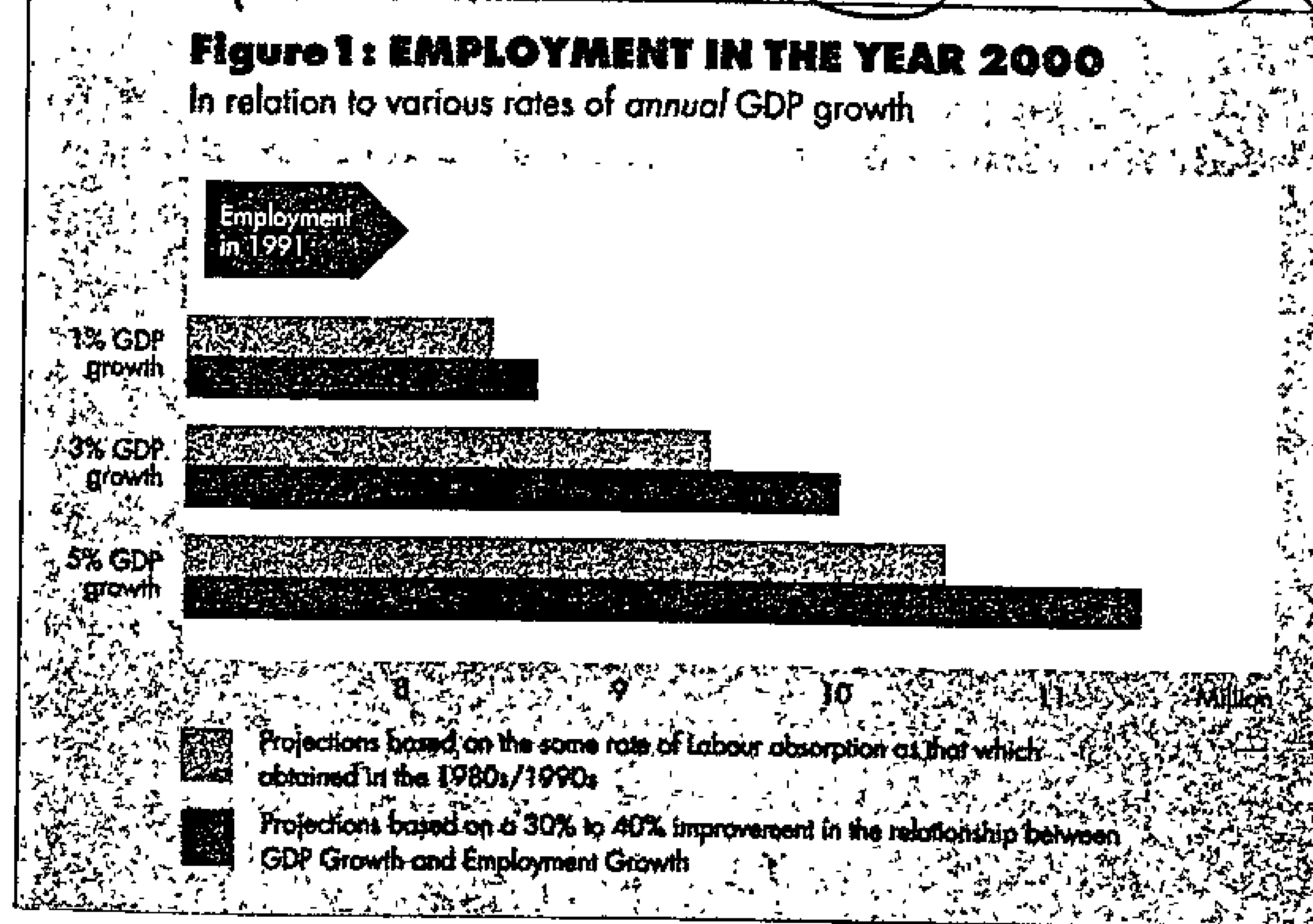
Mboweni says the ANC will try to publish a discussion document on anti-trust policy in the new year.

BUSINESS

Anglo plan to help the poor

w/mail 11/12-17/12/92 49

Anglo nas responded positively to the ANC challenge to present alternatives to nationalisation, reports **REG RUMNEY**



Source: Optima

THE Anglo American Corporation has come up with some sensible ideas for tackling poverty in South Africa.

The proposals are contained in a draft document, put together by several people at Anglo, and published in summary form in the latest issue of *Optima*, Anglo's corporate journal.

The document was clearly a response to the African National Congress challenge to business to present alternatives to nationalisation. But *Optima* remarks that political groupings approached did not take up the invitation to debate the ideas proposed.

Understandably, the proposals fall within the business community's free-market ideology. Anglo stresses at the outset: "Economic growth is the only meaningful way to reduce poverty over time." The authors quote a World Bank study to show that a "market-friendly approach" by government to poverty alleviation is a pre-requisite for economic success. They remind that unsustainable social spending and over-extension of the tax base is a common cause of growth collapse and increased poverty. And they strongly if not blindly support the growth of the informal sector.

Anglo, however, has also compiled an array of programmes which could form part of a short-term anti-poverty strategy, crucially ensuring access to water and job brigades to soak up unemployment.

The authors have even drawn up a rough budget of the annual cost of some such anti-poverty strategies. This gives a cost of around R12-billion and isn't immediately possible — it would probably double the Budget deficit. Tradeoffs will be necessary, though higher growth of five percent a year or more makes more possible.

In the course of identifying short-term interventions the report takes a close look at poverty in South Africa, making some useful observations and liberally quoting younger, less conservative, economists like Peter Moll and Nicoli Nattrass as well as the World Bank and establishment thinkers.

Above all, the authors note the really dire poverty in South Africa is rural. And they say the need to address absolute poverty in South Africa is unquestionably more urgent than putting right relative poverty.

Growth, it shows, using an Urban Foundation study, will automatically lead to a narrowing of South Africa's income gap.

For example, a 2,5 percent growth in gross domestic product between 1991 and 1995 will mean real per capita incomes for blacks, coloureds and Asians will be 15 percent higher in 1995 than they were in 1985. By contrast, white per capita incomes will have fallen by 9 percent.

But this conceals wealth movements within race groups. So inequality within such groups could increase while equality between race groups falls.

In the Philippines an improving proportion of income going to the poorest 40 percent of the population between 1961 and 1971 hid the fact that the share going to the poorest 20 percent fell drastically.

The poorest of the poor — the people without access to housing, basic health care, adequate nutrition or clean water — cannot afford to wait for the kind of gradual adjustment in the economy brought about by a steadily climbing growth rate, say the authors.

These people will also be hardest hit, they add, by a restructuring of the economy aimed at an immediate reduction of income and wealth inequalities between racial groups, at the expense of addressing the problem of poverty *per se*.

Noting that 12-million South Africans, mostly in rural areas, don't have access to an adequate supply of clean water, they cite research to show basic water and sanitation could be provided with R11-billion capital cost plus R600-million recurring costs a year. They suggest a number of specific actions, such as greater use of underground water by urban communities to allow water from central dams to be re-routed to dry areas.

Examining the increasingly popular idea of job brigades, the authors warn against the short-term political benefits of using them for grand public works programmes. They should be used to create assets from which the poor will draw particular benefit, such as erosion control in the homelands. And they could be used to reinforce other components of an anti-poverty strategy including water supply and construction of basic health care or educational facilities.

"Where possible, job brigades should be run along more than simple 'make-work' lines, but this need not always be the case. Indeed, the World Bank (1990) and others recommend job brigades essentially as welfare programmes where the objective is simply to get income to poor families by setting wages low enough to be unattractive to the non-poor."

The authors warn against large-scale job creation projects: talk of employing a million or more people at wage rates comparable with those in the formal sector, they say, would cost too much, consuming around R9-billion in 1990 prices, or four percent of gross domestic product a year. They may also compete with existing formal sector employment, possibly limiting current job opportunities.

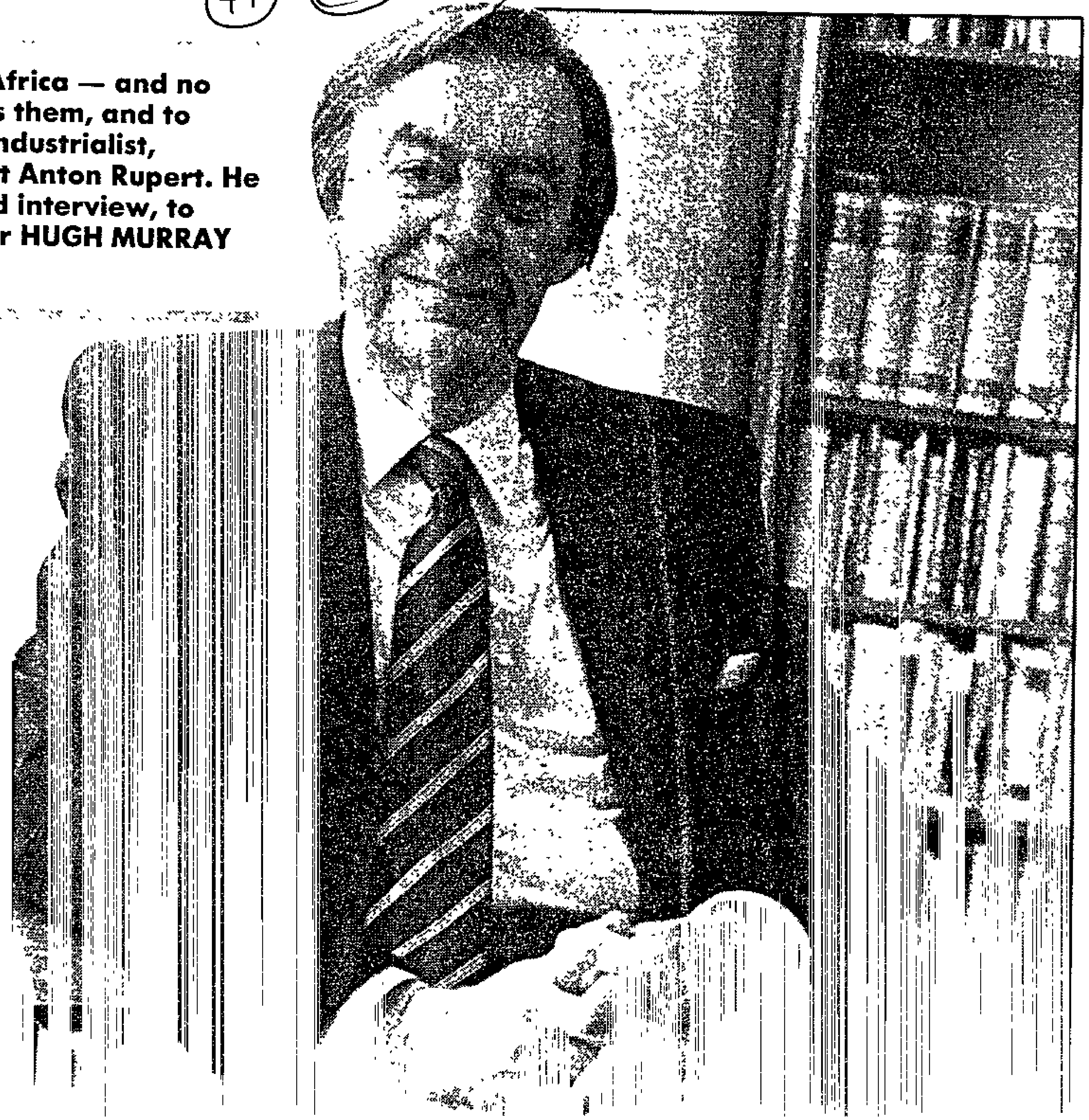
TAKING STOCK OF SA: *Country can get its act together, but it may not have had enough shock therapy, says legendary industrialist*

Diversity is our strength

STAR 12/12/92.

(49)

MAJOR problems beset South Africa — and no one is better qualified to assess them, and to offer practical solutions, than industrialist, businessman and philanthropist Anton Rupert. He spoke, in an exclusive year-end interview, to Cape Town editor and publisher HUGH MURRAY about how he sees the future.



MURRAY: For an organisation to succeed, it needs good managers. Does South Africa have sufficient depth in this regard?

RUPERT: I think we have lost far too many good people. We should get them back, and I think many will be prepared to come back. I have hardly ever met a South African who doesn't want to return. The magnetic quality of this land is strong. In the meantime, these people have gained an enormous amount of experience overseas that will benefit us in the future. We need their inputs.

But this is not all. We have to entice people here by making them better offers. And if we fail, the consequences could be very sad.

WITHOUT adequate political management now, do we not face total chaos?

THE highest priority is for our leaders to reach consensus. If they do not achieve it, there will be nothing left for them to control. There will certainly be chaos. Still, I believe they have enough sense. Mr de Klerk, Mr Mandela and Dr Buthelezi are high-quality people. But they have to understand that there is no more time.

OUR currency's real value is out of sync with our trading partners. Where should the rand be?

THAT'S difficult to say However, I can tell you that unless we get salaries and wages under control, the rand will drop and drop. We are completely out of tune. We pay a minimum wage of R10 an hour to sweepers in our tobacco factories. If you add housing, pension and medical benefits, this comprises a minimum of R2 700 a month. Yet some

high degree of efficiency

CAN we compete in this area?

THERE is a problem looming, and that is increasing automation. Our workers need to understand this. You ask whether we can compete, and I say yes, but the only way we can compete against automation is with productive wages.

CAN you take union leaders along with you on such a contentious matter?

WE NEED to take these leaders to places like Hong Kong, Singapore and Malaysia to show them what is happening. Certainly one doesn't want to underpay people, but things get serious when societies undergo radical transformation.

IS NOT one of our problems in South Africa short-term thinking and planning?

PART of our Americanisation has been this quarter-by-quarter reporting. One advantage of family-controlled companies is that one is not under that kind of pressure. If you start a new industry and pay a dividend in the first five years, I think you are bound to fail. Industrialists cannot think short-term

ON A political level: Do you favour any particular system?

I BELIEVE the Swiss system is the one that could work. We need a federation, not a union. Furthermore, the system needs to be broken down into local units. I don't mind how many there are, but they must be economically viable. Small units would work.

We must look at what is most important to people — what binds them together. Generally, it's things like the church, the school, the local rugby or soccer team, and so on. This is what we must focus on. I am also convinced that our strength lies in our diversity. I would have suggested the motto Diversity is sense. Mr de Klerk, Mr Mandela and Dr Buthelezi are high-quality people. But they have to understand that there is no more time.

OUR currency's real value is out of sync with our trading partners. Where should the rand be?

THAT'S difficult to say. However, I can tell you that unless we get salaries and wages under control, the rand will drop and drop. We are completely out of tune. We pay a minimum wage of R10 an hour to sweepers in our tobacco factories. If you add housing, pension and medical benefits, this comprises a minimum of R2 700 a month. Yet some still strike. Our industries cannot compete and the rand will remain under pressure until we have a government strong enough to understand and act on what I am saying to you We are in competition with countries like Malaysia and Singapore. These people are highly intelligent, very effective, and they work.

CAN we emulate the Pacific Rim experience?

YES we can — provided we contain our costs. Then we need stable government; a strong currency, in the sense that it retains its value; and we must control our wants and desires within reasonable limits. Unless we are able to cut our coat according to our cloth, we will not make the grade. I believe we can do it, but I don't know whether we have had enough shock therapy.

DOES the level of corruption in business and government circles not cause concern? There seems to be a massive decline in financial morality.

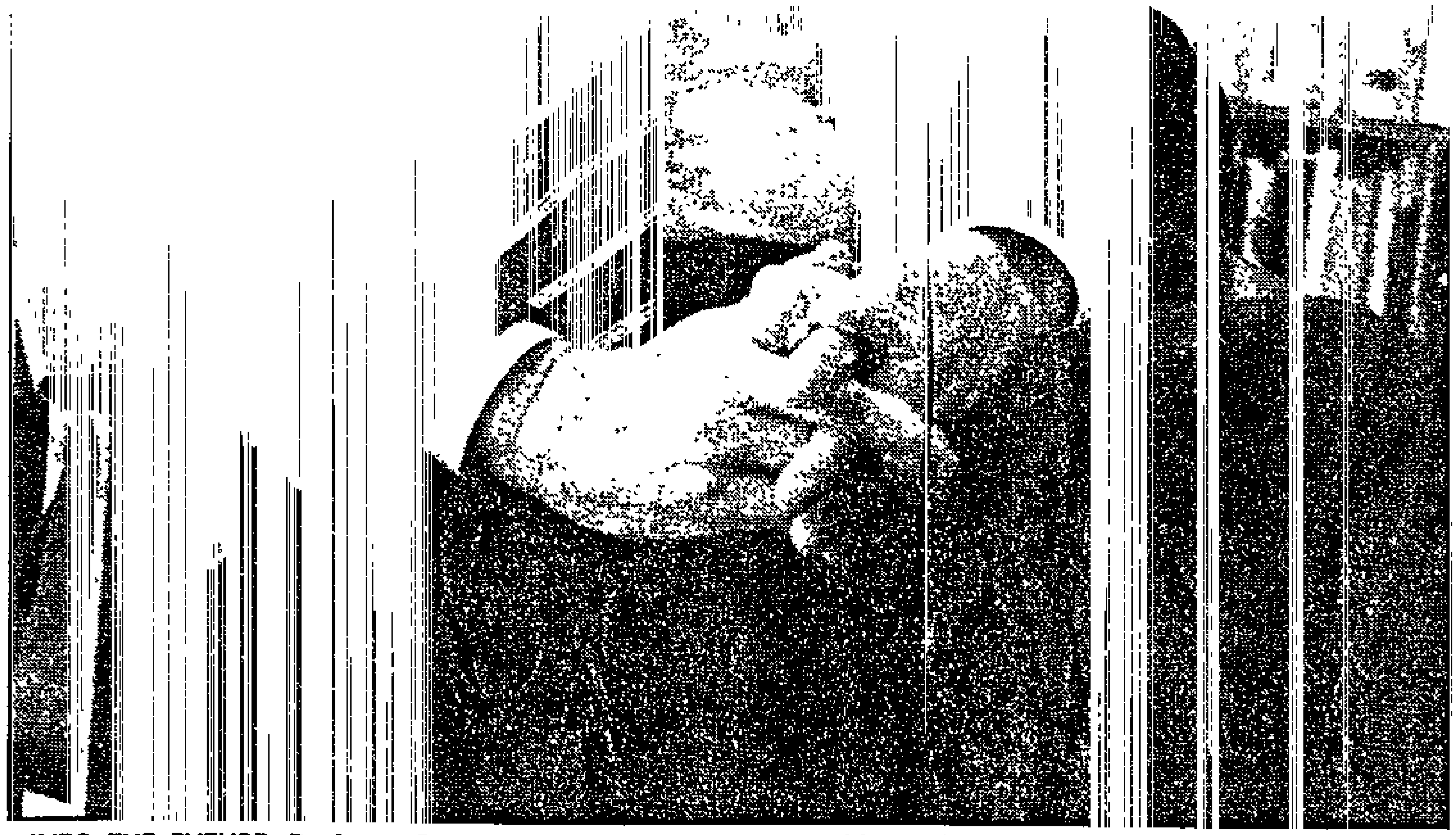
YES — on both accounts. There is an urgent need for us to regain confidence in our currency. If governments do not see to it that their currencies are stable, people start becoming really dishonest Also, if you think about it, virtually every great power that has fallen has done so when its currency collapsed You can hold it up artificially for a while, but the end is inevitable I'm not saying I wouldn't put these people in jail, but I can understand how it happens.

I LIVE in the future One of the problems of my life is that I have probably paid the price for living too far in the future. I saw problems. We have all the problems of tomorrow without the sympathy of the world of today In the late 40s, I saw what the future was going to hold for us. And, of course, it has happened. It gives me no pleasure to see this

□ □ □

THE highest priority is for our leaders to reach consensus ... Mr De Klerk, Mr Mandela and Dr Buthelezi are high-quality people. But they have to understand that there is no more time.

DR ANTON RUPERT



INTO THE FUTURE: Dr Anton Rupert sees automation as a problem which workers in South Africa need to understand. The only way to compete is with productive wages, he says.

IT EVEN becomes a fashion as some civil servants, perhaps worried about their pensions, make hay while the sun shines. We had a fantastically honest civil service, whose ethics we inherited from the British. I think it is still excellent, but judging from the number of court cases I see reported in the newspapers, there is a serious tendency towards graft But I believe these things are related to the decline in our currency. Perhaps a priority is to make sure the Reserve Bank is truly independent of this Government — any government for that matter — so that they can get on with the job of rigorously maintaining the value of the rand.

OUR national product is starting to look really shabby. We still have to market ourselves out of this appalling situation. How do we start?

FIRST, you cannot — or should not — advertise a bad product. This will ensure that you will not easily have an opportunity to sell it again. The product must first be right Then we have to remember that the customer is king We have to adapt ourselves to the customer. When a young man joins me, I tell him immediately that he is not working for me but for the customer

If we are selling overseas we have to be better than our competitors, and they include every country in the southern hemisphere. We have got to be better, more honest, and work harder We have a lot of competition. What's more, we must decide what are the right products.

IF you had to look at South Africa as a group of companies with diversified product ranges, what would the most attractive of these be?

OUR biggest and best industry, which is there for the taking, is tourism. With the game parks rating among the top in the world, we can certainly attract wealthy visitors But we need to allow companies to arrange extensive charter flights. If Lufthansa can do it with their Condor airline, so can we. But we need to recognise the mutual dependency of eco-tourism and nature conservation, and then rationalise responsibly these aspects

YOU have a particular interest in the Peace Park to be established up on the Kruger Park and Mozambique border. What is it like?

IT'S absolutely fantastic — and it will happen if they have peace in Mozambique. President Chissano is very keen on it. The land is ideal for game and could comprise various eco-systems

ARE South Africans showing an aptitude for a sophisticated industry, such as the manufacture of electronic components?

ANYONE with hands can work in this field. If I see the way some African women work, with beading and so on, why can we not train them to do what their counterparts on the Pacific Rim do? Obviously, we'll have to give intensive training of a sophisticated nature. But we can achieve a

your any particular system?

I BELIEVE the Swiss system is the one that could work. We need a federation, not a union. Furthermore, the system needs to be broken down into local units I don't mind how many there are, but they must be economically viable. Small units would work.

We must look at what is most important to people — what binds them together. Generally, it's things like the church, the school, the local rugby or soccer team, and so on. This is what we must focus on I am also convinced that our strength lies in our diversity. I would have suggested the motto Diversity is Strength, rather than Unity is Strength, for this country.

YOU have been a great proponent of partnership, which seems to stand you in good stead philosophically for what lies ahead.

IT comes from a basic belief that there is no other way Partnership has stood us in very good stead and everything we do has been built on that concept.

HOW about your foreign partnerships? You must have had some difficulties there because of local pressures.

IT was difficult. But we are innovators — always cats on a hot tin roof. And we're never satisfied.

WHAT do you want to do in the foreseeable future?

I'M doing what I like doing — nature conservation, small business, the art foundation as well as the other four foundations I'm involved with I spend most of my time with that. I'm busy now, and interested enough. I only hope that in my lifetime I'll see a flourishing South Africa, a stable society and a stable government.

HAVE you ever failed at anything?

I FAILED in selling the idea of partnership to all and that our strength lies in our diversity. I have tried to encourage change, and I'm thankful it has happened in my lifetime But I pray the change will not lead to chaos. I don't want to see chaos. I want to see a great, equitable society of which every citizen will be proud.

● *This article appears in the inaugural issue of Millennium, a magazine published by Churchill Murray Publications of Cape Town for the first quarter of 1993*

Wednesday, Dec 9 quotations for unit trusts.

	BUY	SELL	YIELD
General Equity Funds:			
ABSA	133,53	124,91	5,92
BOE Growth	143,51	134,08	3,78
Community Growth Fund	112,07	106,16	NA
Fedgro	121,59	113,56	5,08
CU Growth	109,84	102,65	4,63
Guardbank Growth	2416,86	2250,91	4,74
IGI	128,52	120,41	3,56
Momentum	227,20	212,72	4,65
Metfund	176,38	163,86	4,67
Metlife	113,65	106,20	7,44
NBS Hallmark	900,67	841,07	5,43
Norwich	329,64	307,81	4,35
Old Mutual Investors	2551,18	2378,57	3,76
Sage	2309,19	2156,21	4,20
Sanlam	1568,73	1469,51	3,52
Sanlam Index	1193,05	1117,31	4,12
Sanlam Dividend	434,86	407,90	4,93
Southern Equity	196,96	184,33	4,36
Standard	1155,28	1085,93	7,38
Syfrets Growth	276,70	259,07	4,62
Syfrets Trustee	115,22	107,91	4,71
UAL	1973,64	1853,54	5,21
Specialist equity Funds:			
ABSA Industrial	127,79	119,53	4,42
Guardbank Resources	129,25	120,49	6,22
Guardbank Industrial	120,83	113,25	5,88
Sage Resources	94,40	88,20	6,46
Sanlam Industrial	1018,49	953,71	3,12
Sanlam Mining	239,00	223,76	6,12
Southern Mining	113,60	106,38	5,83
Southern Pure	113,97	106,73	NA
Standard Gold	135,74	127,29	9,26
Standard Industrial	111,66	105,34	na
Standard International	99,23	93,05	NA
UAL Mining and Resources	321,86	301,48	4,95
UAL Selected Opportunities	1770,54	1655,95	4,11
Old Mutual Mining	205,37	191,32	5,80
Old Mutual Industrial	338,12	315,00	4,34
Old Mutual Gold Fund	84,27	78,54	7,13
Old Mutual Top Companies	235,47	219,53	4,14
Income/Gilt Funds:			
Metboard Income	109,64	108,49	13,89
Guardbank Income	124,71	122,16	14,82
Old Mutual Income	111,85	110,63	12,98
Standard Income	94,56	93,57	14,00
Syfrets Income	110,90	109,71	14,44
Syfrets Gilt	1107,94	1096,86	NA
UAL Gilt	1192,83	1180,90	13,13

Politics holds the key to economic recovery

South 12/12 – 16/12/92.

49 ~~153~~

The recessionary conditions in the South African economy, which started early in 1989, continued unabated during the year, and the current recession is now officially the longest since the four-year recession between 1904 and 1908.

The debilitating drought resulted in a sharp fall in agricultural production and has contributed to 1992 being the worst year of the recession thus far.

Other factors that contributed to the continued decline in real economic activity include:

- a further tightening in consumer finances due to the continued retrenchments and decelerating salary adjustments
- a further cutback in real fixed investments by both the public and private sectors (the latter largely a reaction to worsening demand prospects
- static demand due to the sluggish growth in the world economy.

The weakness of the economy, together with a deterioration in the political environment, resulted in the local stock market coming under severe pressure during this year. This is reflected in the 22 percent fall of the JSE All Share Index from its 1992 high in early June, when the Codesa talks broke down, to its low point reached during October.

By the end of November, the market had recovered by some 8 percent from its low point, but still stood 8 percent below the level at the beginning of the year. The recovery can, to a certain extent, be attributed to the improved prospects of talks early in 1993.

It also illustrates the volatility inherent in the stock market in such uncertain times and how quickly investor sentiment can change. However, a rising trend in share prices is only likely to be sustained if the economy is seen to have reached, or be nearing, its turning point. Despite the prevailing weakness in the real economy, Old Mutual believes that a number of factors should aid a bottoming out of the recession and bring about a moderate recovery in 1993. These include:

- the gradual relaxation of monetary policy will continue for some time, providing relief to highly-indebted individuals and support to company earnings.
- although world growth will remain subdued next year, some external stimulation to the local economy is still possible.
- the rate of inventory depletion appears to be slowing.
- the expected decline in inflation will ease pressure on the financial position of consumers.
- a normal agricultural season is expected.

The length and strength of the next economic growth phase is likely to be determined largely by developments in the political arena.

High hopes for Western Cape at launch of forum

South 12/12 – 16/12/92

(49)

THERE was an optimistic mood at the launch of the Western Cape Economic Development Forum at UCT last week — but the event had its hiccups.

With diverse groupings such as unions, big business and right-wing elements brought together to devise economic strategies for the region, it was never going to be easy.

A delegate from the Parow municipality sent a ripple through the crowd when he proposed that renunciation of the armed struggle serve as the minimum requirement for gaining membership of the forum.

Dr David Bridgman, the interim steering committee chairperson, was quick to respond.

"We haven't specified who we want to talk to. It's important to break with the South African tradition of not talking to other regions and groups.

"The main condition for those wanting to join is to subscribe to the aims and objectives of the forum," he said.

To another question from the Parow delegate, Bridgman emphasized the importance of consensus as the basis of decision-making in the forum.

He also pointed out that the forum would not serve as a lobby for certain groupings but would be a "platform to get the major actors together" around key issues.

Bridgman told the Parow delegate the forum should not serve the economic needs of one section of the population. However, past inequalities were the reason for emphasizing the importance of black economic advancement.

Bridgman said Cape Town ratepayers will not be paying for the running of the forum. Funding would be found from another source.

Idasa has agreed to underwrite the first year of operation.

Bridgman said the forum was not an executive decision-making body, but was one which would attempt to get the various players to reach consensus on economic strategies for the region.

The groundwork will be done by commissions which will focus on issues:

- Competitiveness of business
- Education, training and youth employment
- Urban development
- Black economic advancement
- Short-term job creation
- Social welfare
- Rural and agricultural strategies.

In his final speech as interim committee chairperson, Bridgman emphasized the need for the major players in the Western Cape to act before a political settlement is reached.

"This forum must ensure that national forums address the issues that are important to us in this region."

But he warned: "We have done nothing yet. We must still deliver results.

"At the moment there is no unanimity on economic priorities in the steering committee, but there is co-operation in terms of direction."

Herbert Hirsch was elected the new chairperson of the steering committee, along with deputy chairpersons Adrian Sayers (Cosatu), John Neels (Sanco), Leon Markovitz (City Council).

A fourth place has been left open for the eventuality of one of the independent unions wanting to join the forum.

Confidence begins at home, SA told

C/Press 13/12/92

MONEY TALK

AN important West European leader, Edouard Balladur of France, has pointed out some unpleasant truths to South Africans during a fairly low-key visit to the country this month. C/Press

It is important that we take note of his remarks. He was economics, finance and privatisation minister in the government of Jacques Chirac. What is even more important is that he is a possible new prime minister should there be a change of government in France after the March elections.

Balladur has warned, for instance, that the reluctance of SA businessmen to invest in their own country's future is having a detrimental effect on foreign perceptions about possibilities here.

Balladur pointed out that French industrialists have been decentralising their activities for many years – firstly to neighbouring countries such as Spain and Portugal and then to countries as far afield as Malaysia.

Although he did not say it, it is clear that SA is very low down on the list of French investor priorities.

Apart from new investments he even foresees the possibility that we may lose existing investments. Continuing violence, labour unrest, high taxes and similar factors are causing local and foreign investors to spread their risk by investing overseas.

Yet Balladur and others of his ilk understand that we are experiencing a transitional period, and, one can assume, they are still sufficiently interested to get a foothold here, given the right conditions.

At the moment he believes our trade with western Europe – the world's largest trading block – depends too heavily on raw and semi-processed materials. We should add more value to create greater wealth locally. (49)

Yet here lies the crux of the problem. To do so needs confidence and new investments in the future of the country. At the moment so many of our own businessmen are reluctant to commit themselves while overseas industrialists are fed regular TV scenes of violence and confrontations between business and labour that they are understandably inclined to look elsewhere for opportunities.

Thus, Balladur's message is clear: the world owes us nothing, but is interested in doing business with us provided we create the a stable and profitable climate.

Now an Economic Forum for PWV

S Times (Buss) 13/12/92

By KEVIN DAVIE

(49)

A NEW economic forum, consisting of more key parties than that of the Economic Forum (EF) which has been set up to achieve consensus on the future direction of the economy, is to be constituted next month.

The PWV economic forum aims to develop an economic strategy for SA's economic heartland, the PWV.

It is expected to be formally launched on January 21. Participants and observers include organised business and labour, government, homeland governments, regional and municipal authorities, development agencies, civic organisations and political parties.

"The Forum will tackle development problems in a region which is one of the most unequal in the world," says a participant. He says meetings to date have shown that all taking part show a surprising degree of consensus on the need for a development strategy for the PWV.

It is understood that Cosatu has played a major role in the formation of the PWV Forum, with the Consultative Business Movement acting as facilitator in the interim stage.

A independent secretariat and office staff is envisaged once the Forum has been formally launched.

Funding is expected to be provided by business organisations, the participating authorities, the Development Bank and from foreign sources.

Professor Alan Mabin of Wits is to draw up a "rapid review" research programme within six months on areas on which the Forum will concentrate.

The intention is to produce a development strategy to enhance the economy of the region, but in particular to develop the poor and disadvantaged.

Participating political parties include the National Party, the ANC, SACP and Democratic Party.

Bophuthatswana and KwaNdebele, the Wits RSC, the Transvaal Provincial Administration, Cact, Sacob, Fabcos and Nafcoc are others taking part Trade union groupings include Cosatu, Fedsal and Nactu.

The Central Wits Metropolitan Chamber has observer status.

Areas of focus are likely to include the provision of low-cost housing, labour-intensive job creation, purchasing strategies to facilitate upliftment, technical training, the provision of information centres and youth and community centres.

There are as yet no formal links between the PWV and Economic Forum but these could be expected in time.

"The PWV Forum has a broader membership and aims to become an implementing rather than advisory body," says a participant.

Keys unlocks Budget plan to hike VAT

S/Times (Buss) 13/12/92.

(49)

By KEVIN DAVIE

FINANCE Minister Derek Keys has begun the spadework for his toughest political challenge yet — next year's Budget.

The VAT Co-ordinating Committee (VCC), which includes prominent members of Cosatu, has tentatively agreed on the need for an increase in the rate of VAT while extending the number of basic items which are exempt.

Mr Keys has also briefed the Economic Forum (EF), which consists of organised business and labour, on the severe challenges he faces in constructing his first Budget.

The VCC and EF were given the first estimates which the Government has produced for next year's Budget. Sources say the estimates are "extremely bleak", "really traumatic" and "pretty horrifying".

The shortfall between expenditure and revenue this year is likely to be more than 8% (about R26-billion) of GDP of R330-billion.

Sources suggest that Mr Keys will budget for not less than a 6% deficit next year, still well above the 3% and 4% yardsticks for prudent public finance recommended by the IMF and World Bank respectively.

Wider

A VCC source says the committee has agreed that there will need to be an increase in the rate of VAT so long as a wider range of basic items, such as foodstuffs, are exempt.

"There will be major mutterings, but the issue is fait accompli," says the source.

These sources and economists expect VAT to be increased from 10% to about 13,5%, but do not discount the possibility of a rate as high as 15%

Many expect a VAT increase to be accompanied by a hike in fuel taxes (possibly early in the New Year) and increases in individual taxes by not adjusting tax brackets.

Mr Keys's keenness to involve non-parliamentary parties in drawing up the Budget contrasts with that of his predecessor, Barend du Plessis. It has been widely speculated that Mr du Plessis' abrupt departure from politics was caused by his being forced to back down on the VAT issue.

Says the VCC source: "Mr Keys is an entirely different Minister of Finance."

Mr Keys last week briefed the EF on the constraints he faces in the next Budget. The Forum was told that it would not be asked to support the hard decisions which the Government will have to take, but was offered the chance to respond to Mr Keys's presentation with its own suggestions.

"There was no attempt to co-opt the Forum," says an observer, "but rather to make the budgeting process more transparent."

The VCC has met Mr Keys three times this year and has submitted a list of items, including medical services and foodstuffs, which it would like to see zero-rated.

Mr Keys is understood to be looking at these proposals.

Economists agree that there is little possibility of reducing the budget deficit next year to 3% (about R11-billion) of GDP, but say that a medium-term programme will be needed to achieve this target.

Model

They say, too, that a higher-than-acceptable deficit next year should be linked to economic reform to arrest the downward economic spiral.

Mr Keys has announced that the Government is aiming to cut expenditure next year by at least 3% after taking inflation into account. This suggests that the Budget will increase from this year's R101-billion to about R110-billion.

Economists say there is enormous pressure to increase social spending, but that stiff tax hikes could push the fragile economy into a full-blown depression.

"Drastic tax hikes could push things from bad to worse," says Louis Geldenhuys, economist at Senekal Mouton and Kitshoff.

"It's a nightmare situation. There are vast demands for more social spending — for instance, to equalise pensions.

"We have a high-risk fiscal situation which could easily escalate, making the economy unstable with hyper-inflation."

Levels

Mr Geldenhuys says the solution is to accept a too-high deficit and try and grow the economy out of trouble.

He says that the high levels of Government spending must also be tackled.

While revenues are substantially down on Budget estimates because of the poor state of the economy, Government expenditure will increase by 18% this year. It has increased 16,5% on average during the past five years, says Mr Geldenhuys.

PUTTING HIS POINT . . . Derek Keys has briefed both unions a…

Deficit doom for future SA govt

CT 14/12/92

(49)

By AUDREY D'ANGELO
Business Editor

SA's soaring budget deficit will put any future government in a financial straitjacket, unless it can be reduced over the next two or three years, says Gerhard van Niekerk, CEO of Old Mutual.

And, he pointed out in a hardhitting statement at the weekend, the only way to reduce the deficit is for everyone to "stop politicking" immediately, and pull together to revive the economy,

Van Niekerk points out that raising income tax or VAT in the March Budget, in the present state of the economy would be disastrous.

Opportunities for the Government to cut its spending are also limited, apart from eliminating duplication. "Which government department should cut its spending? Who would suffer as a result?

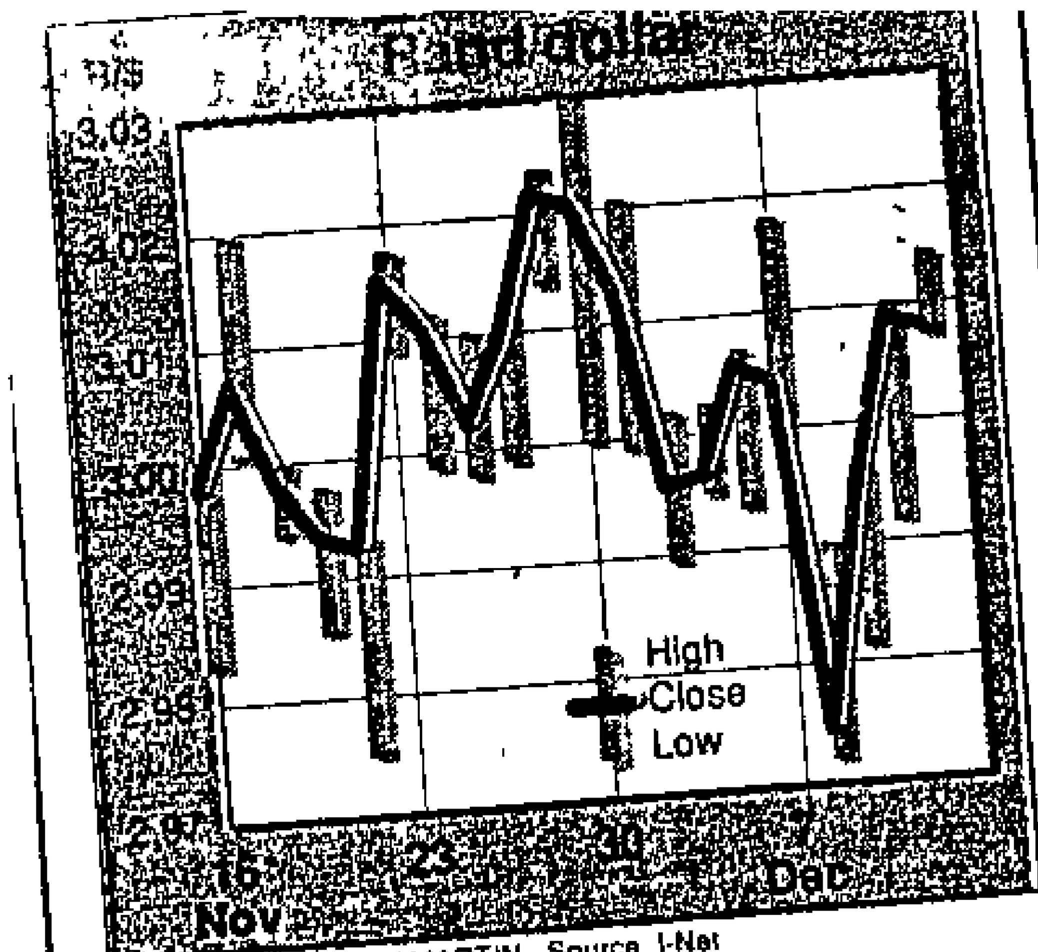
"Efforts to reduce spending tend to be slow and, if successful, would deflate the economy further. Again, the political costs of this strategy could be high, while if valuable services like education and infrastructure were cut growth would also suffer in the future.

Unavoidable

"This option may become unavoidable in due course," Van Niekerk warns. "If economic recovery remains elusive and the government continues spending beyond its means it may be forced into a low-spending bread and water situation in the near future.

"Eventually it may even be forced to run a budget surplus — spending less than it receives — to pay for the current spending of the early 1990's. And this would mean fewer police, lower pensions, more pot-holed roads and higher school charges for the whole population.

"The only viable solution is to revive the economy, which the present climate of uncertainty makes difficult, and agree on rules for taxation, export incentives and labour which will not be changed for at least five years so that it becomes possible to plan ahead."



Graphics RUBY-GAY MARTIN Source I-Net

The commercial rand ended the week softer at R3,0131 against a stronger dollar from the previous week's R3,0068 close. Mid-week intervention by the Reserve Bank pushed the local currency up to trade at about R2,97 against the US unit, providing importers with an attractive buying opportunity which forced the rand back lower.

Debt, salaries to consume Budget

GERALD REILLY (49)

PRETORIA — Almost half of next year's estimated R120bn Budget will go to servicing government debt and paying public servants' salaries, say economists.

Taking into account this year's pay increase of just under 10% for 1-million bureaucrats, and another increase from July, government's pay and benefits bill is set to rise to about R34bn.

Negotiations on public service pay increases in the new financial year will resume early next year. The public service caucus, representing 12 staff organisations, the Finance and State Expenditure Departments, and the Commission for Administration are involved in the talks.

Estimated expenditure this financial year is R100,676bn. Government income is about R84,749bn, leaving a deficit of almost R16bn. BIDAY 14/12/92

Finance Minister Derek Keys, who has been briefing interest groups, has indicated the deficit will be nearer to R28bn because of a sharp drop in tax income.

Government revenue continues to lag behind expenditure, with collections in the first seven months amounting to 51,6% of the year's budgeted amount.

☐ To Page 2

Debt BIDAY 14/12/92

(49) ☐ From Page 1

Final figures released on Friday by the Central Statistical Service for the first seven months show exchequer revenues increased 5,6% over the same period last year, while the Budget provided for an increase of 13,2%. Despite lower revenues, fuel levies grew 42,7%; tax collections increased 4,9% and income tax — excluding gold mining taxes — rose 5,2%. However, VAT collections fell 9,7%.

Servicing government's debt, the economists say, will absorb about 20% of next year's Budget. Ten years ago it took only 7%. Against this background, government will be compelled to raise its income — probably by raising the VAT rate. A figure of 13,5%, with some exemptions, has been mentioned.

Company tax, say economists, is unlikely to be increased in the hunt for more income. Government will also be reluctant to increase individuals' income tax.

MONEY MARKETS by Hilary Gush

Three-month paper rises in quiet market

WHILE the average rate on Reserve Bank Treasury bills has fallen gradually in the past year — in line with easing monetary policy — the rate on the three-month TB has risen in the past month.

The rate on the three-month paper fell from a 16,46% monthly average in November last year to 14,71% in May and 12,18% in November 1992. However, in the uncharacteristically quiet market of the past four weeks rates have come up.

With many players already off on holiday, the average rate on Friday's three-month TB tender was up at 12,07% from the 11,67%, 11,78% and 11,86% posted in the three previous weeks. The rate on the six-month TB was also higher at 11,37% from a previous 11,12%.

Dealers labelled those who successfully tendered at the higher rates as "lucky chancers who relied heavily on the absence of many other players in the market". Lucky indeed.

This uptick in short-term rates is probably temporary as economists who took part in the latest SPL Banking Services Forecast predicted that interest rates would continue to slide in the next year.

From a November basis rate of 11,9% the 90-day liquid BA rate was expected to fall to 11,4% by February and to 10,85% by May. Last week the BA was trading at around 12,15%.

From a 17,25% basis, the prime rate was expected to drop one percentage point to 16,25% by May. By November the rate would be even lower, at 15,25%, they said. This suggests an expected easing of monetary policy and a further drop in the Bank rate early in 1993.

The participants were not so bullish on the outlook for gilts. From an average 14,55% in November, the yield on the E168 was predicted to ebb to 14,40% by February and 14,20% by May.

On Friday the bellwether Eskom stock was trading at a yield of around 14,96%.

The SPL survey was conducted before the SA Breweries R1bn corporate bond issue on December 1 — which is sure to initiate a run of further issues early in the new year. Government is also expected to come to the local capital market to fund the enormous fiscal deficit. This is bound to put upward pressure on gilts rates.

Higher taxes no help to deficit

BDM 14/12/92 (49)

LINDA ENSOR

CAPE TOWN — There was no quick and easy way to cut SA's ballooning budget deficit, and a heavy-handed approach to the problem in the next Budget should be avoided at all costs, Old Mutual chief operating officer Gerhard van Niekerk said at the weekend.

Increasing taxes to enhance revenue flow would jeopardise an economic revival, undermining private consumption spending, discouraging firms from investing and prolonging the current recession, perhaps worsening the deficit.

If the economy recovered and political demands for higher spending were restrained, then much of the deficit would disappear of its own accord.

Economic growth was the most effective way of addressing the deficit in the long run. All players — government, business and labour — had to address the deficit problem urgently. Sacrifices would be necessary from all sides.

Central government would end up borrowing R26bn from the private sector to fund this year's Budget deficit, which was likely to be even larger next year. Hopes of an improvement in government finances before the next Budget were slim.

Last year government used 21c of every rand of savings available to finance investment to meet its revenue shortfall. This figure was likely to reach 40c in 1992. While fixed investment in the private sector was depressed, such finance was readily available at reasonable interest rates. However, when the economy began to recover, competition for funds between business and government could raise interest rates sharply, choking off an economic recovery.

Old Mutual senior portfolio manager Adrian Allardice said at the weekend that the unexpected strength of the US economic recovery in the past quarter had emerged as a bullish factor for SA equities in the coming year.

The US turnaround, which had radically improved market sentiment and which would provide backing for an upturn on the JSE, had caught many local and foreign investment managers by surprise.

Allardice believed the JSE had bottomed. He recommended that unit trust investors consider increasing their exposure to equities.

Sectors such as electronics and non-gold commodity shares should firm further, with commodity shares being boosted by foreign demand, he said.

CT 15/12/92

Some good news, some bad

By AUDREY D'ANGELO (49)
Business Editor

SOME positive signals suggest the recession has bottomed out — but "we may be well into 1993 before a broad economic recovery becomes evident", the Stellenbosch Bureau for Economic Research (BER) warns.

Meanwhile — the report on the latest BER manufacturing survey says — unemployment is expected to go on rising in the first quarter of next year.

And BER economists think the helpful effects of lower inflation and interest rates may be cancelled out by higher taxes in the next Budget.

The report says recently released official statistics on economic activity in the third quarter, combined with the results of the survey, show that 1992 has been the worst year of the recession "estimated to register close to 2% real decline in gross domestic product (GDP).

"While the drought in the summer rainfall areas played a significant role in the third quarter's decline political uncertainty also had a serious impact and is continuing to do so.

"In addition export earnings are increasingly affected by relatively sluggish economic conditions in the major industrial countries."

In spite of an improvement in retail sales in the fourth quarter, which has resulted in more orders for manufacturers, business is still not as good as a year ago.

This means, says the report, that the improvement in the fourth quarter compared with the third implies only that "the tempo of deterioration is subsiding.

"Some of the positive signals represent a bottoming out in the poor economic conditions. This has to be interpreted with the necessary caution — there are factors which suggest that the apparent upturn in consumer demand may prove to be temporary.

"Lower inflation and lower interest rates could be the only source of the improvement '

Amid some positive signs "the short term outlook for the economy continues to be rather bleak.

"Domestic demand is anticipated to be suppressed over the year as a whole and international economic recovery could be relatively weak.

"Political uncertainty is likely to continue to exert a negative influence on business activity and the favourable developments in the financial sector — lower inflation and interest rates — may be short lived due to the fiscal dilemma and the increasing probability of tax increases in the next Budget."

Discussing the outlook for exports the report concludes: "Industrial policy will have to focus on the improvement of manufacturing's international competitiveness.

"The gradual phasing out of tariffs seems necessary, while special efforts will be required to safeguard employment in the drive to improve productivity and competitiveness."

The report warns that, with lower import tariffs: "The consumer goods producing sectors are most vulnerable, being relatively more heavily protected and labour intensive.

"As these industries can only really develop a competitive edge in the longterm SA remains, for the time being, reliant on growth in the processing industries to earn foreign exchange for the economy to fill the gap left by waning gold production."

'Meagre' growth on the cards — Sanlam

(49)

CT 15/1

By ARI JACOBSON

A MEAGRE economic growth rate of about 0,5% can be anticipated in 1993 according to Sanlam's chief economist Johan Louw.

Writing in the latest Economic survey Louw says that SA is entering the new year with a projected economic growth of negative 2% for 1992 and with "few signs that the long-awaited recovery will begin".

Counting against a recovery, Louw says, that the rate of growth of the leading industrial countries remains weak with an acceleration unlikely for the next six months.

In addition "SA in the third quarter of 1992 recorded its weakest growth performance in more than eight years".

Louw points out that the immediate prospects for the local economy are not promising saying that "the few favourable developments such as the relatively strong balance of payments, the lower inflation rate and reduced interest rates are not enough to revive the economy".

Here he mentions the need for a stronger foreign economic recovery, visible progress in the political field, a drastic decrease in violence and a significant improvement in domestic and foreign confidence.

Hard work

He adds that hard work is the best recipe to correct the shortcomings in the economy.

The structural shortcomings include low fixed investment, insufficient competition, exchange controls, low productivity and excessive government spending.

"But one area in which SA has performed reasonably satisfactory over the past year, is its trade with the rest of the world."

He says that as a result of sluggish domestic growth which has kept imports low, and a healthy export performance, surpluses on the trade account have been successfully accumulated.

"However the favourable trend has been interrupted in the last few months by increased imports and decreased exports of agricultural products as a result of the drought."

Louw points out that the destructive effect of the drought on agricultural production saw the real value-added of the agricultural sector plummet 63%.

However the sharp weakness of economy was not limited to agriculture and was instead broadly spread across industry, says Louw.

'Obstacles' to scrapping of finrand

BDAY 15/12/92 (49) (74)

SHARON WOOD

LOW yields on long-term fixed interest stocks are an obstacle to removing the finrand system, the Bank of Lisbon says in its latest Economic Focus.

The bank said fixed interest rate stock rates had fallen in recent months and were now only slightly above the prevailing rate of inflation.

The elimination of the finrand system at a time of low positive or negative real rates of return would probably lead to the drying up of foreign buying of fixed interest stocks and precipitate a net outflow of foreign funds from the market, it said

In addition, the prospects for a removal of the two-tier exchange rate system were partly dependent on the behaviour of foreign creditors holding standstill loans.

Creditors had the option of switching out of standstill dollars into finrands for investment in SA equities or disinvestment through the finrand market. This would influence the discount's size and the scope for abolishing the system.

SA companies' direct foreign investments were another obstacle to dismantling exchange controls because the sale of finrands for dollars was weakening the rate while contributing to a rise in finrand balances.

Balances had risen considerably in recent years and the bank said this was in conflict with the objectives of the Reserve Bank's intervention in the market. One of the objectives was to buy finrands to reduce the balance.

"This could well contribute towards some decline in the discount on the finrand, which would render it easier to scrap the finrand system."

The Bank of Lisbon said the Bank's decision to slow down its approvals for SA offshore investments could be accompanied by some tightening of foreign investment restrictions.

Another possibility would be to alter the nature of the finrand system by confining access to non-residents.

Little hope of recovery next year (49) Sanlam

BDay 15/12/92

LINDA ENSOR

CAPE TOWN — Too few favourable factors existed at present to revive the SA economy and the immediate prospects were not encouraging, Sanlam chief economist Johan Louw said in the life assurer's latest Economic Survey.

"SA is ending 1992 . . . showing few signs that the long-awaited recovery will begin during the next few months," he said, estimating a real economic growth rate of -2% in 1992 and about 0,5% in 1993.

In the third quarter the economy had produced its weakest growth performance in more than eight years.

Negative factors such as weak international economies, lack of political progress, violence and low levels of confidence outweighed positive developments such as the relatively strong balance of payments, lower inflation rate and reduced interest rates.

Louw said a meaningful acceleration in the sluggish rate of expansion in the economies of the world's foremost industrial countries did not appear likely within the next six months.

The revival of the US economy was gaining momentum, but a growth rate of less than 1% for the UK economy was likely in 1993. Economic prospects in Germany had deteriorated significantly and a growth rate of only 1% was forecast for both 1992 and 1993 while Japan's growth rate was estimated at just under 2% this year and next year.

The drought had had a major impact on the performance of the SA economy, resulting in an estimated decline in real agricultural production of between 15% and 20% in 1992. Taking into account the linkage effects, this had resulted in a drop of nearly 2% in the total economic growth rate, Louw said.

The drought and the weak economic conditions abroad had inhibited SA exports and negatively affected the favourable trend in net foreign trade.

Louw believed a considerably smaller surplus on the current account of the balance of payments of between R4bn and R5bn compared with R7,4bn in 1991 was likely this year.

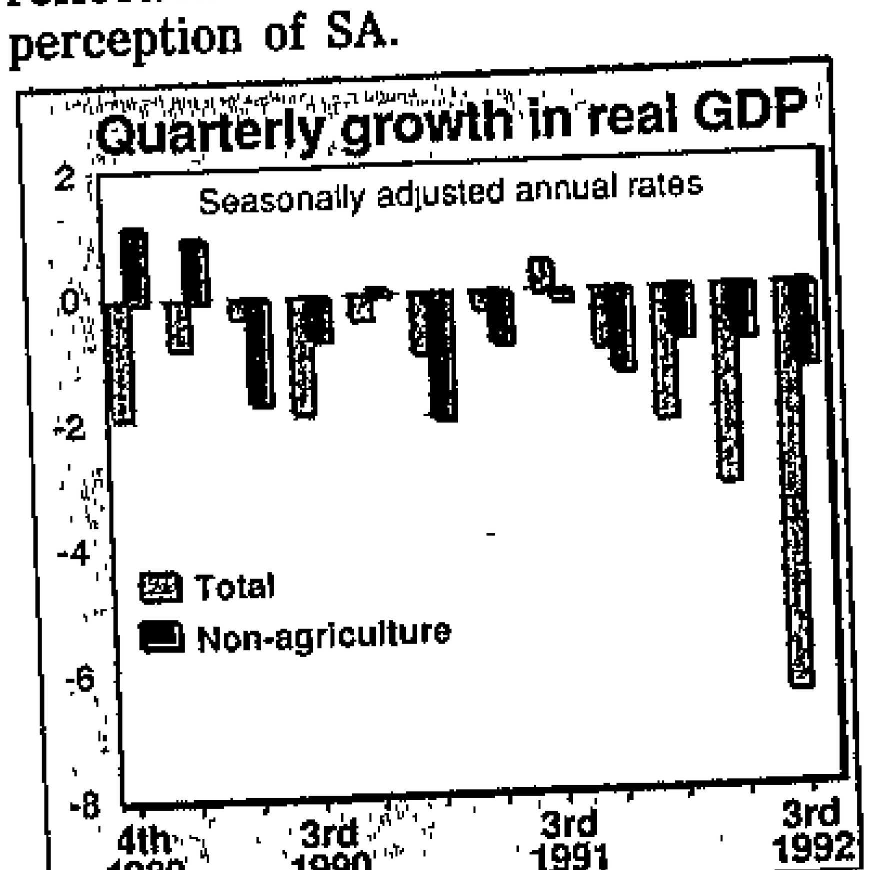
Further reductions in interest rates in the next six months were likely, but long-term rates would fluctuate at current levels in the next few months until greater clarity was obtained on the 1993-94 budget.

An inflation rate of about 11% in 1993 was forecast, compared with the estimated 14% for 1992.

Louw forecast a 6% depreciation in the effective value of the weighted value of the rand in the next 12 months as the dollar was expected to firm considerably against the Deutchmark; the yen to strengthen against the dollar up to mid-1993 and then weaken; and sterling to appreciate slightly against the Deutchmark.

"As a weakening of this extent will still be less than the relevant differences in inflation, there will probably again be a limited appreciation in the real effective rand in this period," he said.

The increase in the financial rand discount since the suspension of the Codesa negotiations provided a clear reflection of the altered overseas perception of SA.



Graphic RUBY-GAY MARTIN Source SANLAM

BIDAY 15/12/92

SACP mass action plan

MILITANT mass action remained central in "deepening the crisis of apartheid capitalism" an SACP statement released after its annual congress said yesterday.

Mass action in 1993 would focus on achieving elections for a constituent assembly, it said.

Trade unionist Gwede Mantashe was elected chairman.

Business Day Reports, Sapa

49

Open up anti-trust debate

BDAY 15/12/92

(49)

MICHAEL SPICER

THE debate on competition policy which has been sharpened by the recent ANC anti-trust workshop is an important part of the overall economic debate on how SA can become a winning nation in a highly competitive world.

Clearly it is vital that such a debate should consider the issue of competition in a holistic and balanced fashion, not only carefully studying the variety and evolution of competition policies internationally, but also considering the important role that governments play in promoting, or equally importantly, hindering competition.

Responsible businesses in SA recognise the need for a competition policy that is targeted at clear abuses of power such as price collusion, the use of dominant positions in specific markets to exclude new entrants to those markets and the creation of monopolies not based on superior performance.

It was inevitable that the whole issue of large companies and corporate governance should be dragged in to a rational discussion of competition but what was unfortunate was that a representative of an old US style anti-trust orthodoxy which has been in retreat ever since the 1960s should present a populist prescription so inappropriate to SA's circumstances in the 1990s.

Small, developing SA is not analogous to the biggest, most industrialised economy in the world, let alone to the US at the turn of the century, when trade with the rest of the world accounted for an infinitesimal proportion of US GNP. Where, in the unanswered challenge of one participant to Massachusetts University economics department chairman Prof William Shepherd, is one example of a small developing country today which is pursuing anti-trust policies?

Interestingly, it was the British academic and member of the monopolies and mergers commission, Prof Geoffrey Whittington, who commented that conventional anti-trust cannot deal with issues relating to corporate governance and that conglomerates as such, are not normally targeted in terms of anti-trust policies. He made the useful suggestion that issues relating to corporate governance, such as the use of pyramids, be considered in a separate conference.

But since Shepherd has raised the subject in a manner hardly representative of the debate, creating the false impression that evidence was adduced that the large companies were the major factor in limiting competition in SA, it is important to reflect the many arguments raised that Shepherd has omitted.

Not one of the business attendees denied that the SA private sector was concentrated. But they posed the question, was it unique in its concentration? The clear answer is no, a useful table from The Economist of May 30 proving the well known point that small competitive economies are characterised by the existence of large and successful domestically headquartered multinational companies: In eight of these the top 10 companies accounted for more than 40% of the market capitalisation of the local stock exchange.

Far more important, though, was to ask the question, what factors accounted for the degree of concentration in SA over and above what might be considered the norm of a small developing country? In other words, was anti-competitive behaviour the major cause of even a cause at all of market concentration?

The business representatives and some of the independent analysts produced an impressive list of factors which, unless they are tackled energetically by policy-makers, will at the outset undermine and indeed render counter-productive any competition policy. Remarkably, Shepherd is silent on these factors.

Exchange control, perhaps the best known of these, bottles up the investment capital of SA companies in the small domestic market and discourages foreign entrants.

The egregious agricultural boards are a well-known variant of government induced limits to competition, but less well known are the panoply of regulations and licensing provisions which distort competition in a wide range of fields. And what of government monopolies? The fact that the state owns 52% of total fixed assets, a large proportion constituted by monopolistic parastatals, seems to have eluded Shepherd, though frequently mentioned.

The degree of concentration of SA companies has ironically most recently been given a boost by sanctions and particularly disinvestment.

The large companies are already playing a highly constructive role in SA — Business Day itself commented (December 10) on the fact that it was only the large companies which could give such psychological and tangible boost to confidence in the SA economy by launching half a dozen major long-term projects during the depths of a recession and a very bumpy political transition.

Part of the policy imperative to achieve the high road will be a deregulated, liberalised and open economy in which competition will be enchanced by free inward and outward flows of a investment and technology. Of course, there will be a need for a competition policy, but it will be a policy that works with the markets, not against them.

I and other business participants went away from the seminar under the firm impression that the participants had begun an important debate and had decided that the British and European models of competition policy were far more appropriate to SA circumstances than the US model. The conference organisers accepted that further study and discussions with all parties would be required to tackle a complex subject, particularly as competition policy would have to be consonant with wider economic policy.

Shepherd's version of the seminar read more like a determined lynching party of big companies. It would be a pity if the ANC were to leave such an impression of events as it would inhibit the further progress of this important debate.

☐ **Spicer is Anglo American Corporation group public affairs consultant.**

LETTERS

Economic forum plans public works programme to create jobs

BDAY 17/12/92

(49)

DIRK HARTFORD

PLANS for an extensive, continual public works programme to alleviate unemployment are to be drawn up by the national economic forum's key working group.

It will also examine the extent and causes of retrenchments, and current retrenchment procedures and packages, sources say.

The investigation, decided on at a working group meeting this week, aims to establish whether the current spate of large-scale retrenchments can be stemmed and how to lessen the impact of unavoidable retrenchments. At least 100 000 formal sector jobs were lost this year.

Government working group representatives will also investigate tendering requirements with a view to future public works programmes. Labour absorption in parastatals, as well as discussions between Cosatu and the civil engineering industry on job creation, will come under scrutiny.

The effects of trade, tariffs and exchange rate policies on job creation, and the current status of GATT talks and the SA Customs Union, will also be examined.

The short-term working group aims to report back on all these issues by the end of January. Other issues to be looked at include restructuring the public sector and retirement and provident funds.

Jabu Mabuza, co-ordinator of the business delegation to the group, said the spirit prevailing at this week's meeting was "very heartening".

The public works programme should make extensive use of labour-intensive methods of construction and should devote a high proportion of project costs to labour without jeopardising quality, according to an economic task force document submitted to the working group.

The document will be a basis for developing further proposals on public works.

It argues that success depends on:

- ☐ Providing employment and income to those trapped in the poverty cycle,
- ☐ Disseminating productive skills and useful education and training through the programme; and
- ☐ Generating physical infrastructure for economic growth and development such as houses, roads, schools, clinics, erosion prevention and conservation.

The document proposes a four-phased approach, from community involvement and education to research, analysis and design. Pilot projects should lay a basis for developing a national programme.

It has been estimated that in the past decade 3,3-million people have entered the job market in SA, but that only 186 000 jobs have been created.

Redistribution on ethnic lines requires growth — and luck

B/DAY 17/12/92

IAN EMSLEY

(49)

REDISTRIBUTION among ethnic groups and rapid economic growth are ideas jostling for priority in the minds of many in SA today. Ideally both can be accommodated; South Africans can have their cake and eat it too.

Casting around for examples to support this somewhat uneasy coupling, many cite the case of Malaysia. This very successful Southeast Asian country has enjoyed a higher rate of economic growth than almost any other in the past 20 years. At the same time probably the world's most comprehensive and far-reaching programme of ethnic preferment has been implemented.

The conjuncture of these two facts demonstrates to some that there is no inherent contradiction between them. However, closer examination demonstrates not only that the policy has had its costs, but also that SA conditions are very far from the propitious circumstances to which much of the Malaysian success can be attributed.

The Malaysian population divides into the majority Malays and the minority (45%) of Chinese and Indians. The latter are richer and more economically dynamic than the former. How to redress this inequality and to prevent the Malays falling further behind has been a question exercising Malaysian politicians since at least the '60s. The new economic policy, introduced in 1970, aimed to eradicate poverty and uplift Malays.

Over two decades it was hoped to reduce the Malay-Chinese income disparity from 1:1,75 to 1:1,41 (in fact the 1970 figure was underestimated and was closer to 1:3,20). To do this a wide range of preferential policies was implemented. To reduce Malay rural poverty undeveloped land, subsidised inputs and infrastructure were provided to farmers, and cash crops were promoted. Agricultural productivity rose quickly. Education and training for Malays were greatly extended. Informal quotas were imposed in the education system, in the productive system and above all in the public sector. Capital was made cheaply available to Malays with the objective of bringing 30% of quoted equity into the hands of Malays.

The costs of this apparatus of ethnic preference can only be guessed at. Some aspects have had a positive economic value. The return on capital used to raise rural productivity and to improve education and primary health care is likely to have been positive. On the other hand imposition of quotas, however informal, has almost certainly had a negative effect: the Chinese have educated their brighter children overseas especially with the requirement that all teaching be conducted in Bahasa, the Malay language. The effects on morale and effort among skilled personnel are of course very difficult to gauge. Inefficiencies in the use of capital no doubt occurred, although reduced by the practice of Malay beneficiaries acting as frontmen for Chinese entrepreneurs. Capital flight has been estimated at $12bn between 1976 and 1985. These costs have been offset by the important benefit that can be ascribed to the social peace and degree of political consensus that have characterised the country since the race riots of 1969.

The economic policy was envisaged as a 20-year programme and incorporated targets for income distribution. These have generally not been achieved although substantial progress has been made, certainly in reducing the income disparity (approximately 25% of the distance between the 1970 figure and the target has been achieved). The employment structure has been more resistant to change and the Chinese still dominate the best paid occupations. Malays, directly or indirectly, now own 18% of corporate equity. Malaysia remains a very unequal society but now most inequality is found within ethnic groups: a class of rich Malays has been created whereas before nearly all Malays were poor.

The economic policy was replaced in 1990 by the national development policy, which maintained the economic policy's objectives but set no specific targets.

High growth was critical to the success of the economic policy. Real GDP growth averaged 7,2% a year between 1970-92, growth that was used to benefit Malays more than the rest of the population. But the Malaysian government exercised care not to reduce the absolute level of non-Malay economic well-being; Chinese household income rose 62% in real terms between 1970-84. This success was due largely to a combination of good macroeconomic management and good fortune.

Inflation and government spending were generally well controlled. Since independence Malaysian prices have on average risen less than world prices. Government spending has likewise been restrained. An exception occurred in the early '80s when, in an attempt to offset the effects of global recession and to accelerate Malaysian industrialisation, a foreign-financed fiscal expansion pushed the budget deficit up to 20% of GDP in 1981. The performance of many public investments made during this period has been questionable.

However, faced with mounting problems and deteriorating performance, great flexibility and pragmatism were shown by the government in reducing public spending to more sustainable levels and in rapidly repaying foreign debt, despite the pain this caused to its Malay constituents. Certainly the government's record has helped attract foreign investment but Malaysia's growth performance has been equally, if not more so, the result of good fortune. The early days of the new economic policy were assisted by a boom in commodity prices and terms of trade increased 48% during the '70s. At the same time greater output of commodities, and the discovery of oil and gas, enhanced the economic buoyancy so critical to the policy.

These good times came to an end in the '80s but for a while foreign borrowing helped maintain growth rates and spending on the policy. With the rapid exhaustion of this source of growth a remarkable development occurred as Malaysia succeeded in rapidly increasing its manufactured exports to offset commodity price declines. The principal agent in this transformation was foreign investment, principally from eastern Asia, that mushroomed after the appreciation of the yen and Taiwanese dollar. But absolutely critical was the enabling investment climate, the result of deliberate policy choice.

Whether SA can replicate these conditions to produce sustained high growth is questionable. Macroeconomic management has been, and will probably continue to be, less disciplined than Malaysia's and hitherto the policy environment has made for a far less open economy. The likelihood of a commodity price boom is low, the prospect of a flood of foreign investment distant and the chances of SA finding itself part of a dynamic regional trade bloc negligible. There is no large pool of foreign investment to redistribute, the privileged class is a quarter of the size of Malaysia's equivalent and SA is highly unionised with high wage levels relative to its competitors.

All this does not mean that the equity part of the equation should be abandoned or downgraded. What it does suggest is just how narrow any government's scope for economic manoeuvre will be and how paramount it is for growth-orientated, disciplined policies to be adopted at the earliest possible date.

☐ **Emsley is on the staff of Anglo American's London office.**

Labour may never again govern Britain and therein is a lesson, argues **Stanley Uys** from London

Can Africa survive socialism?

STAR 17/12/92. (49)

IN THE latest issue of the African Communist, I came across these immortal words In October an important step will be taken to re-establish a renovated Communist Party of the Soviet Union A draft programme has been published (It) declares "The CPSU of Gorbachev and Yeltsin, Yakovlev and Shevardnadze no longer exists But the CPSU of millions of Communists dedicated to the ideals of social justice is alive" Among its main points it calls for a return to the socialist path, for a rebirth of the USSR.

Well, October has come and gone, and while Yeltsin's position is precarious, no evidence has been adduced yet to suggest that communism can arise phoenix-like from the ashes to deliver the goods Yeltsin has been unable to deliver That communism can seize power again in what used to be the Soviet Union and eastern bloc is not impossible

But can it deliver the goods"

In most parts of the world, socialism has been ceremonially buried

The guru himself John Kenneth Galbraith (a Labour supporter), commenting on Labour's four successive defeats at the hands of the Conservatives, declares that all that remains for the British Left is to assure that we are the political community that can make the modern mixed economy work — that the priority of the Left on both sides of the Atlantic is not to find an alternative economic system, but simply to improve the one we have got

The question Galbraith asks (in a lecture delivered to the Institute of Public Policy at the House of Commons on November 24) is why the British electorate supported the Conservative Party so stolidly in the midst of a painful recession.

'In the last half-century we (the Left) have been the initiators and leaders in the social revolution that has taken the cruel edge off capitalism and that has made a large part of our voting population comparatively comfortable and secure

"Old age insurance, unemployment compensation, medical care, public housing, improved public services, the end of the once-cruel exploitation of women and children, the minimum wage and effective trade unions have made

Neil Kinnock . couldn't win power even in a recession.

capitalism, more precisely the modern mixed economy, an acceptable economic system.

'The anger and militant political antagonisms it once provoked are gone forever "

And, says Galbraith, 'this change which saved capitalism, which brought a substantial part of the voting population to its acceptance and support, was what we on the Left did to ourselves We authored and initiated the legislative and other action that saved capitalism from itself. The lesson is clear We must learn to live with our own achievement.

'We are no longer in search of an an alternative economic system Nor is it any longer clear that one exists We are concerned with making more effective and more tolerant and equitable the economic system we have Our claim is not violent change, certainly not to revolution. It is to a socially better performance by the existing system

". . we must give up some of the attitudes of the past .. ours is an age of constructive pragmatism we are for what works best Similarly, there is no general case for or against government intervention Here, too, decision must be on social merits"

Galbraith is by no means alone in his thinking The last years of Neil Kinnock's leadership of the Labour Party practised what Galbraith preaches

I have been reading, too, Patrick Cosgrave's "The Strange Death of Socialist Britain", in which he points out that, in its 1992 general election manifesto, for the first time, the Labour Party did not once use the word socialism.

Cosgrave says "the stark fact that Kinnock faced on the morrow of the 1987 general election was that the left-wing policies which he had espoused all his life made it virtually impossible for a Labour government to be elected"

Cosgrave believes that the Labour Party died during the course of 1988 "Thereafter, it would never again be a potential party of government."

This prophecy remains to be fulfilled, but it is astonishing that at a time when everything is going wrong in Britain, Labour is still not being spoken of as an alternative government, and the verdict on its new leader, John Smith, is that he is a dud

The African Communist, of course, will have none of this It still thinks socialism is a self-standing economic system Nor is it alone in its view Among like-thinking comrades are the Cubans the communists of Calcutta and Italian communists (the BBC, in its splendid World Service, has just dealt with this theme)

But on what grounds does the African Communist think it is right when it says socialism is the world's (and South Africa's) answer and Galbraith is wrong when he says the best the Left can do is tame and humanise capitalism?

If the African Communist believes the disparities of wealth in South Africa are so vast that only a strong, interventionist, socialist government can correct them, then it must explain into what new resources of wealth and income a socialist government would tap that are not already available and whether the resource base under socialism would shrink or increase

This is the question that is never answered

Perhaps in its next issue, the African Communist will answer it Does it want to take the cruel edge off capitalism, which is a reformist path or does it want to introduce socialism, which in South Africa at least in philosophic terms would be a revolutionary path? □

Standard warns of demographic trap

BDM 18/12/92.

(49)

HILARY GUSH

SA COULD fall into a dire socio-economic trap as its sluggish economy failed to support an ever increasing population, the Standard Bank warned yesterday.

In its latest Economic Review it said the average growth rate in the GDP over the past seven years had been 0,9% a year, while the population had been growing at a yearly average of 2,5%.

This created the Malthusian trap where an increasing population implied greater needs, higher government spending, increased taxes, depleted savings, rising interest rates, less economic growth, greater poverty, more crime, emigration of skilled people, falling productivity, persistent inflation and continuing civil strife.

"When comparisons are made between SA's high population growth and low economic growth, it becomes apparent that SA faces a demographic trap, where human needs so exceed current resources that policy interventions appear largely impotent," the bank said.

However, the demographic trap could be overcome if effective policies to manage it were adopted.

The report suggested that the Budget would be the most important instrument by which to support an integrated population policy. As a priority fiscal policy should be targeted towards economic growth which, the report said, "would preclude a 'soft' budget constraint, however politically unpalatable.

"Where possible, public services must be privatised and public services open to tender by private companies. In this way government savings could be targeted to meet the needs of society's poorest."

At the same time this would contain the tax burden and, "without undue penalty to the productive sector, yield the eventual return of a sustainable tax base".

The report stressed the need for labour-intensive social investment in infrastructure — particularly on shelter, roads and community centres "where local government would be accountable to the electorate for the delivery of most public goods and services".

It added that literacy — especially that of women — was the most important area of expenditure which could help slow population growth. As it permitted individuals much more choice, by means of exposure to information and greater ability to use new information, literacy allowed individuals more choice.

"Almost certainly, much of the internecine conflict in SA, characterised as political, amounts to violent competition for increasingly scarce resources. Thus, the question of how to allocate resources is crucial to controlling population growth in SA."

"If . . . urbanisation were managed, literacy promoted, family planning encouraged and sustainable job creation facilitated", SA should be able to overcome the doomsday scenarios.

Sell shares to everyone and defy the ANC

49

Eamonn Butler is director of London's Adam Smith Institute, a free-market think tank that strongly influenced many of the Thatcher reforms, especially in the area of privatisation and deregulation. He was in SA this month to address a conference.

***FM:* Is SA doing the right thing commercialising and not privatising State entities?**

Butler: SA seems to be doing many of the right things. However, I am concerned with the perception that commercialising State entities (the route taken with the Post Office, Telkom, Transnet and Denel) without changing ownership is sufficient.

Of course, people tend to talk about the pain of privatisation — for example, job cuts. But what they fail to realise is that this pain is made inevitable by years of nationalisation and bureaucratic blundering — not privatisation.

Why is commercialisation not enough?

If commercialisation means that nothing changes — no change in ownership, no rationalisation, no incentives — the whole exercise is rather futile. Even if changes do take place, commercialised entities often continue to be managed politically rather than commercially. This means that goals tend to remain political.

SA needs to move into privatisation rapidly, particularly to raise money to make change less painful. This cannot be done through commercialisation. The situation is similar for the former Iron Curtain countries, where privatisation needs to take place rapidly to show that there are advantages to making these changes. In both instances, speed is essential as one might not get another opportunity to make these reforms

How can privatisation be made less painful?

People will support privatisation willingly if they have something to look forward to In the UK, when a State entity is privatised, around 10% of the value of the company is given to workers in shares and often held in trust for a few years. The rest is sold to the public but share prices are kept low to enable ordinary people to own a stake Thus, though there is pain involved in adjusting to privatisation, workers become more willing to make the adjustment.

Are there other lessons to be learnt?

Obviously, cutting jobs is a sensitive issue Attractive severance packages can help With the privatisation of British Airways, experts estimated that about 20 000 people had to be retrenched because they had nothing to do. But no-one was fired because employees were offered large severance packages, financed from the privatisation of British Telecom. The trick is to use the proceeds of one privatisation to finance the privatisation of other entities.

Privatisation has stopped here because of the ANC. The ANC promises to nationalise, without compensation, any entity privatised by the present government.

Renationalising a privatised entity would be easy if, when privatising, you sell only to large corporations. But if privatisation results in widespread ownership, renationalisation becomes less plausible. To spread ownership widely, it may, however, be necessary to sell shares below their value. The result is that ownership of wealth will have been transferred to ordinary people who, given a stake in the economy, are less likely to become disruptive forces.

The ANC wants to continue exchange control and institute an investment code. Will this repeat the mistakes the Nats made?

These policies are geared to keep out international competition and usually have the support of local big businessmen, who often help draft these regulations For the small entrepreneur, these policies are a nightmare

One of the best things the UK ever did was to abolish exchange control. The objection was that such a move would see money flow out of the UK This didn't happen

In Argentina, exchange control was abolished and the Argentinian currency was linked to the dollar A host of other reforms was announced. The result: Argentinians with Swiss accounts started bringing their money back home

Keeping these regulations in place merely turns people into criminals. They move money out illegally. Exchange control is an evil that seeks to restrict people and their money to a particular place Open and good government needs to be competitive.

How should we spur economic growth here?

Economic growth will emerge from new businesses rather than old. Government needs to encourage the growth of the small and informal business sectors, largely by keeping out of their way. Further deregulation and low, simple taxes will help

What are your predictions for SA?

I am filled with optimism, especially since I see a lot of challenging debate taking place. It would, however, be a great pity if SA did not become part of the international movement embracing privatisation and liberal economic reforms. These policies have become popular in places such as the Far East and the Eastern bloc where other systems have not worked They know economic liberalisation will spread wealth to workers

ɔut still tough year lies ahead

W/Mail 18/12 - 22/12/92

(49)

:hword
ɔorts

, next year
he South
has been.
th in the
licator of
cent and

und two
any ana-

ports that
he world
e South
seems the
light here
the dark

believes
other six
of con-
g influ-

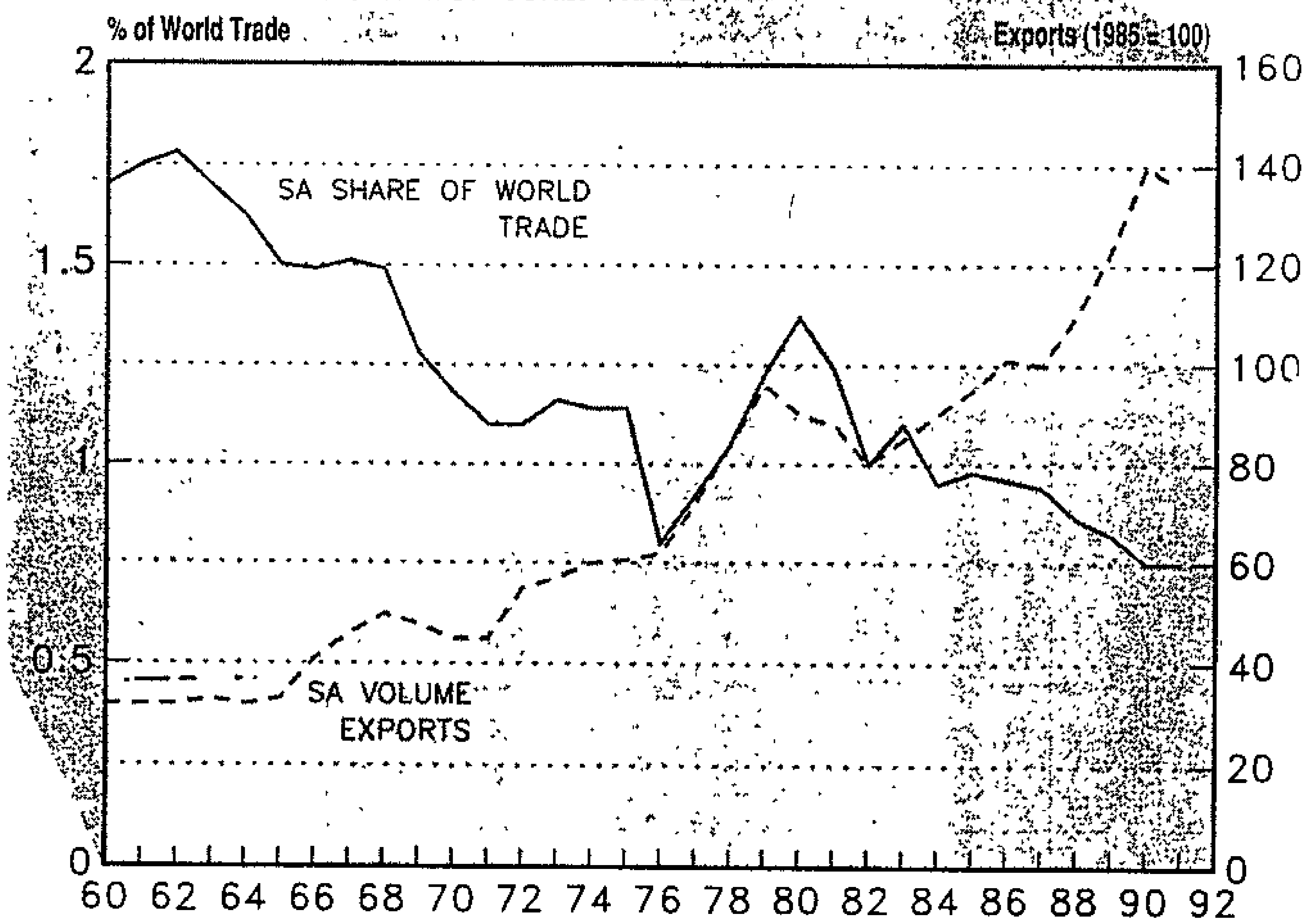
economy
from the

the South
are and

y unpre-
of the
on will,
zypionka
growth.
ely next
Council
esses in
exercise
will be
he stable

rt from
d make it
some of
or repay-

SOUTH AFRICA'S SHARE OF WORLD TRADE



The graph shows, says Boland Bank's latest Economic Review, that South Africa is still not exploiting international trade opportunities to the full. The Review adds that our export performance during the past three to four years, though an important buffer against recession, should at best be regarded as only the start of an export drive

Source: Boland Bank

If no foreign debt can be rolled over, the current account of the balance of payments — South Africa's account with the rest of the world — will come under pressure. Sanlam chief economist Johan Louw expects the surplus on the current account to be between R4-billion and R5-billion for this year.

Big debt repayments cutting into the current account surplus will in turn put gold and foreign exchange reserves under pressure. At R11,6-billion they cover 2,1 months of imports, and Reserve Bank governor Chris Stals would like this to conform to the International Monetary Fund yardstick of three months' import cover.

To protect the reserves, Stals will have to keep interest rates relatively high — he has, in any case, committed himself to keeping rates positive when adjusted for inflation.

"One can look to a further reduction in Bank Rate by April or May next year, but it seems unlikely that it will drop much further after that," says Louw. The prime rate, the rate banks supposedly charge their best customers, is now 17,25 percent, giving a real rate of five percent. Another one percentage point cut would take it to 16,25 percent, and with the 11 percent inflation rate for 1993 forecast by Sanlam (compared with an estimated 14 percent for 1992) would keep the real rate at five percent.

The money supply is within the target range set by the Reserve Bank and credit demand is down, both signals that there is scope for interest rate cuts.

Stals will also keep his eye on the inflation rate, as measured by the consumer price index. That fell to 11,7 percent in October compared to October 1991, as the stubbornly high food price increases which have boosted inflation this year moderated.

Better agricultural conditions would, through lower food prices, imply even lower inflation.

However, the sharp drop in government income due to recession means Finance Minister Derek Keys is in a bit of a bind. He can balance the books by either cutting government spending, or raising taxes. Raising taxes will give consumers less disposable income which will in effect add to inflation and, giving Stals less room to manoeuvre on cutting interest rates, retard economic recovery.

On the other hand, government consumption spending will stay high next year, because the government won't risk pushing the country back into recession by cutting back.

So taxes will rise, direct tax probably through fiscal drag, the mechanism by which the government raises more tax revenue simply by not adjusting tax brackets for inflation.

Indirect taxes, principally Value Added Tax, are likely to be raised in the next budget, with some zero-rating for food and perhaps medicine, and the fuel tax is likely to go up again.

If government consumption spending stays high, that leaves little room for government fixed investment spending. A decline here may offset an increase in private sector fixed investment from mega-projects next year, such as the R3,5-billion Columbus stainless steel project, construction on which will start in January.

Stals is expected to continue to keep the foreign exchange value of the rand on an even keel, devaluing the rand against a weighted basket of currencies, more or less to the extent of the producer price inflation differential between South Africa and our main trading partners.

Sanlam expects the rand, on a weighted basis, to depreciate by around six percent in the next 12 months.

In summary, we can expect low growth and low fixed investment, and moderate inflation together with moderate interest rate cuts. Taxes will rise and it will be a better but still a tough year.

Nedbank chief economist Edward Osborn points out that even two percent growth will merely take us back to where we were in 1991.

He notes too that the biggest militating factor against optimism about next year is the structural damage that has been done to the economy by the wave of retrenchments effected during this long recession.

Alas, political difficulties have put off indefinitely the urgent restructuring we need to crank the South African economy to a higher plateau, regardless of cycles of recession and boom.

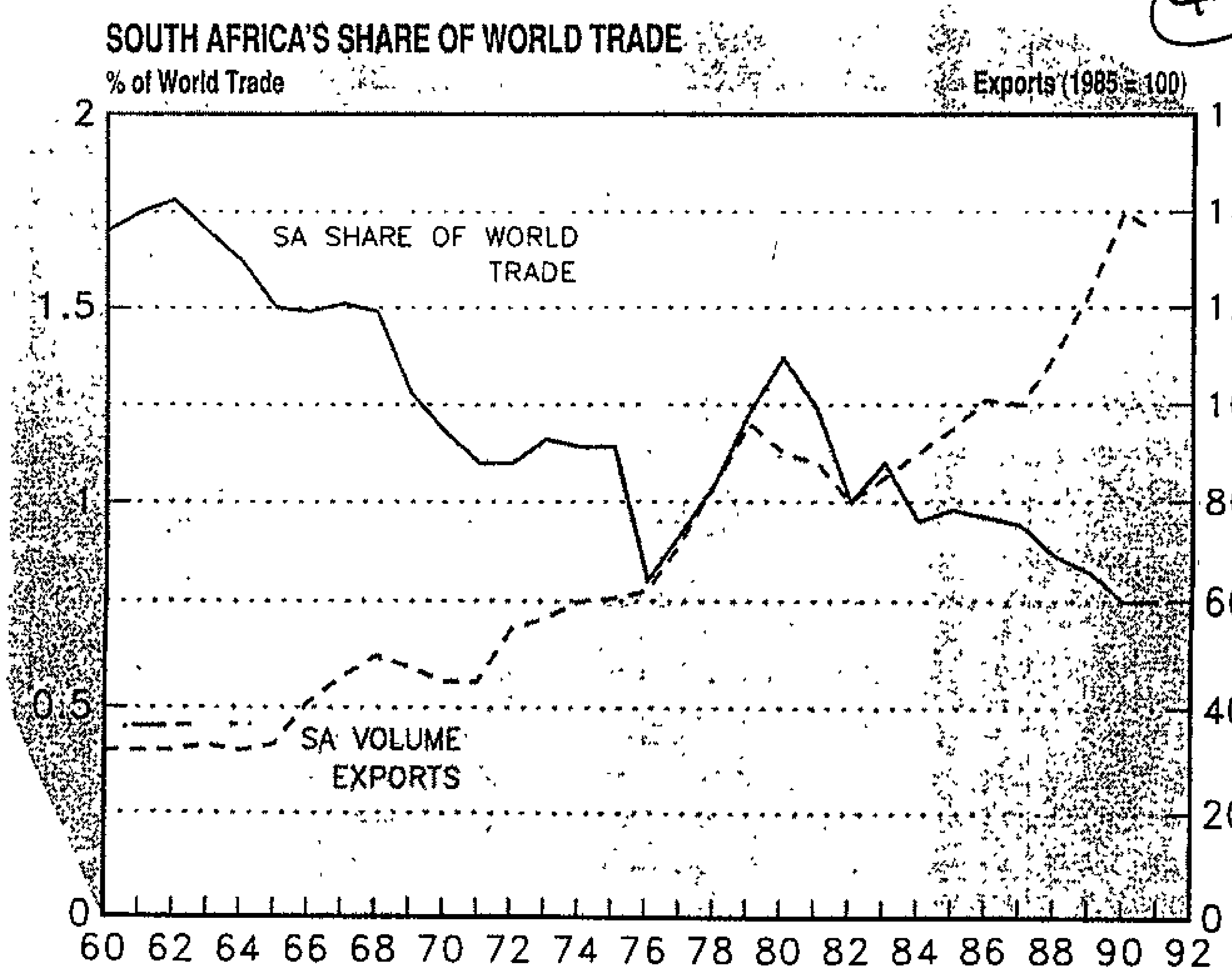
BUSINESS

Better but still tough year li

WMail 18/12 - 22/12/92

(49)

Guarded optimism is the watchword for the economy in 1992, reports
REG RUMNEY



The graph shows, says Boland Bank's latest Economic Review, that South Africa is still not exploiting international trade opportunities to the full. The Review adds that our export performance during the past three to four years, though an important buffer against recession, should at best be regarded as only the start of an export drive
Source: Boland Bank

IF you don't think too hard about it, next year just has to be a better year for the South African economy than this one has been. Economists are forecasting growth in the gross domestic product, the key indicator of economic activity, of between 0,5 percent and two percent for 1993.

That's poor, but better than the around two percent decline in economic growth many analysts expect for this year.

So dependent is South Africa on exports that the disappointing performance of the world economy has been a big drag on the South African economy. As the year ends it seems the world economy, despite glimmers of light here and there, is still struggling out of the dark times of recession.

Boland Bank's economic division believes the world economy will take at least another six to nine months to shake off the fetters of contraction, because of various dampening influences on credit growth.

Encouraging noises from the US economy have to be offset by groans of pain from the UK, Germany and Japan.

The other two key determinants of the South African economy next year are agriculture and politics.

Both look fair, but both are equally unpredictable. Good rains presage a breaking of the drought, and a normal agricultural season will, as Standard Bank economist Nico Czypionka has pointed out, by itself mean positive growth.

A political breakthrough looks likely next year, but as Human Sciences Research Council political analyst Lawrie Schlemmer stresses in the Platform for Investment scenario exercise the medium-term political environment will be no "rose garden", though it will be more stable than sometimes feared.

Progress on the political front, apart from aiding the investment climate, would make it possible for South Africa to roll over some of the R5-billion of foreign debt due for repayment in the coming year.

If no foreign debt can be rolled over, the current account of the balance of payments — South Africa's account with the rest of the world — will come under pressure. Sanlam chief economist Johan Louw expects the surplus on the current account to be between R4-billion and R5-billion for this year.

Big debt repayments cutting into the current account surplus will in turn put gold and foreign exchange reserves under pressure. At R11,6-billion they cover 2,1 months of imports, and Reserve Bank governor Chris Stals would like this to conform to the International Monetary Fund yardstick of three months' import cover.

To protect the reserves, Stals will have to keep interest rates relatively high — he has, in any case, committed himself to keeping rates positive when adjusted for inflation.

"One can look to a further reduction in Bank Rate by April or May next year, but it seems unlikely that it will drop much further after that," says Louw. The prime rate, the rate banks supposedly charge their best customers, is now 17,25 percent, giving a real rate of five percent. Another one percentage point cut would take it to 16,25 percent, and with the 11 percent inflation rate for 1993 forecast by Sanlam (compared with an estimated 14 percent for 1992) would keep the real rate at five percent.

The money supply is within the target range set by the Reserve Bank and credit demand is down, both signals that there is scope for interest rate cuts.

Bank warns of population growth trap

STAR 11/12/92

SOUTH Africa could fall into a dire socio-economic trap as its sluggish economy fails to support an ever escalating population, the Standard Bank has warned.

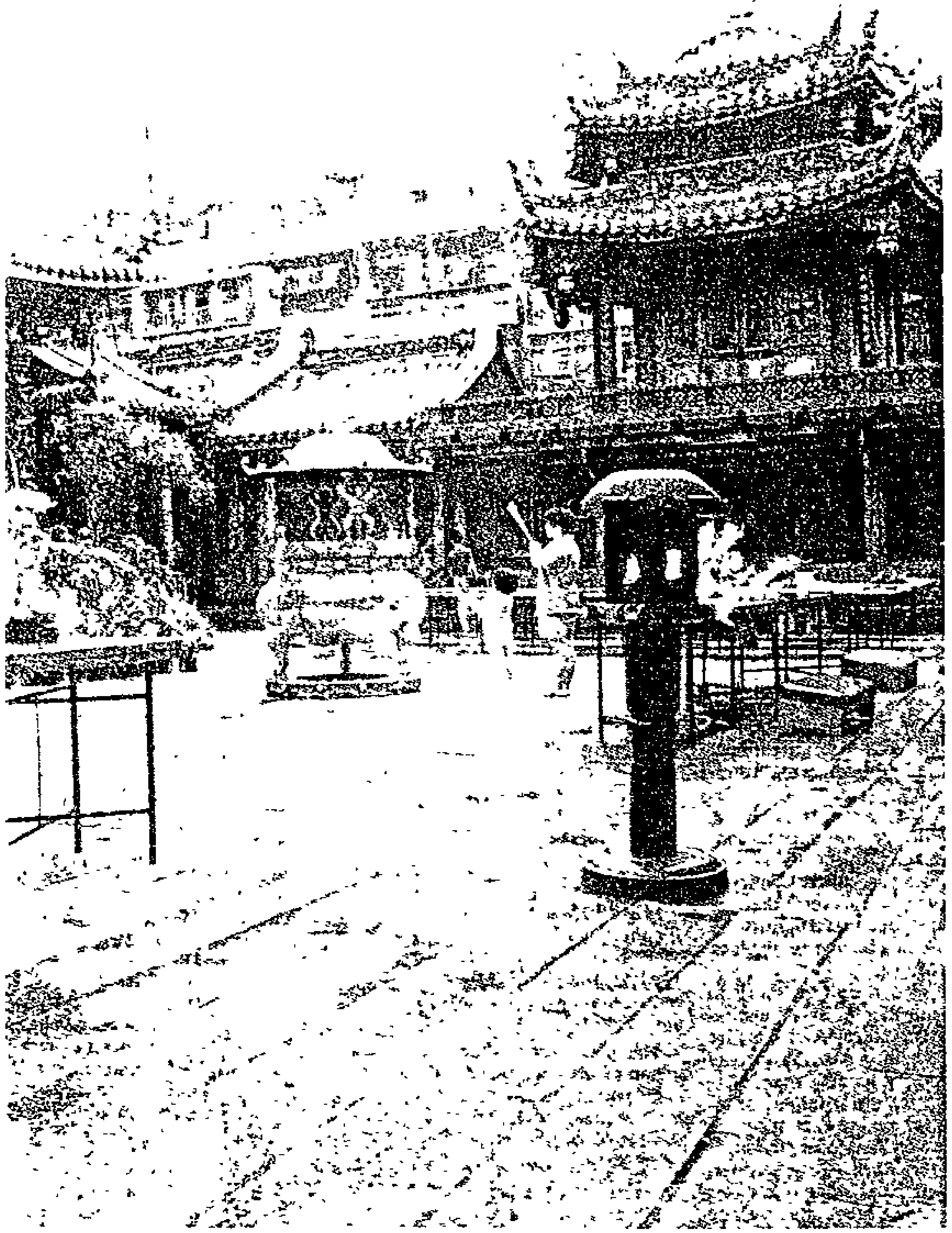
The average growth rate since 1985 in the country's gross domestic product had been 0,9 percent a year while the population had been expanding on average at 2,5 percent yearly.

This had created the Malthusian trap whereby an increasing population implied greater needs, higher government spending, increased taxes, depleted savings, rising interest rates, less economic growth, greater poverty, more crime, emigration of skilled people, falling productivity, persistent inflation and ongoing civil strife.

"When comparisons are made between South Africa's high population growth and low economic growth, it becomes apparent that South Africa faces a demographic trap," the bank said in its latest Economic Review.

It was however optimistic that the demographic trap could be overcome by the adoption of effective policies. — Sapa.

Is this the way for SA?



SOMING ... Modern Taiwan is as old as apartheid SA – but tells a very different story.

By DESMOND BLOW, who recently returned from a visit to Taiwan.

Taiwan's economy looks very healthy

(49)

C/Press 20/12/92

THE MODERN history of the Republic of China is approximately the same length as that of apartheid SA.

Yet the life of the people of Taiwan and that of SA are not only oceans, but also decades apart

In the past 40 years Taiwan, an island only the size of the Kruger National Park, but with none of the mineral wealth of SA, has become one of the leading trading nations in the world with full-employment for its 20-odd million people.

The Republic of China was founded on mainland China in 1912, but when the government of Gen Chang Kai Shek was defeated by the Communists in a civil war in 1949 it relocated to the island of Formosa which had been returned to China at the end of the Second World War after 50 years of Japanese occupation

Only the intervention of the US prevented the Communists from invading Taiwan, 100km off the Chinese mainland, but both the Communist government on mainland China and the ROC of Taiwan regard the two countries as one and there are still hopes of reunification.

The huge economic success of Taiwan is one of the main reasons the Chinese Communists are promoting economic reform on the mainland, and they are being assisted by many Taiwanese industries which have reached saturation point on the island and are investing indirectly in mainland China through Hong Kong.

In its early years Taiwan battled against high inflation – it reached 500 percent in the late 1940s – but it proved through stable government and free enterprise and a very industrious population that a small country can do well.

During the last nine years inflation has only risen a total of 17 percent – more like the average for one year in SA.

Taiwan's per capita income has grown to $10 000 (about R29 900), four times that of SA, and is expected to increase to $14 000 by 1996, which will place the ROC among the 20 richest countries in the world.

Taiwan's dependence on international trade also increased greatly

In 1952 total foreign trade (exports plus imports) equalled only 23,3 percent of gross national product and totalled $300 million. Within 30 years foreign trade had grown to 87,7 percent of GNP and $41 billion.

Taiwan has the world's biggest foreign reserves – $88 billion.

Today as we look to a new SA, many economists believe SA should look towards the East and not the West for its future economic development.

One of the basic principles of the ANC's Freedom Charter is land reform and it was land reform that started Taiwan on its road to prosperity 40 years ago when the economy of the island was on a par of what Mozambique's is today.

In the early 1950s agriculture was the dominant feature in Taiwan, but gradually industry outstripped farming and today agriculture – although it has increased – only produces 5 percent of national income whereas the share of manufacturing is 46 percent.

Taiwan's land reform has been so successful that the ANC had sent several of its top advisers to learn about it.

The Taiwanese government has always taken the initiative in economic development, and the keynote has been gradualism. In Taiwan it is the government which has been responsible for establishing key industries, and then handing them over to private ownership.

But two-thirds of the GDP is made up of small businesses, many of them family businesses, which is another lesson that Taiwan could teach SA where the informal business sector (self-employed businessmen) is mushrooming.

However, to succeed in the informal sector South Africans will have to get off their backsides and really work.

In the throbbing metropolis of Taipei, the capital of Taiwan, family businesses flourish and operate for up to 18 hours a day.

You can walk alone late at night even into the darkest and dingiest quarter and feel safe, something you cannot do in Johannesburg.

One of the reasons for the low crime rate no doubt is full employment.

Only three people in 200 are unemployed, which means that Taiwan possibly has the highest employment rate in the world.

There cannot be much of a market for stolen goods because almost 99 out of 100 homes own colour TV sets and a similar number own refrigerators. Ninety out of 100 own washing machines and 94 out of 100 have telephones.

One in two homes have air-conditioners which is sorely needed in the oppressive tropical heat.

One in three people own a motorcar, but, because of the congestion on the roads, despite having as much as six-lane traffic on highways, most people prefer to travel by motorcycle and nearly eight out of 10 people own motorbikes.

SA is very much in need of new industries to create employment for its large unemployed population. Taiwan suffered the same problem 30 years ago but they succeeded with a stable government and a tremendous national effort

One element of Taiwan's development which has been vital in ensuring social stability is its remarkably equitable distribution of income.

The ratio between the incomes of the top and bottom 20 percent of the population is perhaps the lowest in the world – 4,69 to one.

This, full-employment and low inflation are probably the chief reasons for the absence of economic, social and political unrest in Taiwan which has plagued other developing countries with a larger gap between rich and poor.

There are few strikes in Taiwan and there has never been the instability and violence that SA is suffering, and this is one of the reasons for their economic success and rising standard of living It was also no doubt a major factor that led to Taiwan's biggest trading partner, the US, investing huge sums of money into Taiwan.

Education in SA is in a dilemma and is also something which SA could learn from Taiwan.

Chinese have always put a premium on education and in Taiwan not less than 15 percent of the national budget, 25 percent of provincial budgets and 35 percent of county and municipal budgets are appropriated for education.

Equal education opportunity is guaranteed for all children, free textbooks are provided to children from low-income families and special grants are awarded to aid poor areas in developing educational programmes.

While SA is making 3 000 teachers redundant, Taiwan has increased its number of teachers by about 7 000 a year for the past 10 years – in 1981 there were about 170 000 teachers in Taiwan and this grew to about 220 000 last year.

By the end of 1996 the government will have assisted with the construction of 300 000 houses while the private sector will provide an additional 600 000 "in order to improve living conditions and raise the quality of housing".

MONEY MARKETS by Hilary Gush

Festive spirits dampen activity

AS THE festive spirit gripped the money market last week, activity levels plummeted and rates kept static in their recent trading ranges. BIDOM 21/12/92.

However, the upward trend in the average rate on the weekly Treasury bill (TB) gathered momentum, with yields moving up 14 and 13 points for the three- and six-month paper respectively.

The three-month TB was undersubscribed, with bids totalling R159,76m received for the R200m on offer. These were allotted at an average 12,21%, from 12,07% the week before. The six-month paper was twice oversubscribed, and issued at 11,5% from a previous 11,37%.

Dealers said cheeky, opportunistic tenderers had taken advantage of the quiet and empty market and had succeeded in achieving higher rates on the Reserve Bank's TBs. (49)

Following normal mid-month inflows — including government salaries — the shortage dipped to R2,992bn on Thursday from R3,147bn on Tuesday. Call rates were little affected, sticking to their recent 11,5% and 12,5% range.

A Christmas buying spree sent the level of notes and coins in circulation up to reach a record R13,3bn on Thursday. The larger the amount of cash in the system and out of the commercial banks' hands, the more pressure there is on liquidity, and therefore on money market rates.

New dawn or endless night: the choice is in our hands

BOOK OF THE WEEK
The New Century: Quest for the High Road
by Clem Sunter (Human & Rousseau/Tafelberg)
Reviewed by ANITA ALLEN

STAR 21/12/92 (49)

HERE we are — all 5 billion of us who make up the nations of the world, with all our many needs, wants and greeds constrained to 187 pages with graphs. The quintessential executive summary of what could happen to all of us in the new century.

Sunter's latest scenario takes into account changes local and abroad since his first book "The World and South Africa in the 1990s", published in 1987. In the process it extends the original options of the high road to a new dawn in the new century, or a low road to an endless midnight to all the nations of the globe.

He concludes that the challenges facing South Africans to create a better society are identical to those facing the world's rich nations in their relationships with poor developing nations.

Sunter's starting point is the recognition that too much poverty threatens the way forward. What is needed is a huge effort to redistribute skills and knowledge so that the poor can uplift themselves, eventually leading to a redistribution in wealth and income.

For South Africa this would take about 20 years provided we maintained a 7 to 10 percent annual growth in the economy coupled to a 1,7 percent growth in population. At present South Africa has nil growth and a 2,5 percent growth in the population.

The main "how" of the high road, that will close the gap between rich and poor is the natural desire in most human beings to uplift themselves. "The high road will triumph because the genius of ordinary people going about their daily lives in a creative manner ultimately triumphs."

Justifying his analysis, Sunter says there are three reasons why naturally talented people are poor: economic growth has not been able to keep up with population growth, people have been poorly served by their leaders and ill-advised by so-called *effendis*, the educated class who think they know it all.

The way to the high road has to start with "winning government". This can be reduced to six characteristics with an over-riding imperative: knowledge is power. People have to be educated so that they have the tools with which to earn a living and recognise a good idea when they hear it, especially if it's a better one than their own. This is the first priority — an investment in people.

Secondly, winners are workers and fostering the work ethic means small governments, which do not eat up the labourer's profits, low tax and government spending, a sound family system and clean government.

Other factors are high savings; a dual-logic economy with big business promoting small business; social harmony and participation in international markets.

In the five years since the high road scenario was first made public, the vocabulary of Sunter's "hard liberalism" can be heard everywhere. It's quite amazing when one understands that it does not offer any quick fixes.

Sunter describes "what" the high road is, but the "how" is sweat, toil and many tears, with no handouts to losing nations which don't have the big six characteristics. His high road also involves a principle of individual action that is seldom preached and poorly understood.

He recounts a story which indicates how each individual will be required to run his life:

Standing in a Tokyo station one day, his Japanese host informed him that the Hikari Super Express over seven years of operation had an accumulated delay of 120 seconds. Three days later, a sign in the ticket office read: All trains cancelled.

"Aha," observed Sunter, "Japan doesn't always work." His host then took out a handkerchief, mopped his brow and replied: "It's all my fault."

Actually what had happened was the worst typhoon in 30 years had hit Japan and engulfed the line. "But in that moment," says Sunter, "I realised what had made Japan such a great nation: a deep sense of individual accountability and responsibility."

This is a profound truth which champions courageously embrace, but lesser mortals and especially politicians try to escape.

Sunter's talks about taking power from the State and giving people control over their lives; moving away from political ideologies to systems that favour work, merit, risk and reward; away from collectivism towards individualism; from welfarist to independence.

It would be easy to get caught up in these high flown ideals, except that Sunter does not explain why capitalism has not led its societies to peace. Nor have the richest nations eliminated poverty and their haves, imbued with every material benefit, aren't happy. They, too, grope for a better tomorrow.

The so-called rich nations, Sunter's triad of Europe, North America and Japan, include the most polluted areas on the globe, which contribute the major share of greenhouse and ozone-depleting gases, yet Sunter would remake us all in their image. He takes no note that business doesn't know what enough is. That its system is to get bigger and bigger.

Sunter says poverty threatens the whole globe to the point that success cannot be guaranteed. He makes no mention of a far worse kind of poverty which Gandhi articulated so simply: enough for everyone's need, but not enough for everyone's greed.

Until he recognises and addresses that problem, his high road could well be the fast lane to an endless midnight for planet Earth. □

Reserve Bank dispute

4910

DIRK HARTFORD

THE 42 000-strong SA Society of Bank Officials (Sasbo) has declared a dispute with the SA Reserve Bank following the Bank's refusal to negotiate with it.

According to Sasbo general secretary Ben Smith, the Bank's industrial relations policies are outdated.

"As the nation's central bank it should provide a positive lead for the rest of the financial institutions. By clinging to its bureaucratic past it is showing its personnel policies to be far behind other financial institutions," Smith said.

He said the union, which began activities at the Bank in April, had organised more than 700 of the Bank's 1 800 employees — including senior and middle management such as economists, internal inspectors and security chiefs. BDay 22/12/92

When the Bank refused to negotiate salaries and working conditions with the union, Sasbo suggested that the issue be referred to independent arbitration. The Bank refused, he said.

The combination of management's "negative attitude" and an average salary increase of 4%, unilaterally decided upon, led to an influx of new members, said Smith.

He said the Bank's employees were no longer prepared to accept what top management decided might be good for them.

There was much dissatisfaction among Bank employees and Sasbo would do everything possible to solve their problems, he said.

Bank spokesmen were not available for comment yesterday.

Slump: 'The worst is over'

CT 23/12/92 (49)

By AUDREY D'ANGELO
Business Editor

THERE can be little doubt that the worst of the recession is over, "with the good news seeping through on several fronts," say economists Jos Gerson and Heather Kenyon in the Davis, Borkum, Hare monthly Economic Review.

But they warn that this "does not mean that the recovery which will manifest itself next year (1993) will be robust nor that the country's longterm structural and political problems are about to be resolved. It simply means that the business cycle is turning."

In the coming year they expect growth to be limited to 0,9% in real gross domestic product (GDP), 1,1% in real gross domestic expenditure (GDE), 0,6% in real personal consumption expenditure (PCE) and 0,1% in private gross domestic fixed investment (GDFI).

And they expect negative growth of 4,3% in total real GDFI compared with negative growth of 9,1% in 1992. They think the inflation rate will be 10% at the end of 1993.

They forecast stronger growth in 1994, with an inflation rate of 11% at the end of the year.

They expect growth in real GDP of 2,2%, growth in real GDE of 2%, growth in real PCE of 2,2%, growth in total real GDFI of 2,8% and growth in private GDFI of 4,5% in 1994.

They expect the rand to remain steady against the major European currencies in the coming year but to depreciate against the US dollar. They forecast that the rand will be R3,26 to the dollar by the end of 1993 and R3,30 to the dollar by the end of 1994 which, they point out, will help exports.

Discussing interest rates, they say there is currently very little scope for further cuts because of the balance of payments (BoP) situation.

"The fragility of the capital account of the BoP which, seasonally adjusted, showed extreme weakness in the third quarter, does not permit the Reserve Bank to lower interest rates notwithstanding progress on the inflation front and the lack of domestic demand.

"The difficulty that the Bank has experienced in accumulating sufficient foreign reserves to cover three months worth of imports reflects continued weakness in our BoP position.

"Nevertheless," they continue, "the rebound in long-term rates seems to have been overdone. We therefore sense that a mini-bull run at the long end of the capital market could materialise within the next few months, taking yields on the Eskom 168 down to about 13,5%."

Discussing the present state of the economy they say that although "the fiscus is in a shambles", with a projected deficit before borrowing of 8% of GDP, "too much is probably being made of the problem.

"Fiscal deficits are a problem only in the long run. Public debt can be accumulated without any appreciable effect on inflation or on the capital market for years, as any observer of the US economy in the '80s can testify.

"Gross domestic savings may well be depressed by excessive and recurrent deficits, other things being equal, but other things are seldom equal.

"Savings depend a great deal on other factors, such as the composition of taxes and the political environment, so that conclusions in this respect cannot readily be drawn."

Capitalism needs active owners to be effective

BDM 23/12/92 · **MICHAEL O'DOWD** (49)

TWO YEARS ago Vaclav Klaus, then Czechoslovakia's finance minister, was asked whether he was worried that his plan to privatise the Czechoslovakian economy by distributing assets free to everyone would again concentrate the assets in relatively few hands.

He said he was not worried; on the contrary, his fear was that concentration would not take place quickly enough. "What we need," he said, "is active owners."

Klaus understands what capitalism is about. In the SA debate about the structure of the economy, the nature and essence of capitalism is hardly considered at all. It is as if we were discussing how to design an aeroplane without considering the principles of aerodynamics.

Capitalism is a system under which the means of production are privately owned. This means that if those assets which are (or can be) used in production are used to the best advantage, the owner will benefit. If they are destroyed or if they deteriorate, the owner will lose

The essence of an owner is that he not only has the right to decide how his assets are used, but he can also sell them. If he does not want to use them in the most advantageous way he can sell them to someone who does. This is why, when assets are freely tradeable, the market moves them into the hands of those who can make the best use of them and that, in turn, is why capitalist economies create wealth so much more efficiently than any others.

The importance of true ownership and tradeability of assets is chiefly relevant to their maintenance in the long term. Nothing maintains itself. Buildings, machinery, organisations and structures have to be maintained or they deteriorate. Nor is this maintenance free. Money or effort has to be expended on maintenance, and here we come to the heart of the matter. Those who control assets without owning them — those who can decide what to do with them but cannot sell them — have no motivation to maintain them. On the contrary, they are motivated to consume the asset and to use the money which should have been spent on maintenance as income.

This is what is happening on a grand scale in Russia and other countries of the former Soviet Union which have failed to privatise their economies effectively. With the collapse of central direction, the managers of plants are in control but are not owners. The long-term welfare of the plants is of no interest to them and they are cashing in while the going is good, running their plants into the ground or actually plundering and selling off movable assets.

This is a constant threat to assets which are nominally publicly owned. The central government has to perform the role of owner and has to control the managers with a heavy hand. This is why all seriously socialist governments evolved into autocracies very rapidly and why public sectors are run in the ponderous and bureaucratic manner with which we are so familiar. To withdraw central control of "public" assets without genuinely privatising them, as has happened in Russia, is to have the worst of all worlds.

Capitalism is the only system which has found the answer to Keynes's famous advice, which was essentially, eat, drink and be merry for tomorrow we die. If I do not want to preserve my house for my own posterity I can get its long-term value now by selling it to someone who does. The long term is represented in the market but not in parliaments, where posterity has no vote.

What is the relevance of this to the ownership and management of large corporations? This issue is being obscured (probably intentionally) by the introduction of the irrelevant concept of democracy.

In areas where people have free choice, democracy has no relevance. I do not need to have a say in the management of the grocer's shop from which I buy my food since, if I do not like the way in which it is run, I can go to another shop.

It has been pointed out ad nauseam that the large corporation creates the problem of the separation of ownership and control. This problem arises from the well-recognised fact that a huge and diffuse mass of shareholders cannot effectively control the management of a corporation. Where the shares are widely held there is no active owner and the corporation may take on the character of a self-owning bureaucracy where there is every danger that the management will plunder and not conserve the assets.

Strangely, while both the market and actual practice in capitalist economies have found a perfectly adequate answer to this question, the same intellectuals who deplore the problem normally exert themselves to subvert the solution. The solution is the practice (widespread in SA, Europe and Japan) of a division in corporate ownership between active owners and passive investors. Active owners are controlling shareholders. They own a portion of the company and they either manage it themselves or keep a close check on the management. Management is effectively answerable to the active owner and so Klaus's requirement is met.

Passive investors are people who have no desire to participate in management. So they invest in a company where they have confidence in the active owner.

There are two ways in which active owners preserve their positions. One is through the pyramid holding company, which is usual in SA. The other is through non-voting shares whereby the owner and founder offers the public the right to participate in his company's profits but not in its control. This practice is common in Europe (including Sweden) and plenty of investors have been prepared to buy these non-voting shares, nobody forced them to do so.

In the US and the UK non-voting shares and pyramid companies are outlawed — heaven knows why! The result, as one would expect, is that virtually all the big companies in these countries lack active owners. Not surprisingly, they are notorious for the short time horizon of their managements and most of them are in decay. It has been suggested that the relative lack of success of the UK and US economies in recent years is to a very important extent attributable to this fact. Certainly, the short time horizon of US managements compared with the long time horizon of Japanese managements is constantly cited as one of the major causes of the poor competitiveness of the US compared with Japan.

The usual argument against non-voting shares and pyramid companies is absurd. It is claimed they are unfair to the passive investors who voluntarily buy shares in these companies, knowing perfectly well the rules. If the market values these shares at a discount, these shareholders would have bought the shares at a discount; if the market raises the value of the shares under any new arrangements, this increased value would accrue totally unearned to the shareholders, having been expropriated from someone else.

Let us end where we began. The public interest requires effective capitalism, for it is capitalism that has made Switzerland (with almost no natural resources) one of the richest countries in the world and it is the absence of capitalism which accounts for Russia (with natural resources equal to those of the US) being in the mess that it is.

The public interest requires effective capitalism and effective capitalism requires active owners. The requirement of active owners applied to large corporations calls for a system which makes it easy, not difficult, for active owners to control such corporations. We have such a system. Why should we change it?

☐ **O'Dowd is a director of Anglo American.**

STAR 23/12/92.

State staff levels still rising

(49)

By Sven Lünsche

While private sector employment has fallen sharply during the current recession the public sector has continued to increase its staff levels.

The Nedbank Economic Unit says in its latest monthly bulletin that from the beginning of the recession in June 1989 until June this year public sector employment increased by 15 000 to 1,224 million. In the three years prior to June '92 an additional 147 000 had been employed.

In the past two years the contraction among local authorities of 24 000 was more than offset by growth in the self-governing states of 20 000 and in the central government and provincial authorities of 19 000. (These figures exclude the TBVC countries)

The salary bill in general government was R32,4 billion in the year to end-June.

Turning to the outlook for 1993 Nedbank says hopes of an economic recovery are squarely placed on an improvement in the agricultural sestor as well as a general recovery in the world economy.

The government, already under severe stress, was unlikely to provide any stimulus for the recovery and expected tax increases could have an adverse effect on consumer demand.

This was most evident in the trend in spending on durable goods, which had declined by 10 percent in real terms in the first half of this year. As a result consumer spending on durables could fall from nine percent of total spending this year to just under eight percent next year.

The BER expects spending on services and non-durable goods to show a slight improvement.

"An overall growth of two percent is forecast for the year, taking the economy back to where it was in 1991," Nedbank says.

The bank's economists still optimistic that inflation could fall to single-digit levels early next year, however, a possible rise in VAT and higher fuel levies will put renewed upward pressure on the rate later on.

Fables about the future

W/Mail 23/12-29/12/92 (49)

REG RUMNEY *takes a look at the latest South African craze of scenarios — composing persuasive whizz-bang presentations about South Africa's future*

IT was the Year of the Scenario. Not only were two brand new scenarios launched, but the update of Anglo American scenario guru Clem Sunter's High Road-Low Road presentation was reissued in book form, under the title *The New Century*.

Sunter's roadshow in the mid-1980s started the scenario ball rolling. It was given another kick along in 1991 by the Nedcor-Old Mutual Scenario exercise which, towards the end of this year also finally appeared as a book, *Prospects for Successful Transition*, edited by Bob Tucker and Bruce Scott.

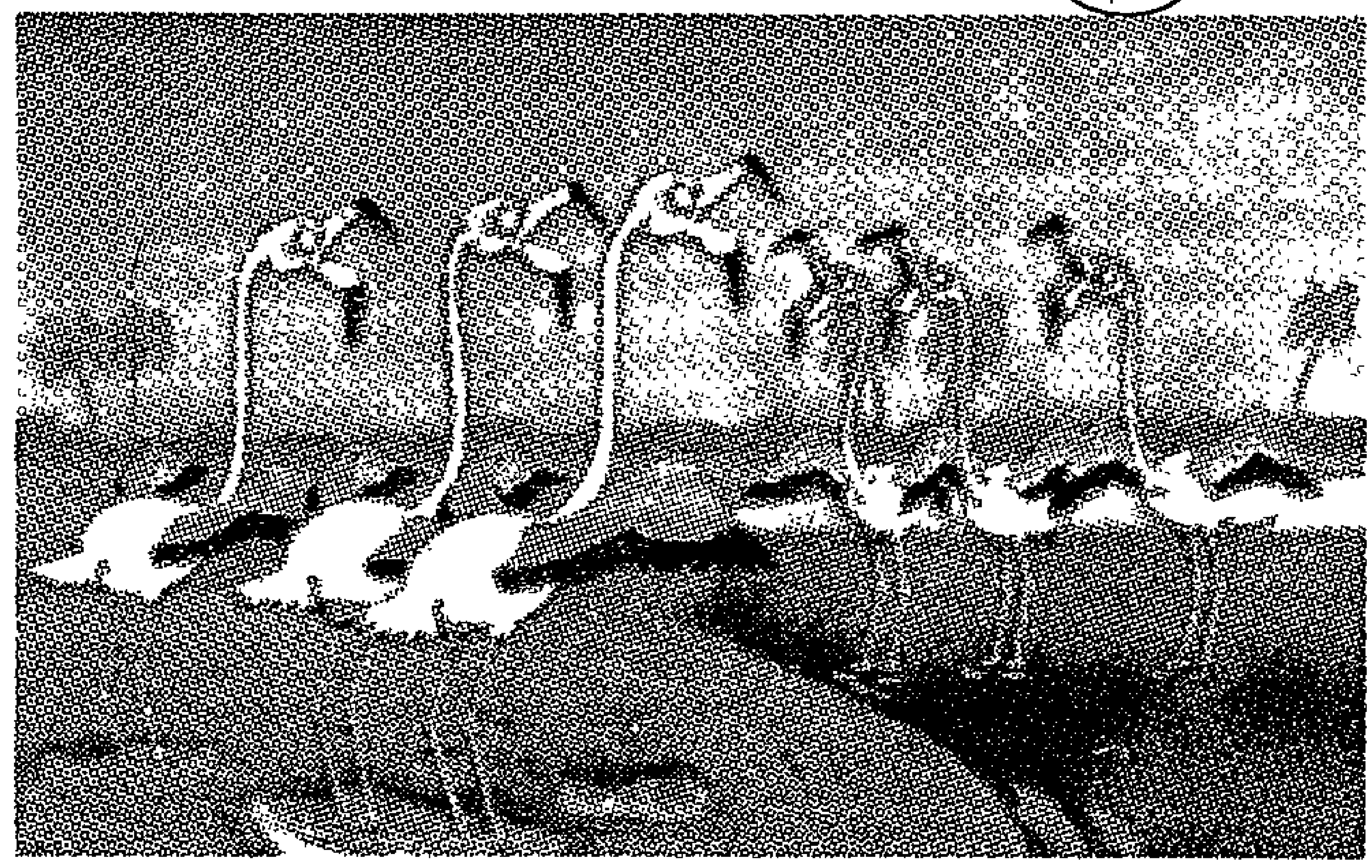
So numerous have the presentations been it is tempting to review them theatrically and compare, say, the confident, expansive style of The Mont Fleur Scenario's Sue van der Merwe with the somewhat nervous and erudite delivery of The Platform for Investment's Mike Brown. Or to judge the visuals where, say, The Mont Fleur Scenario's colourful artwork vies neck and neck with the punchy, businesslike graphics of Sunter's book.

But what does the spate of scenarios say about South Africa? And what is the implication of the scenario industry in the 1990s having taken over from earnest conferences about the political and economic future of the country?

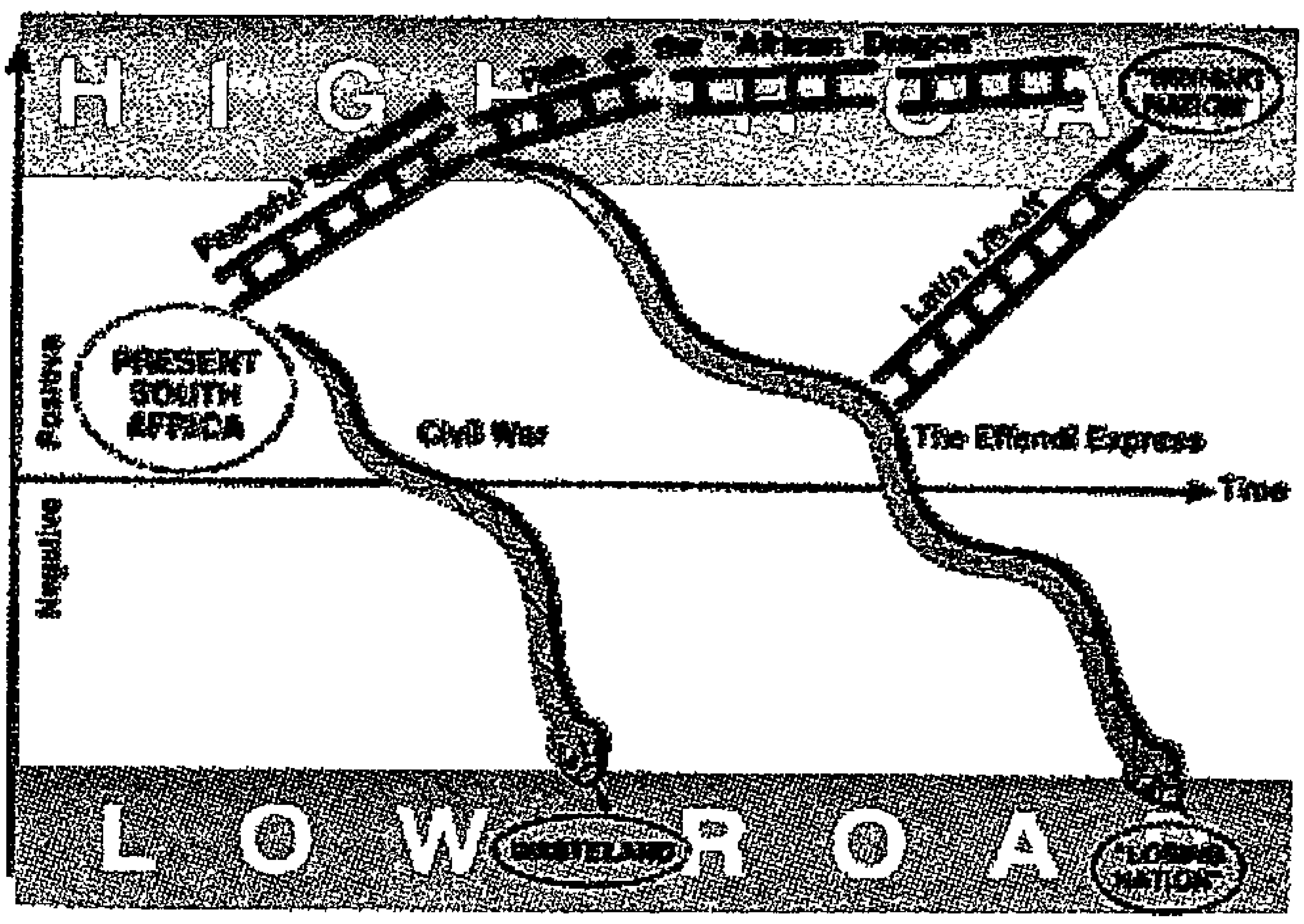
The Mont Fleur Scenarios were conceived, says left-of-centre economist Pieter le Roux, in response to a request to organise yet one more such paper-shuffling meeting of academic minds.

Both conference and scenario displace the "solutioneering" of the 1980s, that burst of creative thinking about solving South Africa's seemingly insoluble problems through one-man-eight-votes and federal souffles.

Talk of solutions, like talk of hope, seemed to confirm that all was lost. By contrast, conference and scenario present themselves as a real step into the ring with fate: here we can grapple with the powerful bad forces and, perhaps, emerge bloody but triumphant.



The Mont Fleur Scenario ... Is it an accident that the flamingos are pink?



Sunter's vision of our possible futures: The games business planners play

I'm too sexy for my scenario ... The man who started it all, Clem Sunter

Moreover, scenarios are so much sexier than conferences, having been influenced not by the dusty groves of academe but by the "business presentation" which as we all know has to have lots of pictures, graphs and diagrams to capture the imagination of a sceptical boardroom full of overworked execs.

And the words "scenario planning" have the ring of objectivity. Scenario planning, for business anyway, should put forward a set of as impartial views of the different, possible pathways into the future.

That none of the scenario exercises actually does that seems to have escaped commentators. All are, in one way or another, prescriptive. It started with the charismatic and shambling ex-folk singer Sunter's 1986 depiction of the future High Road to the heaven of political reform and economically profitable outward-orientation versus the Low Road to inward-looking and conflict-ridden, despotic Hell. All right-thinking people knew which path to choose, particularly framed that way, and it was comforting to see Anglo publicly throw its weight behind a plan that went against all the PW Botha era stood for.

Updated, the presentation takes in the vast changes on the world stage, and recent developments in South Africa, like the pervasive criminal violence, which Sunter terms the "Sicilianisation" of the townships.

Sunter's presentation also explicitly bases its assumptions on the primacy of the free-market and certain essentially conservative "Anglo" and Reaganite values, like the economic value of strong family life, even though the examples used are likely to be Japanese.

That moral strain is taken up in the Nedcor-OM book, naturally enough given the penchant of one of the exercise's main movers, Tucker, though in a much more thorough fashion. An entire appendix devoted to discussion of the American underclass is a more riveting read than the by-now well-known two-phase "Change of Gears Plan". This envisages a kick-start for the economy by labour-intensive social investment such as a housing and electrification drive followed by sustained export-led growth.

The Nedcor-OM version of hell is the "Business as Usual" scenario where South Africa's economy just slip-slides away with varying rapidity.

Despite protestations to the contrary, the "change of gears" is prescriptive, just as the high road is. It may not be a blueprint, but the compilers of the presentation clearly think this is the way to go.

The Platform for Investment exercise has an impressive map-out of the economic, if not the political, morass. It leans quite heavily on the Sunter "dual-logic" thinking about South Africa's economic development, whereby small business and the informal sector are encouraged alongside big business and the formal sector.

The Mont Fleur Scenarios depict the Icarus drama where a free-spending government flies too high too fast and plummets into the chaos which will make it easy for authoritarian rule to take over. The strength of the Mont Fleur exercise is that it has educated quite a few comrades about the folly of "macro-economic populism". One might as well believe in Father Christmas as the chosen alternative, The Flight of the Flamingos, which raises hopes a bit too high that a genuine, lasting political settlement will arrive swiftly and allow a new democratic government to get a chance to behave with macro-economic responsibility.

Impressively, The Platform for Investment plumps for a slow, painful forced marriage of the liberation movements and the present government.

Again, it is decidedly optimistic — what else could a business presentation framed with foreign investment in mind be? Presenter Lawrie Schlemmer sets out fairly good reasons South Africa won't follow the Yugoslavian or Lebanon route, and sketches the very real advantages we have.

But the presentation takes it as a given that South Africa has an efficient formal sector, capable of rising to the real economic challenges of the future.

Why South Africa? Don't they do these sort of things in Sweden?

Well, no, and if they did, the results would surely not generate such interest.

This state of affairs may well have something to do with the complacency of and about the First World. To a degree Sunter tackles this in his book. Think of the enormous United States cumulative public debt, Japan's scandal-rotten financial sector or Europe's rising neo-Nazi movement every time you see a smug foreign expert popping in to see whether we are worthy of investment.

South Africa may be in a mess. But we know we are. That's the really good news about scenario planning. And a merry Christmas to you all.

Santa elbows Marx aside in central Europe

BDay 24/12/92 (49)

THERE may be little economic cause for seasonal cheer in much of central Europe this year. That, however, has not deterred the new entrepreneurs in the region from embracing the commercial possibilities of Christmas.

The appearance of oranges, bananas and the occasional forbidden fruit from the Western consumer culture symbolised Christmas under communist rule. But with much of the central European retail sector having been privatised in the past few years, this season's festive symbols come straight out of Western marketing textbooks.

Santa Claus, that most potent Western symbol for gift-giving, is finding the region fertile ground. Polish Santa Clauses pose for pictures on Warsaw streets where Solidarity demonstrators used to confront the communist government, while their Hungarian counterparts peddle Sony televisions and videos on TV.

The density of store and public decorations confirms the spread of Christmas consciousness among retailers and consumers alike, although the motive for their use is not entirely commercial.

In Romania's bleak capital, Bucharest, about 60% of the stores in the two main shopping streets boast some decoration. But many are old and have been brought from home by employees, partly out of tradition but mostly to relieve the gloom.

That contrasts sharply with shops in Budapest, which are using fewer but higher quality decorations than last year.

In Poland, marketing companies such as Multi-Investment, set up in 1989 by American Jacques Tourel, have used decorations as a way of stretching the holiday buying period. The company donated a 22m-high Christmas tree that stands in the middle of Warsaw's Old Town square. The tree went up on November 22 as a signal that the shopping season had begun, a tactic that appears to have been successful as many shops quickly followed with their own decorations.

The Christmas decorations in Prague's Wenceslas Square are dwarfed by advertisements for big Western brand names, a development of which many residents approve. "It shows Prague as a world city. It is like Piccadilly Circus in London," said a bank official without a hint of overstatement. "It is much more colourful than it was before, and now it is possible to buy all the goods."

An informal survey suggests that the novelty of Western goods has yet to wear off, even if they remain beyond the reach of many consumers.

Petr Trybil of the Czechoslovak Chamber of Commerce says: "People seem to be buying more Western goods, especially electronics which are expensive but not excessively so. I believe the reason is quality and, of course, the fact that they were not available until recently. But quality is becoming more important and there is a lesson there for us."

Eva Ruzekova, who runs a small, specialised Prague gift store, believes the high prices of Western goods are mistakenly seen as a mark of quality. But "they are practical and attractive and everybody would like one for Christmas".

An advertising executive says: "Western companies and Czechoslovak entrepreneurs are tapping into the perception of the country as a relatively wealthy place with a history of a market economy. It is not too difficult to sell a product here."

Western goods also remain popular in Hungary. But some retailers have adopted Western marketing methods to sell local products.

Centrum Department Stores, the Hungarian state-owned retailer, has brought out its first glossy Christmas brochure. Skala, Centrum's main rival, hired Young & Rubicam which created a cartoon character, the "Skala angel", for the chain's Christmas TV spots.

Its efforts seem to have paid off: the chain's customers are spending 10% more in real terms than last year, reversing a long decline.

Both retailers benefit from the Hungarian tradition of buying a television set, video recorder, washing machine or other expensive consumer durable to coincide with Christmas and provide a gift to be shared by all the family.

At Warsaw's Kidi Land, a small-scale version of Hamley's toy shop in London, sales are up 50% this year over 1991. Its windows feature two displays of hand-painted dolls from B Altman's in Manhattan while, inside, the staff sport Santa Claus garb.

Polish television ads promote gifts for children and adults.

In Czechoslovakia, December sales are running 25% ahead of previous months, says Lubomir Staffen, commercial director of Kotva, a large Prague department store.

This year for the first time, Kotva has devoted a separate section within the store to Christmas gift ideas. "We have special departments offering Western haute couture and luxury goods," Staffen says. "The market is there, and we want to tap it. But we must remember that most of our customers are ordinary people whose spending power has not increased at all in the last five years."

The biggest sellers throughout central Europe this year have been small consumer goods, such as do-it-yourself equipment and electronics, products that are also perennial favourites in the West. But the choice of some Christmas gifts might surprise Western retailers.

In Hungary, gifts of deodorant — among other cosmetics — are persistently popular. It is no reflection on Hungarian hygiene, rather a hangover from communist times when vanity products were in short supply.

And what of central Europe's Santa Clauses? Do they think there is a future in Western-style commercialism? One somewhat cold Santa who stands by the Multi-Investment tree in Warsaw and who lets parties of schoolchildren have their picture taken with him for 15 000 zloty a time, thinks he has found a niche.

"I'm a poser. That's what I do — I pose for pictures," he says. When the Christmas season ends, he simply plans to don other costumes. — Financial Times.

LETTERS

Dear Sir

gloomy predictions of the chronic

Growth rate at 2% next year

(49) CT 24/12/92

By AUDREY D'ANGELO
Business Editor

SA will achieve an over-all growth rate of 2% at best in 1993 — "taking the economy back to where it was in 1991", Nedbank economists say in their monthly Economic Profile.

They forecast an average inflation rate of 10,5% for 1993, rising to 11,6% in 1994 and 13% in 1995, compared with 14,1% for 1992.

And they expect the producer price index (PPI) to average 10% for the next three years.

They think salaries and wages in the private sector will rise by an average of 10% in 1993 and 13% the following year as the economy strengthens.

They expect the trade balance for 1993 to be R18bn, up from R15,2bn this year, rising to R19bn in 1994 and R21bn in 1995.

They also expect the gold price to rise, averaging $350 an ounce in 1993, $367 an ounce in 1994 and $395 in 1995.

But they foresee the rand falling steadily against the US dollar.

They expect it to average R3,132 to the dollar in 1993, R3,539 to the dollar in 1994 and R4,035 to the dollar in 1995.

They also expect the DM and yen to strengthen against the rand over the next three years.

And although they expect the British pound to drop to an average of R4,679 to the £1 in 1993 they expect it to rise to an average of R5,133 in 1993 followed by R5,521 in 1994.

Inflation to slide to 10,5% in 1993

They forecast that SA's exports and imports will both grow by 5% in 1993, with gross domestic product (GDP) and private consumption expenditure (PCE) both up by 2%.

They think gross domestic fixed investment will rise by 5% but gross domestic expenditure by only 0,3%.

They expect prime rate to be down to 16% by the end of next year from 17,25% at present, rising to 17% by the end of 1994.

They think the BA rate will be 13,50% by the end of next year and 14% by the end of 1994.

Discussing the immediate outlook, they say hopes for an economic recovery "are squarely placed on an improvement in the agricultural season as well as a general recovery in the world economy, particularly the industrialised economies.

"The fiscus, already under severe stress, is unlikely to provide any stimulus for economic recovery."

Far from stimulating the economy, they point out, anticipated higher taxes to reduce the large fiscal deficit are likely to push up the and reduce demand.

"Recent indicators suggest that the US has resumed economic recovery.

"However, expectations of a solid economic recovery in Europe are fading as European economies are troubled by higher interest rates, particularly in Germany, and turmoil in exchange rate markets."

This means that commodity prices are unlikely to be significantly higher in 1993 than in 1992.

The uncertain political climate, violence and a disturbingly high crime rate all of which affect business confidence and foreign investment "will continue to obstruct SA's potential for achieving higher economic growth rates in 1993."

They think SA "may see single digit inflation during the course of 1993.

"However, a possible rise in the VAT rate and a higher fuel levy, together with increased duties on alcohol and tobacco in 1993, "will put substantial upward pressure on the inflation rate."

GENERAL NOTICES

NOTICE 1150 OF 1992

MEETINGS OF PARLIAMENTARY COMMITTEES DURING RECESS

THURSDAY, 14 JANUARY 1993

Joint Committee on Home Affairs (Public Service Labour Relations Bill [B 13—93 (GA)].

MONDAY, 18 JANUARY 1993

Joint Committee on Provincial Accounts.

TUESDAY, 19 to WEDNESDAY, 20 JANUARY 1993

Joint Committee on Provincial Accounts.

Joint Committee on Agriculture, Water Affairs and Forestry.

THURSDAY, 21 JANUARY 1993

Joint Committee on Provincial Accounts.

Enquiries: Mr W. Fourie, Head: Committee Section, Tel. (021) 403-2568, Beltel Page No. 3199.

(24 December 1992)

ALGEMENE KENNISGEWINGS

KENNISGEWING 1150 VAN 1992

VERGADERINGS VAN PARLEMENTÊRE KOMITEES GEDURENDE RESES

DONDERDAG, 14 JANUARIE 1993

Gesamentlike Komitee oor Binnelandse Sake (Wetsontwerp op Arbeidsverhoudinge vir die Staatsdiens [W 13—93 (AS)].

MAANDAG, 18 JANUARIE 1993

Gesamentlike Komitee oor Provinsiale Rekenings.

DINSDAG, 19 tot WOENSDAG, 20 JANUARIE 1993

Gesamentlike Komitee oor Provinsiale Rekenings.

Gesamentlike Komitee oor Landbou, Waterwese en Bosbou.

DONDERDAG, 21 JANUARIE 1993

Gesamentlike Komitee oor Provinsiale Rekenings.

Navrae: Mnr. W. Fourie, Hoof: Komitee-afdeling, Tel. (021) 403-2568, Beltel bladsyno. 3199.

(24 Desember 1992)

NOTICE 1151 OF 1992

SOUTH AFRICAN RESERVE BANK

49

Statement of assets and liabilities on the 30th day of November 1992

	1992-11-30	1992-10-31	Change
Liabilities	R	R	R
Share capital	2 000 000	2 000 000	—
Reserve fund	93 325 065	93 325 065	—
Notes in circulation	12 207 815 597	11 275 118 767	932 696 830
Deposits:			
Government	7 598 360 802	9 756 896 027	(2 158 535 225)
Provincial administrations	114 055 883	113 804 861	251 022
Deposit-taking institutions	2 568 972 437	2 310 826 149	258 146 288
Other	77 856 787	77 577 308	279 479
Other liabilities	5 221 644 602	5 147 032 124	74 612 478
	R27 884 031 173	**28 776 580 301**	**(892 549 128)**
Assets			
Gold	6 389 004 647	6 086 877 915	302 126 732
Foreign assets	4 177 566 857	5 010 643 571	(833 076 714)
Total gold and foreign assets	**10 566 571 504**	**11 097 521 486**	**(530 949 982)**
Domestic assets:			
Discounted bills	3 771 120 000	4 589 765 000	(818 645 000)
Loans and advances:			
Government	—	—	—
Other	1 498 652 713	1 471 149 600	27 503 113
Securities:			
Government	453 580 219	457 802 682	(4 222 463)
Other	1 122 985 045	1 122 985 045	—
Other assets	10 471 121 692	10 037 356 488	433 765 204
	R27 884 031 173	**28 776 580 301**	**(892 549 128)**
Rand per fine ounce	R911,09	R902,51	R8,58
Gold holdings in fine ounces	7 012 485	6 744 388	268 097

C. J. SWANEPOEL,
General Manager.

Pretoria, 7 December 1992.

Still value to be found in equities

FM 25/12/92

Johannes van der Horst is GM Investments at SA Mutual

49

***FM:* Is it realistic to believe the stock market will be higher at this time next year than it is now?**

Van der Horst: Three key variables that correlate in the economy are usually good indicators of how the market will move

First, interest rates: we have a long tradition that if you have a down cycle of interest rates, it tends to drive the stock market up because, at the institutional level, alternative investments become less attractive Within corporations which have financial gearing — it is now about 40% on average — a fall of interest rates at the margin makes a significant difference in profits.

We've had a very decisive fall in interest rates on the capital market and in the money market, and the most recent drop in the bank rate is a signal from the governor that inflationary pressure is declining. The effect is that interest rates on deposits have become relatively unattractive and the stock market more attractive.

Second, our reserves are in quite good shape and have been on a rising trend. There have been a couple of months when the figures have not been so good, but from the precarious position where the reserve cover (of imports) was less than two months, it has moved to over two-and-a-half months. Historically, increasing reserves have tended to be associated with declining interest rates and a rising stock market, as liquidity in the economy improves.

The third and vital ingredient typically needed for a sustained rise in the stock market is a rise in corporate earnings. A year ago, we expected nominal growth in the economy. But the sad reality of 1992 is that the encouraging momentum that was then in place could not be sustained To a large extent, the drought killed it. Moreover, after three years of recession, retrenchments, lower salary increases (they will rise by less than 10% in 1993) and increasing costs, consumer demand caved in and uncertainty about the future prevailed.

That is why the market declined into the second half. It reflected investors' lack of confidence and disillusionment about forthcoming corporate profit growth In addition, there has been very pedestrian growth in global trade. Commodity prices show a downward trend. In SA, it all adds up to a negative growth curve for 1992.

What the stock market now needs to take it higher is an indication that solid corporate profit growth is about to come through, plus the confidence that it will not be a flash in the pan. The indifferent SA Breweries and Barlows results say that not much positive change should be expected in the short term — the next six months or so

But I am an optimist Though I do not expect the market to move up quickly, I believe the business cycle still exists and that good corporate profit growth will re-occur

It is difficult to detect immediately it starts to come through. The news tends to be 12-18 months out So with interest rates down and likely to stay down for a while, with solid reserves, and good rains, I expect to see the stock market somewhat higher by Christmas 1993.

Does that mean you are expecting the economy to improve through 1993?

GDP will show negative growth of 1,5% for 1992. Though 1993 growth will be far from strong, it should be a positive year, with GDP rising by about 1% In 1994, this should be about 3%. If this materialises, it should impart strong momentum in the order of 20%-25% to corporate profit growth. I expect the market to discount this probability by moving up

Furthermore, equities of good companies in SA have a scarcity value, so it is very difficult to see a situation where they become bargains. Even after the pullback of prices, the market is not cheap, but, within it there are definite pockets of value

In which market sectors do these pockets exist?

I refer mostly to the industrial market. It's a mixed bag and these are not easily identifiable. To me, the stock market remains the area of prime wealth preservation and, hopefully, wealth creation

What do you think will occur in the gold and commodity sectors during 1993?

The future of gold and commodities should be seen in the context of the global economy. The US economy is recovering well but is being offset by the slowdown in the German and Japanese economies.

US GDP is expected to move to 3% next year from 2% in 1992 and then to grow by 3% in 1994. The other big six nations that have been growing GDP by 1,5%, should show growth of 2% next year and a recovery of more than 3% in 1994. Despite structural problems we are on the brink of an encouraging international recovery On the back of that, commodity markets should slowly improve.

On the other hand, gold is unlikely to show any upside from the improvement in the world economy. We are looking for an absolutely flat gold price next year, even though there are still significant inflationary forces in some internationally influential economies and industrial demand exceeds supply The stock overhang in central banks, if sold, could offset any increase in the gold price caused by higher demand.

A slight shift in sentiment could, however, change that situation dramatically If gold should become a significant investment channel, it could be priced in terms of a multiple, not to US$400 but to $1 000 an ounce Yet some serious gold observers reckon it will decline to below $300 and remain there for the next two years

Meanwhile, the strong dollar is now translating into higher receipts for SA exports and the mining companies should show small increases in 1993 earnings and dividends if they can contain their costs

Is there anything on the horizon that could inhibit your mildly bullish sentiments for 1993?

Yes, the big fiscal deficit of this government A budget deficit of 8%-9% is unacceptably high The problem is that three-quarters of the deficit is being used to pay salaries instead of being spent on fixed capital investment that would create its own capital.

The concern is that this borrowing could cause a snap-back in rates. Long rates were down to 13,75% and have already risen a full 1%. The yield curve has moved up as the full horror of the borrowing requirement has struck home

If, on top of this, economic growth starts picking up and demand for money from the public sector increases, financing that will be a real problem and interest rates at the long end could be driven up again. This is the biggest challenge facing Finance Minister Derek Keys and it could have a negative influence on the market.

Violence and disruption are the other dangers. If they do not subside soon, we could have a transition depression. We had a long and deep recession between 1904 and 1908. The one we are having now is the longest in our history since those days. The country had just come out of a devastating war and civil conflict (Anglo-Boer War)

History shows that that recession was part of the birth pains of a new SA. The country was moving from the embittered, beaten Boer republics and the English colonies toward a new dispensation. Jan Smuts was playing the role of the reconciliator. Out of it came the Union of SA. The analogy is extraordinary.

How do you see the movement of interest rates in 1993?

I think we could see prime fall another 1% during the course of next year, not more But, if we get down to 15%, the up cycle will probably start again from there in 1994.

Gerald Hirshon

Let the economic reforms proceed

FM 25/12/92

(49)

Spencer Sterling, the chairman of Samcor and a director of Amic, is the new president of the SA Chamber of Business.

***FM:* What is your priority for the chamber in the year ahead?**

Sterling: My priority is participation in the Economic Forum on an ongoing basis, once it becomes fully operative. Economic reform is as important as political reform — and the former must proceed in tandem with the latter This has not happened because there was no business involvement at Codesa and because the Economic Forum had difficulties in getting off the ground. Now the forum must focus on economic reform.

What do you mean by "economic reform"?

The whole economy must be restructured from being inward-looking and highly protected to being outward-looking, export-orientated and globally competitive This huge task will not only take considerable time, but will also require the understanding and support of all the players involved in the economy. Hence the necessity for the Economic Forum to include a wide representation of all sectors of the economy.

Does labour see the importance of this process?

I believe that the important issues are clearly understood by both sides — labour and business. Labour understands the main objectives that must be achieved in the economy — promoting growth and job creation A great deal of common ground exists.

What are the main issues for debate?

The most vital issue facing us is how to restructure the economy to become efficient and competitive in the long run, while also ensuring adequate growth and thus job creation in the short term And, if we want to achieve globally accepted levels of efficiency, quality and productivity, we must start off by focusing on education and training.

What should be done about SA's high tariffs?

In the past, government's role in making industrial policy was characterised by unilateral decision-making and interference In future, government will have to create the right circumstances under which the private sector can restructure the economy It will have to consult with and constructively involve the private sector Tariff policy should not be looked at in isolation but must be part of an all-embracing industrial policy Tariffs must come down, but they must do so in a planned way, progressing over time At the same time, attention must be given to the other factors that impinge on the competitiveness of the economy.

SA is a high-cost producer and not only because of the tariff policies of the past, but also because of the high input costs created by factors such as high corporate tax rates, import surcharges, inflation and high interest rates. SA's manufacturers will never be able to compete against the high-volume, low-cost producers of the world if their input costs remain higher than their competitors. The Economic Forum will have to address all these issues.

Is Derek Keys the man for the job?

He is the right man at the right time Not only can business work with him, but so can labour With Keys, I feel that the prospects for the Economic Forum are good, even though there will understandably be major areas of difference that will have to be debated and resolved.

Do we need investment incentives to attract foreign investment?

Yes, definitely SA will have to compete for investment with a large number of other developing economies around the world. To attract a reasonable share of investment capital we will have to provide competitive financial incentives, as well as a stable and secure political environment

What should be the role of small business in the new SA?

The role of small business may be more important than that of its bigger brother — especially in the field of job creation In each of the world's successful economies, the majority of jobs are created by the small-business sector. SA will be no different

And the conglomerates?

Critics of big groups are often naive in their perception of the large, diversified business groups in SA Companies with the best chance of being world-competitive are those that have substantial resources to call on The simple act of unbundling conglomerates will not necessarily lead to more efficiency, a better sharing of resources, or lower prices.

What must be done about privatisation?

This has to be a significant factor in restructuring the economy But it cannot proceed before we have an interim or new government.

FM 25/12/92 (49)

WORLD ECONOMIC OUTLOOK

Light on the fringes

Growth predictions are constantly revised as the world battles stagflation

Such bright lights as there are in prospect for the world economy in 1993 flicker clearest on the fringes, like candles around a stagnant pool — in China, the "tigers" of the Pacific Rim and south-east Asia, India, Argentina and Chile.

For the rest, accounting for 80% of global GDP, emergence from the quagmire will continue to be a leaden, uneven lurch, notwithstanding drooping inflation. Twelve months ago, the Organisation for Economic Co-operation & Development (OECD) revised downwards its projections for the 24 leading industrial nations and postponed real recovery from 1992 to 1993.

In July, it again dampened expectations but chirpily maintained that next year would see the OECD economies lift GDP by 3%. Now the December issue of the bi-annual *OECD Economic Outlook* warns of "relatively sombre" short-term prospects for the 24 economies as a whole — and something probably worse in the Commonwealth of Independent States (the ex-USSR).

Growth is projected at a feeble 1,9% (see table), a full third slower than foreseen six months earlier; and instead of falling to 6,5%, unemployment will leap to 8,2% — 34m in total.

It will stay close to that level even though the revival once scheduled for 1992 *may* arrive in 1994 — for which the OECD has pencilled in growth of 2,9%.

The OECD was also quick to admit it could be wrong again. America's unexpected third-quarter bounce "might" presage a return of consumer confidence which could add half a point to US GDP next year raising it by nearly 3% instead of 2,4%.

Equally, however, the drab overall outlook for the coming year may be worse. OECD forecasters were surprised by the sharp declines in Japanese and German output.

The *Economic Outlook* had barely been printed when the leading Munich research institute Ifo warned of a full-blown recession.

West Germany's economy will contract by 0,5% in 1993 and while the eastern *laender* will show growth of 8%, the total impact will be zero — not the 1,2% formally posited by the OECD which conceded, after publication, that the out-turn could be only 0,7%.

The grim prospect is that next year there could be 3,4m Germans looking for jobs, said the Ifo, but added it would be "wrong to get into a panic now"

Stronger language emanated from IBM, Ford, Volkswagen and Daimler Benz, all of which announced substantial retrenchments in Europe. VW, slashing capex by DM3bn, forecast a fall of 20% in its domestic market next year after a slump which started "suddenly and dramatically" at the end of September.

IBM had a similar tale to accompany its 12% workforce layoff in Europe. "Our European business declined precipitously and unexpectedly since the beginning of October," said IBM chairman John Akers. Daimler chairman Edzrad Reuter, presiding over 12 500 car job losses at Mercedes, with more to come in 1993, was explicit: "The German economy has burst like a soap bubble."

Accounting for 30% of the EC's GDP, Germany is to Europe what the US is to the world — only more so. The pan-European growth rate, historically, is identical to Germany's. The portents bode ill for the whole continent as it opens up into the great single market from January 1.

Leaving aside the chaos in Russia and the other newly independent ex-Soviet States — where output fell 20%, inflation hit 2 000% in 1992 and the OECD will not even hazard a guess about the future — Europe is the sick man of the international economy.

Germany's reunification hangover and the Bundesbank's tight monetary policies to counter inflationary pressures caused mayhem in currency markets. The break-up of the exchange rate mechanism (ERM) of the European Monetary System followed, with the UK and Italy pulling out while Spain and Portugal devalued within it.

Real short-term German rates are 5,3%, keeping up the pressure on economies which stayed linked to the D-mark via the ERM. French inflation is the lowest in Europe at 2% yet holding the franc's parity means real short-term rates of 9%. The same is true for Spain, despite devaluation, and for temporary outsider Italy.

The Irish, with unemployment heading for 20%, are sweating on 14% and even EC aspirant Sweden, which floated the kroner after being forced to give up its attempt to track the D-mark, has to maintain real rates at almost 10%, despite 2% inflation and facing the third year of negative growth.

"Escape" from the ERM enabled the British to chop the costs of short-term money to 7% — from 15% a year earlier — and real rates are now down to the 4% mark. But sterling's devaluation is already stoking industrial input prices while wages continue to rise faster than inflation — despite the rise in unemployment — which will threaten the competitive edge given to exports.

That will also inhibit interest rate cuts and consumer confidence remains battered by job losses, which will lift unemployment to 11%, and the blight of the property slump Even though mortgages are the cheapest for 20 years, private residential investment will drop again next year after a cumulative 35% decline from 1989 levels.

But if Germany stumbles, the export performances of the UK and all European economies will struggle. Hence the urgings of the OECD, reinforced by the International Monetary Fund, for an early relaxation by the Bundesbank, even if disinflation is not fully under way.

Even when it does no dramatic impact is expected. The OECD is looking for German rates to notch down by only three points to 6,5% over the next two years as inflation (for the combined country) eases slowly from 5,5% to 3,3%.

Fiscal assistance is ruled out for Germany and all other big economies apart from Japan which has already launched its US$86bn spending plan, 2,3% of GDP, in harness with lower short-term interest rates. Germany's federal deficit is expected to slip below 3% of GDP but the OECD points out that off-Budget borrowing to fund the eastern states' reconstruction will continue to balloon.

Japan has other problems. After the bursting of the "asset bubble" has come the sight of the "bicycle economy" — which runs smoothly at speed but wobbles when it slows — and the second consecutive quarterly slip in output, bringing it down by 6%, was the first since the oil crisis recession of the Seventies.

In addition, consumer caution has flattened demand even though housing starts picked up and inflation, thanks to the strong yen, was a mere 1% and producer prices fell by 1,3%. Apart from property and finance sectors, Japanese industry has a healthy balance sheet but the dash for market share around the world has increased cost gearing from 75% to 88% of sales

The volume downturn of the last three years in export markets has slashed profit margins: this year, corporate Japan's profits will fall by another 20%, losses are rising, bankruptcies among manufacturing companies are up 47% on 1991 and the net return on fixed assets has more than halved to little over 5% since 1989.

And the cost of capital — negligible when

TAKING A BREAK

This is the final issue of the *FM* for 1992 — our next magazine will be dated January 8. The Editor and staff wish our readers a peaceful festive season and hope, with you all, that 1993 will be prosperous.

P.T.O

ECONOMIC OUTLOOK FM 25/12/92 (49)

Signs that SA is moving into synch

Right now, the negatives in the economy are easier to measure than the positives. So it is not surprising the IMF staff report on SA, dated October but released only last week by the Department of Finance, highlights the erosion in the economy "The basic difference between the present medium-term economic scenario and that presented last year," it says, "stems from the significantly worse conditions from which one would now be starting." The latest Reserve Bank *Quarterly Bulletin* has the figures

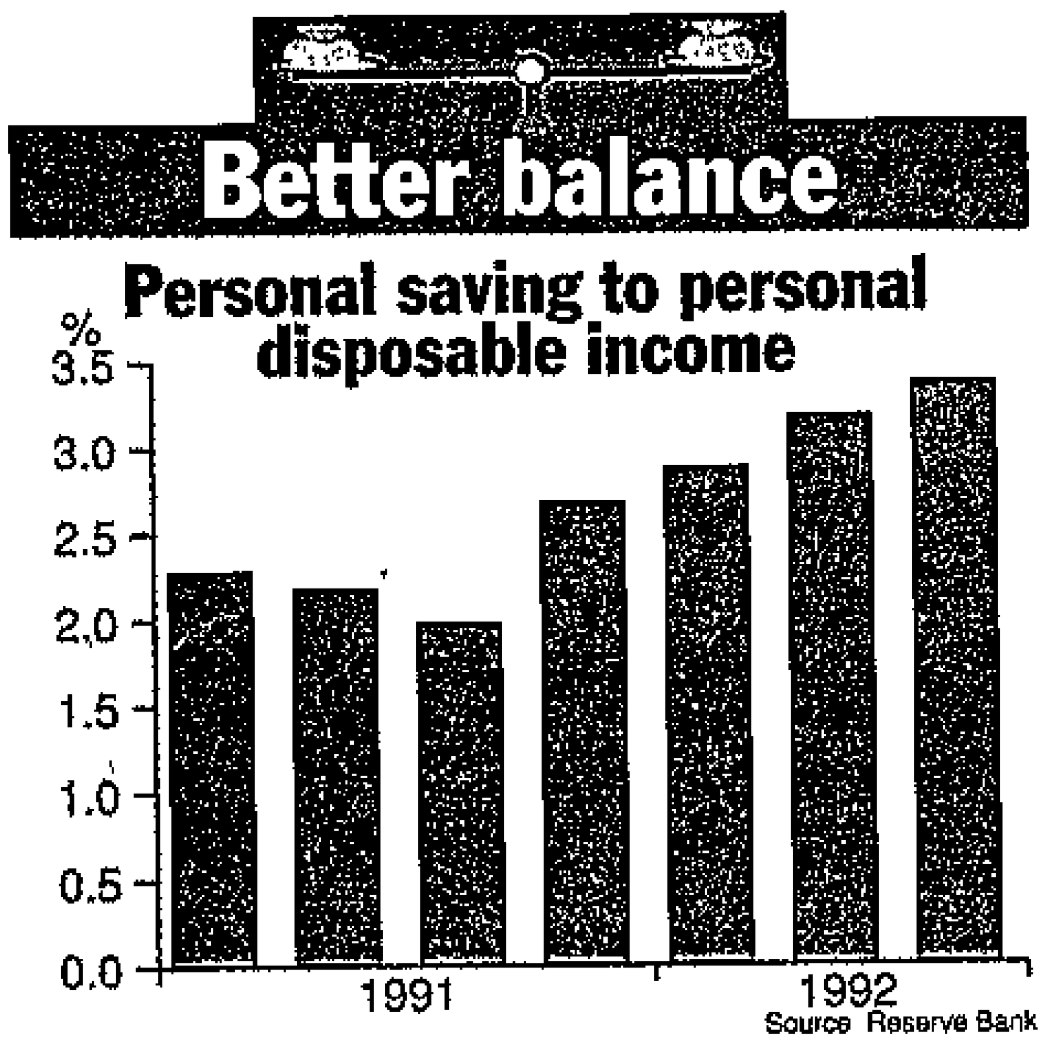
In the third quarter·

- ☐ GDP fell a seasonally adjusted annualised 5,7% (compared with a decline of only 0,7% in the third quarter of last year);
- ☐ The ratio of gross domestic fixed investment to GDP fell to under 16%, (from 17,8%), and
- ☐ The ratio of consumption spending by general government was up to 21,5% (20,2%).

Capacity utilisation had fallen to 79,1% in June, the latest available figure (down from 81,3% a year earlier.)

However, while these shifts were taking place, some constructive trends were also emerging and one, at least, shows signs of gaining momentum.

A major achievement is the agreement reached this month between the Chamber of Mines and the National Union of



Mineworkers, which will affect 390 000 workers at 20 companies. It includes wage increases well below the latest 11,7% inflation rate — and an in-principle agreement on a profit-sharing scheme which provides "for the sharing with employees of up to 20% of profit available for distribution."

This comes after a similar, but more complicated, agreement reached last year A basic increase of 5% was negotiated on certain mines, with further increases pegged to rises in the gold price, plus productivity in-

centives Together these extras pushed the potential increase to 12%.

In the event, there were no spin-offs from the gold price which performed poorly. "But there were productivity benefits which varied from mine to mine," says Chamber of Mines senior economist Francois Viruly

Certainly the fruits of the agreement were seen in a rise in working costs per kg of gold of only 0,9%, in the first nine months, compared to the same period the previous year. Says Viruly: "In that period inflation was running at nearly 14%."

The importance of the deals struck is that, by linking employees' remuneration to profitability, they allow for greater wage flexibility — which means fewer jobs are lost in bad times and more companies survive to create jobs in good times

Old Mutual economist Rian le Roux points out: "It takes real pain to achieve this type of agreement. It has come about only because people realised the alternative would be further retrenchments"

So it is not surprising the agreements have come in the gold mining industry, faced with a crisis created by the falling price of the precious metal The numbers involved are still comparatively small but, what is important, the breakthrough has come with the help of a union with a highly militant profile. It is perhaps an early indication of the sort of agreement which could flow from a social accord (*Economy* November 27).

If incomes can be kept in line with output, inflationary pressures will not abort upturns almost before they gain momentum. A sustained upturn will allow time for basic economic infrastructure to be replaced and then increased, thereby building the foundation for growth.

An event that should ease this process (another positive in the economy) is an improvement in the ratio of personal saving to personal disposable income

In the second and third quarters of last year, when personal disposable income fell 3,2% and 3,6%, the ratio fell with it from 2,3% in the first quarter to 2,2% and 2% In other words, as income fell people tended to maintain their level of spending and saved less Or, more accurately, many people borrowed more

Since then the ratio has risen steadily to 2,7%, 2,9%, 3,2% and 3,4% in the third quarter of 1992 Essentially, it establishes that people have started to adjust their expectations.

As in the case of workers, the more realistic consumers are, the better the prospects for sustained growth because:

- ☐ Demand does not immediately outstrip the country's resources; and
- ☐ More domestic capital is available to fund production

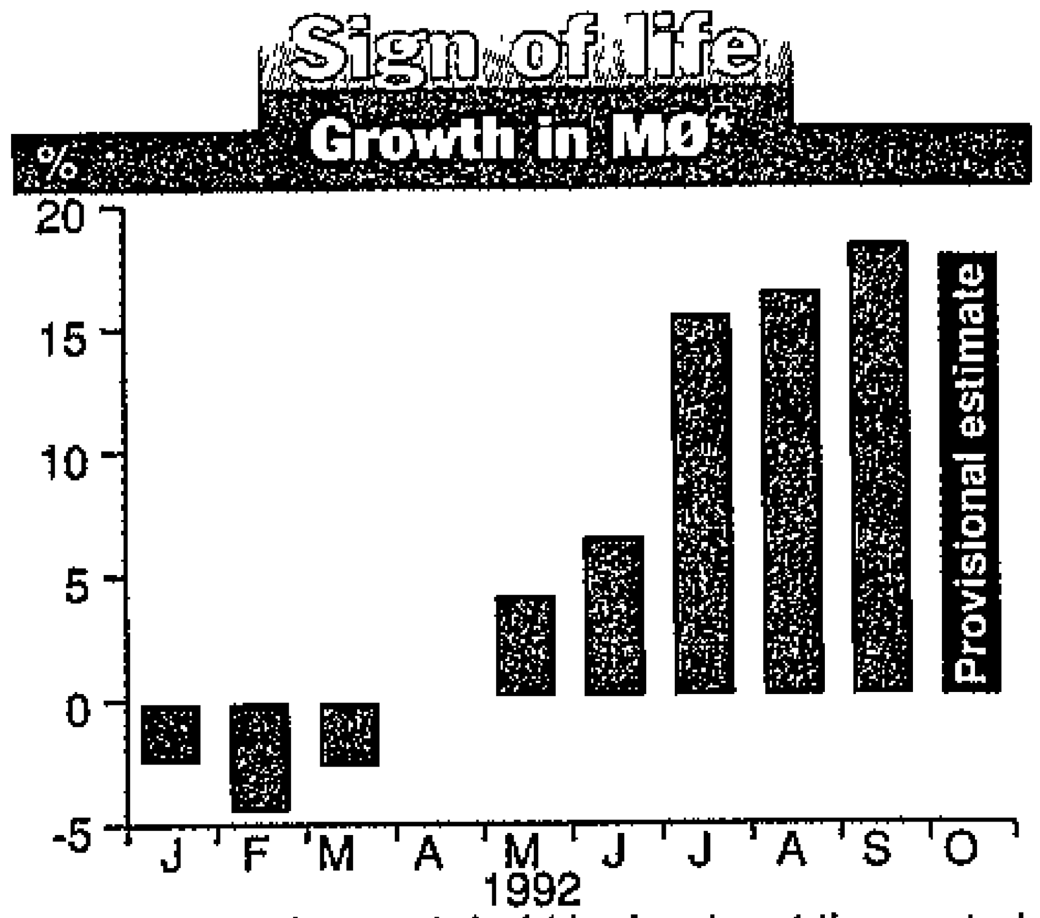
The trend could well continue as positive real interest rates provide an incentive to saving and discourage borrowing

But what of the short-term? After 11 quarters of recession, interrupted by a tiny uptick in the third quarter of 1991, people are desperate for relief.

Says Le Roux "Signs are too tentative for certainty but they are there."

Last month new car sales were 10,2% up on those in the previous November, following an October-on-October rise of 9,2%. Costa Pierides, assistant director of the National Association of Automobile Manufacturers of SA, points out (*Business* December 18) that perceptions are important — good news can have a multiplier effect

Also working towards growth next year, rather than against it, is the weather Says



*MØ includes cash held by banks at the central bank. A distortion occurred in July when banks were obliged to increase the ratio of reserves they hold against liabilities. But the trend which is clear (even if allowance is made for a leap in growth that month) relates to cash & coins in circulation Source Reserve Bank

FM 25/12/92 (49)

Le Roux: "Drought this year was responsible for the economy shrinking by 2%. If the season had been normal GDP would have remained static " Now good rains are falling over large areas.

Another positive indication comes from M0 which, says Le Roux, "has a very close correlation with gross domestic expenditure." Growth in this narrow monetary measure, which includes more coins in circulation, is a sign consumers are preparing to spend (see graph)

That this should be seen as a positive development apparently contradicts the argument outlined above, that spending should be contained. However, a delicate balance must be maintained. Private consumption spending has been falling by more than 3% each quarter this year (seasonally adjusted and annualised). More spending now could be a boost to the economy — provided resources are available to meet the demand. With the labour market becoming more productive, the chances of this are higher now than at any time in the past 15 years. In which case, real income will rise — which means people can afford to spend more and save more at the same time.

Ideally, the impetus now should come from export earnings but the outlook on this score is uncertain (see *Leaders*). This raises fears for the surplus on the current account of the balance of payments which "has deteriorated rapidly," says Le Roux, "and could keep interest rates from falling in line with inflation "

However, whenever the upturn comes, the opportunities it creates can be optimised if the factors that determine supply and demand in the economy continue to converge as they have been over the past year. ■

Signals fair for 1993

(49)
ARG 26/12/92

■ Next year will be better — agriculturally, industrially and commercially — and fixed investment will be improve, says **Dr JAAP MEIER**, Senior Deputy Governor of the Reserve Bank:

ECONOMICALLY, 1993 will be better than 1992 — or it should be.

The summer rains should be better, industrial and commercial inventories cannot continue to be trimmed, and preparatory work on several major capital projects will slow down, if nor reverse, the slide in real fixed investment of the past three years.

Population growth, slower price increases and intensifying replacement needs will determine the contraction of households' total real non-durable and durable consumption expenditure.

Domestic inflation will continue to ease and the monetary authorities might be able to relax policy further.

Abroad, the US economy, having see-sawed uncertainly since the Gulf war, now seems to have turned the corner. World trade will pick up and international commodity prices will harden — eventually.

Two or three doubts mar this cautiously optimistic picture. First, much of what is now being said about our prospects for 1993 sounds uncomfortably similar to our prognostications for 1992.

Second, none of the plus-factors for 1993, whether domestic or international, do as yet carry great strength or conviction.

Within their international context, the major industrialised economies remain out of phase: Germany and Japan now seem headed for little or no growth, with a potential for a marked further deterioration of their performances.

Domestically, much — too much — depends on the fluctuating fortunes of the political negotiation process, and on public perceptions of the prevailing conditions of strife and violence, crime and the government's actions or inactions that might, however unreasoningly, be read as harbingers of things to come in the New South Africa.

The 1980s saw the rise of the "new (anti-inflationary) orthodoxy" in monetary policy in reaction to the post-World War 2 record of sustained global inflation.

The new orthodoxy made its appearance in the good company of supply-side economics, a down-grading of deliberate short-term demand management policies, and calls for limited if not minimal government.

Supply-side economics, however, has proved easier to apply on the side of deregulation and tax concessions than on the side of curbing government expenditures.

However different and unique our own experiences might have been, South Africa has not been able to set itself apart fully from these developments.

1993 will bring us up, even more sharply than before, against the dilemmas posed by the need for structurally sound and sustainable longer-term policies on the one hand, and by the pressures and desires for more short-term, cyclically restimulative actions, on the other.

Several arguments, of course, plead for the paramouncy (although not for any strict exclusivity) of structurally correct monetary and fiscal policy considerations.

In monetary policy, a substantial investment has already been made in our consistently disinflationary policies of the past few years. As the inflation rates have abated, our real as well as our nominal interest rates have already been brought down significantly.

An aggressive further lowering of our interest rates might, however, suggest a return to the roller-coaster days of earlier stop-go policies. They might also actually be counter productive, by reviving inflation expectations and by sowing doubt about the anti-inflationary powers.

Again for good structural and "confidence" reasons, however, the minister will be well-advised to start chipping away at the deficit, as he has announced his intention of doing.

What about kick-starts? Pump-priming? Special projects for employment creation? None of these should be condemned out of hand.

We should be duly mindful, however, of the balance-of-payments and anti-inflation arguments that have inspired and continue to inspire our past and present policy postures.

Finally, make-work arrangements should not have the effect of shielding, unwarrantedly, any unduly cushy positions of an increasingly narrow and exclusive unionised labour elite, or hamper the workings of our labour markets in producing fair and realistic real wage levels.

Rise in bad debts takes a 1% slice off SA's economy

(49)

S! Times 27/12/92.

By CIARAN RYAN

UP to 1% of SA's economy may be lost this year due to non-payment of bills by companies and individuals.

The value of default and consent judgments against individuals is expected to reach R3-billion by year-end, almost double its 1989 level.

The growing number of individuals being sequestrated — more than 3 400 recorded so far this year — reflects a deteriorating personal-debt problem even though Reserve Bank figures show a decrease in personal indebtedness and a slight rise in savings.

An increasing number of close-corporation members are being sequestrated after running up debts on behalf of the CC.

Individuals who set up close corporations to shield themselves from personal liability for debts are finding the going tough.

Protection

Hans Klopper, an attorney with Hofmeyer van der Merwe, says banks and creditors are demanding that CC members bind themselves personally for any debts incurred by the CC.

"Although a CC enjoys limited liability in the eyes of the law, a large proportion of the debt taken out by CCs is secured by the assets of the individual members.

"So when the CC is unable to pay the creditor goes for the assets of the members.

"What we are finding is that people who run into financial difficulties are waiting until their assets have virtually been wiped out before seeking bankruptcy protection.

"Once they see that their liabilities exceed their assets, they should apply for protection.

"The court will grant a liquidation only if there is an advantage for creditors."

The number of individuals sequestrated so far this year, 3 400, is at its highest level ever.

Once sequestrated, an individual may not become a director of a company until rehabilitated.

He is automatically rehabilitated after a minimum of four years from the date of the sequestration provided 12 months have elapsed since confirmation of the first liquidation and distribution account.

More than 50 000 civil and consent judgments were recorded in September, 10,7% higher than September 1991, but the value of the judgments is 17% higher at R298-million.

The average value of judgments in 1992 is R6 045, 22,5% higher than in 1991.

A total of 254 742 CCs have been registered since 1985, nearly half of which have two members or fewer.

A spokesman for the Registrar of Close Corporations says a large but unquantifiable proportion of these CCs are dormant.

Many are individuals trading as CCs for tax or corporate identity purposes.

Ailing equities market sparked bull run on gilts

BDAY 28/12/92

HILARY GUSH

FOR most of 1992, an ailing equities market spurred the move away from shares towards gilts, leading to a prolonged bull run in that market which was reversed only in late October.

Looking back over the year, dealers said the capital market had been a hive of activity with high average daily turnovers.

In its latest quarterly bulletin the Reserve Bank said that, while activity in the secondary capital markets had been buoyant in the first three quarters of 1992, underlying market conditions had changed in the last quarter.

Worse than expected corporate financial results and a weakening in the share prices of certain blue chips on international equity markets saw institutional investors shift from equities to gilts.

Transactions in public sector stock hit a record monthly high of R79,3bn in July. This was followed by a moderately lower average monthly level of R69,5bn in August and September. The bulletin said this was significantly higher than the R37,4bn average monthly level in the second quarter of 1992.

From a 17,2% peak in October last year, the monthly average yield on long-term government stock eased to 16,9% in February before falling sharply to 13,9% in October 1992. The bulletin said the decrease in long rates reflected "a softening in short rates, expected lower inflation rates, a weaker than expected real economy and the lowering of Bank rate".

After the prolonged bull run, bears came to the fore towards the end of October with foreign and local selling pushing yields higher.

The outlook for next year is one of uncertainty.

One dealer said that, because of the unstable political environment, many promised investments had not materialised this year and large corporations would soon discover they would need more funding than they had budgeted for. Rates could therefore be expected to rise next year. They added, however, that above 15% yields on long-dated stock still represented good value.

Some portfolio managers predicted a sharp correction in rates in the new year as government would come to the market "in a big way" to fund the ballooning Budget deficit. After good market reception to SA's first corporate bond issue — the R1bn seven-year SA Breweries S001 bond — players expected further issues in 1993, even as early as January.

But they warned that bears had not taken over for good and that rates on long-dated stock could still fall to around 14,3%.

By definition, capital market instruments have outstanding maturities of more than three years. As against going into long-dated stock, some players are opting for the short-end of the gilts market or the money market. They say with another cut in the Bank rate looming, rates are set to fall further.

Yields on shorter dated stocks — which react more to conditions in the money market — will then come down.

Redemption

49

Despite the fact that about R1,3bn Transnet stock is maturing next year, the transport parastatal is not expected to issue new bonds — besides an Elfi issue — on the capital market next year.

Transnet treasury head Johan van Schoor said there would not be a new bond issue next year to replace the R600m in maturing T002 stock. He said the October 1991 issue of the T13 bond — maturing in October 1995 — was made in anticipation of the redemption of T002 stock next year.

"To a large extent the T13 stock was put in place to replace T002 which matures next year," he said.

However, only about R242m was issued in T13 stock as against the R600m issue of the T002 bond.

Van Schoor said negotiations concerning the Elfi 5 issue — planned for April — were under way with the authorities and he was confident Transnet would receive the necessary approval.

But he cautioned: "With four months to go until the issue it is too premature to guess how large it will be."

Aid without conditions 'can be expected' for SA

(49) BDay 28/12/92

LLOYD COUTTS

SA COULD expect assistance from international aid and development agencies without any conditions in terms of broad economic policy, according to a UCT economist.

Writing in the HSRC publication Prospects, A M van der Heever said fears that organisations like the IMF would impose restrictive conditions by linking foreign currency loans to macroeconomic measures to restore domestic economic distortions, were largely unfounded.

"Both the external and internal macroeconomic balances of the economy are in good condition, that is, the exchange rate is stable and appropriate, and the inflation rate is far from being out of control.

"Despite a fairly high degree of deficit spending on the part of government, expenditure is not out of control and to date has been financed appropriately."

With access to IMF bridging finance SA could again experience net capital account inflows up to 1,6% to 1,7% of GDP, which would allow extended growth phases without requiring surpluses on the current account of the balance of payments.

Many of SA's socioeconomic concerns could be financed without having to make use of scarce domestic resources. Such financing would be extensive once the process of transition had been finalised.

"However, it should remain the primary responsibility of SA to identify projects rather than rely exclusively on the expertise of donor organisations."

Expertise available locally far exceeded that of many other countries receiving aid from the World Bank, he said.

"The mismanagement of World Bank aid in other developing countries need not occur here. If it does occur, an opportunity for spreading wealth in SA without distorting either the capital markets or the tax system will have been wasted."

He warned that poor identification of development projects would waste donated funding and create recurrent financial problems.

"On the other hand, if these facilities are utilised within the context of broad macroeconomic plans rather than treated as one-off windfall gains, they could greatly enhance the necessary transition to becoming a manufacturing producer and exporter," he said.

Budget deficit 'easily financed'

Institutions set to free up R35bn in 1993

BDM 25/12/92

(49) (88) (88)

GRETA STEYN

MASSIVE cash flows to institutions have emerged virtually unscathed from the recession, with analysts estimating the amount of new cash available for investment next year at about R35bn-R40bn.

While the amount would be almost unchanged from this year, analysts said the flow of contractual savings was still big enough easily to finance even a huge Budget deficit next year without putting significant upward pressure on interest rates.

Even the combined effect of the recession and strong demand for finance from the public sector would not temper the "hothouse" effect at work in SA's closed financial markets.

Southern Life investments GM Paul Beachy-Head said the recession had put a damper on the growth in funds flowing to the institutions. Surrenders and lapses of policies had become more common, while less new business had been sold. Pension funds had been affected by retrenchment payouts. On a net basis, benefits paid out had gone up. He estimated the flow of contractual savings to institutions next year at about R35bn.

The state pension funds are not included in the flow of funds to private institutions and could add up to another R20bn to the new cash available for investment. Virtually the entire amount is usually invested in government stock. Beachy-Head noted the state pension funds had also been affected by retrenchments.

"Nevertheless, government will easily finance its deficit next year," he predicted, although he saw the possibility of higher long-term interest rates depending on the amount government needed to borrow.

Syfrets Managed Assets spokesman Leon Campher's estimates were at the lower end of the range of predictions. He saw R30bn-R34bn as possible, noting that the percentage of new premium flow to benefits paid out was increasing.

He said the flow of state funds to the Public Investment Commissioners could add another R17bn to the finance available for investment. But Campher agreed a big deficit would be "quite easily financed" from the flow of contractual savings.

An analyst at a stockbroking firm put the flow to the institutions at about R38bn. He said contractual savings had been affected adversely by the recession, while government's deficit had been rising rapidly — a situation which would have to turn around if strong upward pressure on interest rates were to be avoided.

However he did not expect the public sector's borrowing requirements to have a significant effect on the financial markets.

Estimates of the Budget deficit next year vary between R20bn-R30bn, depending on the extent to which government wants to increase revenue by raising taxes. Finance Minister Derek Keys has said the 1992/98 deficit will reach R28bn.

If the deficit is reduced to R25bn, it would still be more than 6% of GDP. Economist Louis Geldenhuys of Senekal, Mouton & Kitshoff said this would be possible with a 3% real decline in spending and no compensation for fiscal drag.

G-7 boffins should have drawn on the Asian experience

BIDM 28/12/92. **SAMUEL BRITTAN** (49)

THERE is a big advantage in ploughing through a survey of the world's main industrial countries such as the December Economic Outlook of the Paris-based Organisation for Economic Co-operation and Development (OECD).

Any tendency to attribute misfortunes to the peculiar shortcomings of one's own government is quickly remedied when it is seen that very similar misfortunes affect other countries with governments of a very different hue.

Take the boom and bust cycle in the financial markets. It has actually been greater in Japan than in the UK, if equities are taken into account. Commercial property values have indeed fallen more in the UK than elsewhere, but the fall in house prices has been greatest in Scandinavian countries, for example, Norway and Finland.

In spite of all this interesting information, it is quite hard work to extract a real theme from the OECD report, which is in some ways a step backwards. For instance, the growth tables in the main text start in 1992 and go on into 1994, thus putting the main emphasis on crystal gazing. One has to extract from the statistical appendix the old standard tables which put the projections in the context of earlier developments; and even they do not go back far enough or indicate trends clearly.

If one looks for oneself, there is no mystery about what has happened.

Output in the G-7 "summit" countries started to decelerate in the early '90s, partly as a result of counter-inflationary policies and partly as a result of the debt problems of individuals and companies. The end product has been a prolonged growth slowdown which the OECD expects to continue into 1993. The silver lining is that the underlying inflation in G-7 countries, which had already been reduced in the '80s, is now declining further and is expected to fall to 2.5% by 1994, the lowest for nearly 35 years. If achieved it should provide a platform for sustainable growth later.

The recession is not as deep as popularly believed. The output shortfall compared with trend is less than it was in the past two recessions in five of the G-7 countries. Only in the UK and Canada has it been substantially greater. And it is only in these two countries that it has turned out to be the longest post-war recession.

On an international scale, we have so far seen only a growth slowdown and not a classical recession. By contrast, in 1975 and 1982 the growth of real GNP came to a complete halt in the G-7 countries taken together.

It is true that this time round the US and Canada experienced an absolute drop in output in 1991, as the UK did in both 1991 and 1992.

But these were offset by other countries that did not begin their recession until rather later.

Another way of looking at the matter is to track nominal GDP, which is made up of real growth plus underlying inflation. This has decelerated from an excessive 8% a year in 1988 to about 4,5% at present. It is expected to rise to only 5,5% by 1994. Moreover, because of the expected drop in inflation, more of this expenditure increase will represent real growth. But at no stage in the recent past have the recorded figures shown anything like genuine depression.

The OECD is rightly concerned that the relatively weak recovery it now sees in prospect will not be enough to prevent unemployment rising further. Exactly the same thing happened in the last cycle in the early '80s when unemployment in the G-7 group continued to rise during the first year of recovery by even more than the OECD expects it to do in 1993 and to a higher level.

What obviously worries the OECD economists is not their central projections but the downside risks. All their "alternative scenarios" involve lower growth. The first of these is "sustained weakening in the US and Japanese private sectors". The main effect here is expected to be reduced growth in these two countries with only modest spillover. Developments since the projections were prepared suggest that the countries are not on a par. While the US seems at last to have embarked on a real recovery the outlook for Japan has become cloudy indeed.

The other two scenarios show higher wages in Germany and slower than expected progress in reducing the German budget deficit. In each case the effect is deleterious to European as well as to German growth, mainly because it will delay the expected drop in German short-term interest rates. If all goes well, these are expected to fall from an average of 9,5% in 1992 to below 8% in 1993 and just above 6% in 1994.

The OECD looks at the case for fiscal stimulation for countries which still have either low budget deficits or low debt ratios. It is clearly not keen on stimulation even for these, and remarks that any such package should be "both temporary and accompanied by a credible commitment to unwind it when the economy picks up".

There is also a lot of emphasis in the outlook on improving the quality of existing public sector spending to obtain better value for money. But surely this is something which should be done in any case; there is some muddle here, as there was in the UK autumn statement, between public investment as a long-term supply side measure and as a component of demand.

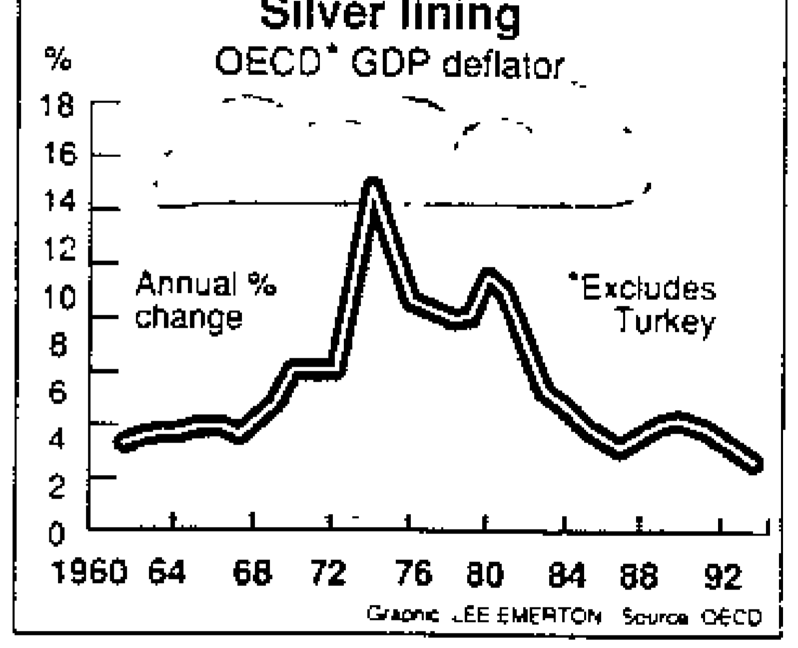
Reading as best one can among the qualifications and the OECD-speak, the basic view seems to be that while there is a modest recovery in prospect which should not be artificially boosted, there is also a downside risk of genuine depressionary forces. Of course, governments should be prepared for the latter. But the OECD does not tell them how.

Its main suggestion on monetary and exchange rate policy is "to provide market participants with more systematic information about underlying trends in relative inflation performance in Germany and elsewhere". The hope is that they would then realise that France and some other countries have "outperformed Germany on the inflation front and are likely to continue doing so for some time", and thus allow these good performers to lower their interest rates without putting their exchange rates in jeopardy. It is no crime to argue with the markets in this way; the question is whether it would do much good.

If one wants to cheer up, the place to look is at the new section of the outlook dealing with the "dynamic Asian economies", excluding Japan. Even in these countries output growth "is subsiding to a pace likely to relieve inflationary pressures".

But in the case of the four "tigers" — South Korea, Taiwan, Hong Kong and Singapore — the slowdown is from an average of 7,5% to 6,5%, with an expected recovery to 7% in the next couple of years. The star performer is China, where growth is estimated at 11%. Even the Indian growth rate is put at 3%, higher than any G-7 member, and is expected to accelerate in 1993. If OECD analysts had reflected more on the Asian experience they would have been better able to draw a moral. — Financial Times.

Silver lining

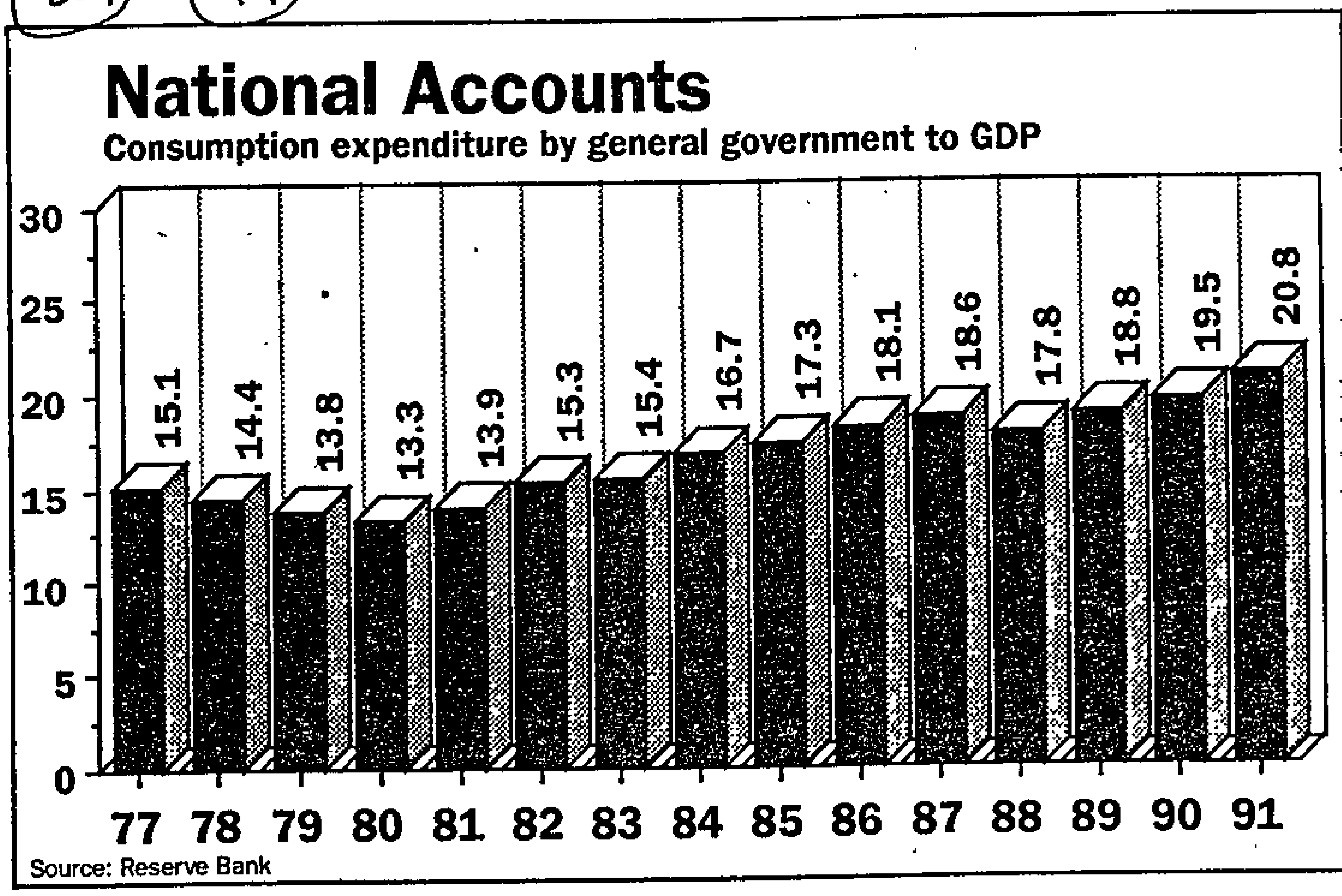


Govt spending must be curbed

STAR 28/12/92 (49)

By Marius van Blerck
Chairman: SA Fiscal Think Tank
Group Tax Consultant: Anglo American Corporation

Outlook '93



Of late, the fiscal gloomsayers have become more vocal.

Finance Minister Derek Keys is being faced with an eight percent of gross domestic product (GDP) deficit.

Worse still is the prospect that this may grow significantly in subsequent years.

Clearly, something must be done.

Conventional wisdom has it that there is a revenue problem and taxes must be raised to counter it.

Expenditure

I dispute this — the problem is predominantly on the expenditure side.

Over the last decade there has been a major growth in government expenditure.

This would not necessarily be a bad thing if it had been a result of increased productive expenditure of an investment nature.

However, analysis indicates that there has been a major swing over this period away from government investment expenditure to government consumption expenditure, the latter represented primarily by the cost of remunerating public servants.

Hardship

During this last decade there has been a substantial increase in the numbers of public servants employed, at a time where the recession has forced the private sector to retrench many thousands of employees, resulting in great hardship for those unfortunates and their dependants.

It is no good trying to squeeze more tax out of the private sector to finance further growth in public service staffing costs.

Such a course of action will only accelerate the downturn and impede the upswing by redistributing more of the fruits of productivity to the ever-growing monster of government consumption.

The only way out of this spiral of deficit and shrinking tax base is to tackle the real problem.

Government consumption expenditure must not merely be arrested; it must be reduced, and it must be reduced significantly.

This requires a serious programme to reduce state employment and immediate action to reduce the cost of remunerating those who remain employed.

The methods seem drastic. The human costs are substantial (as the private sector has discovered).

However, only by following such a course of action will we place ourselves in a position for a real economic recovery with a concomitant increase in productive employment.

Any other course of action keeps us on the slippery slope which ends in the basement populated by the world's economic basket cases.

Slight growth is best hope for '93

BIDAY 29/12/92. (49)

THE long, slow road to economic recovery starts next year with little prospect of a noticeable turnaround in SA's fortunes, economists forecast.

Most saw at best slight growth, a small decrease in inflation and a mild relaxation in monetary policy. The highest forecast for growth next year was 2%, which would only take the economy back to where it was in 1991. This would follow this year's 2% fall in GDP, the third year of shrinking output.

Slight growth next year would reflect a better foreign trade situation and an improved agricultural sector, but other sectors would remain depressed. Even the public sector, a generator of employment while the private sector shed jobs, is not expected to provide the usual shot in the arm for the economy.

Old Mutual economist Rian le Roux said total spending would not increase in real terms, which meant growth would come from SA's trade performance. He expected a growth rate of about 0,5%. The improved agricultural situation would boost the balance of payments (BoP), but trade figures had been disappointing and the stimulus from the world economy should not be overestimated.

Fixed investment would not boost growth in spite of big projects announced because of long lead times and completion of other projects.

Sanlam saw a small real increase in overall spending, reflecting a slowdown in the running ~~down~~ of inventories. Spending on consumer durables would continue falling by a substantial 7,5%, but other components of private consumption spending would show small real increases. Sanlam forecast a similar overall GDP growth rate to Old Mutual.

Forecasting a similar growth rate is the Bureau for Economic Research (BER).

The bureau said prospects for job seekers remained gloomy, with only 7% of new entrants to the labour market able to find jobs a year ago. This figure had fallen and unemployment was likely to increase during 1993.

Nedbank's economic unit was more bullish on growth. Its December economic profile saw 2% growth "at best", noting hopes of a recovery are "squarely placed on an improvement in the agricultural season, as well as a general recovery in the world economy".

Forecasts of inflation and interest rates depended on fiscal policy for next year. Old Mutual saw the possibility of two further cuts in Bank rate, while Sanlam foresaw "further reductions" in the next six months. The BER said factors suggested the Reserve Bank might be unwilling to letinterest rates come down by much during 1993.

"The most important of these are the expectation of a higher VAT rate (which will exert upward pressure on inflation) and a huge budget deficit," the BER said.

Critical year ahead for reform

STAR 29/12/92

(49)

Time is running out on struggling Africa's chances of outside help, and developments in 1993 will have a major influence on whether it runs out faster or slower, says GERALD L'ANGE, editor of The Star Africa Service.

Chiluba . . . neeeds progress to free market economy.

Moi . . . election defeat could precipitate economic turmoil

Mobutu . . . has lost power but is blocking change

AFRICA has not had much luck since it began throwing off its colonial bonds 30 years ago and its harshest critics will say that it did not deserve any, having squandered its assets on harebrained Marxist economics, corruption and pointless power struggles

That may be largely true, but Afrophiles can argue that the continent earned some good fortune when it began reforming a few years ago, adopting free enterprise and democracy and accepting — in principle at least — the work ethic that powered the Asian economic miracle

If Africa is going to get lucky there could not be a better time for it than 1993, when the major reforms that have been put into play will enter a crucial period

Imposed

Democracy and free enterprise came to Africa through the grassroots, so to speak, not imposed by enlightened leaders as much as through public pressure from peoples who had become fed up with hopeless poverty and dictatorship

Yet democracy and free enterprise are in a sense on trial. For if the people decide these principles are not working, they are likely to turn against them. What would be put in their place is hard to guess, but it is quite likely to be a return to strong central control

The crucial point is not necessarily going to be reached in 1993, for these matters do not develop as precisely as that But certain African countries are likely to get close to a crucial point this year, and which way they then turn will have a strong influence on developments in other countries

Zambia is a case in point Having thrown off Kenneth Kaunda's one-party socialism in 1991, Zambians entrusted to Frederick Chiluba's MMD party the task of restoring their fortunes through free-market economics

But repairing the damage of excessive state control is not something that can be done quickly It is almost inevitable in such a situation that before the lot of the people can be improved, it has to get worse for a while — as the Russians have discovered. Like Mikhail Gorbachev, Chiluba soon found himself having to plead with his constituents for more time to put things right.

That has so far been given to him, even though Zambians saw shortages persisting and prices rising faster than their incomes.

Whether their tolerance will be maintained during 1993 is going to be the major question hanging over Chiluba and his government. It will be almost impossible for him to make major improvements in the lifestyle of his constituents before next Christmas. the best he can expect is that he will be able to give them enough hope to persuade them to suffer patiently for at least another year

Chiluba's efforts are being followed closely by leaders in other countries where centrist economic policies are being replaced by free-market ones, such as Tanzania, Mozambique, Angola and Zimbabwe. If he fails, the free marketeers in these countries will find it more difficult to sell their ideas to their own people.

These ideas are being promoted in Africa not only by local prophets but also by Western donor nations, who increasingly have attached free-enterprise strings to their economic aid in Africa, and by the International Monetary Fund.

Dictating

The IMF, strictly dictating policy changes to recipients of its aid, has become perhaps the major force for economic reform in Africa

But while the IMF may be able to persuade African governments of the rightness of its thinking, it has little power to influence the attitudes of the voters who elect or depose those governments.

It is not only the fate of those governments that is at stake in Africa but the fate of IMF interventionist policies. Next year will not be a make-or-break year for those policies but they will be deeply affected by what happens to African economies during 1993

Because free-market economics have been so closely linked to multiparty politics, the future of democracy in Africa will to some extent depend on happenings on the continent itself.

And, to an important degree, it will come down to something as basic as rainfall. The drought of the past few years has left much of southern and central Africa at a point where another crop failure will be economically catastrophic Good rains in 1993 — either in the present summer, or the next, or both — could make the difference between economic revival and economic disaster, and between the growth or retardation of democracy.

Economic decline inevitably increases the possibility of external intervention in a country and 1993 is likely to see a growth in this phenomenon It will not necessarily be along the lines of America's military intervention in Somalia but in terms of multinational monitoring and manipulation through aid strings.

Africa has already seen, in addition to the Somali episode, the placing of UN monitoring forces in Namibia and Angola and one of the biggest such forces ever sent to the continent will be deployed during 1993 in Mozambique to supervise the election there

An African peacekeeping force made history when it was deployed in Liberia but has had indifferent success and the concept seems unlikely to be used elsewhere in the conflicts that may well break out in certain parts of the continent.

Waned

As 1992 waned, Kenya seemed ripe for trouble as President Daniel Arap Moi's long-entrenched Kanu government faced the possibility of defeat in the country's first multiparty election in 26 years. Zaire, too, seemed to be moving closer to political chaos, with President Mobutu Sese Seko having lost his dictatorial powers but having retained enough to block meaningful reforms.

These two countries occupy key positions, economically and politically, in Africa and the pressure for external intervention will be great if either of them degenerates into civil conflict.

There is a good chance that 1993 will see the departure from the political stage not only of Moi and Mobutu but also of another of the continent's great dictators — Hastings Kamuzu Banda of Malawi. Banda is facing not only the inescapable fact of his own advanced age but also growing internal opposition to his autocratic rule and growing foreign support for his opponents.

Malawi is a classic example of the new mode of indirect external manipulation of political forces in Africa through the levers of aid, Banda having been forced by the withholding of foreign aid to relax some elements of his dictatorial rule

A major problem faced by Western donors in seeking to impose democratic solutions in Africa is that the form of democracy that works fairly well in affluent and stable Western countries has not always worked as well in the poor, ethnically-divided countries of Africa

Nigerians, for example, have again had the promise of a return to civilian rule snatched away from them in 1992 by the military government of General Babangida, ostensibly because he had been unable to find a suitable democratic formula.

The problem will dominate Nigerian affairs in 1993 and will be felt elsewhere, too, notably in Angola, which goes into the new year with its hopes of peace hanging by a thread after the virtual collapse of the election that was supposed to end the long civil war

As has been the case so often in Africa, Angola's difficulties arose from a fatal multiplicity of ethnic divisions and armaments. The problem confronting the country in 1993 is to find a way of installing a democratic solution in the presence of strong, well-armed rival forces that tend to discourage the compromise that is the essence of democracy

It is the same problem that faces Mozambique, Somalia, Liberia and Sudan and the extent to which any of them resolve it during the year could have an important influence on the others

Willing

Foreign intervention, through the UN or other influences, cannot be relied on to help Africa resolve its problems, for the continent is simply running out of chances in a world growing weary of the continental propensity for failure Unless big strides are made in resolving the political and economic problems of Africa in 1993, foreign disillusionment will increase.

The message that will be beamed out more strongly than ever during next year is that while the rest of the world is still willing to use conditional aid as a means of bringing the continent to its senses, it is fast losing patience

Time could run out a little faster for Africa in 1993. □

Investors turning pessimistic — FNB

STAR 29/12/92.

(49)

By Stephen Cranston

Both local and overseas investors are generally pessimistic about South Africa in the wake of a barrage of negative indicators, says First National Bank MD Barry Swart.

He says in the annual report for the year to September that given the worldwide recession, the tight monetary policies in South Africa, coupled with political uncertainty, it will be difficult for FNB to achieve significant growth next year.

Fortunately some pre-conditions for recovery have become apparent. Inflation has slowed, manpower costs are easing, there has been a marked improvement in the balance of payments, monetary policy has softened and interest rates are declining.

Independence

FNB expects a further decline in short-term rates by the end of 1993 and a current account surplus of R4 billion to R5 billion.

The greater independence of the Reserve Bank in recent times has resulted in the start of what FNB expects to be a continuing decrease in the rate of inflation and a weakening of money supply growth to within the seven to 10 percent guideline.

FNB lends support to the Reserve Bank's policy to maintain positive real interest rates and its commitment to the stability of the rand exchange rate.

The Reserve Bank has been willing to reduce nominal interest rates, but only to the extent of the small declines in the inflation rate.

Barry Swart . . . difficult to achieve significant growth next year

Swart says he supports the Reserve Bank's independence and it is vital that the maintenance of the rand both internally and externally be divorced from direct political pressure.

The country should not rely on a depreciation of the exchange rate of the rand to provide protection against inherent weaknesses in the production structure, just as the country should not look to a large-scale injection of new money to stimulate growth.

It is up to the private sector to stimulate business, economic activity and employment, while the public sector should focus on incentives or encourage individuals to save and invest, helping to generate capital.

The two sectors between them should create opportunities for people to acquire and improve their skills and so become more productive.

A more relaxed political attitude towards South Africa has been experienced internationally. There is a positive willingness of the international community to do business with SA once again.

FNB has achieved its objectives of Africanisation so far with the establishment of a subsidiary in Botswana and a joint venture finance company in Malawi.

Devaluation

The Malawi operation is performing better than projected in both income statement and balance sheet terms, although the value of the investment has been adversely affected by the devaluation of the Malawian kwacha.

The points mechanism on short-term forward cover has put both volumes and margins in offshore funding under pressure.

The pressure will continue and, in conjunction with the entry of foreign banks on the local market, will force more innovative international banking products to be developed.

The newly acquired Henry Ansbacher Holdings, based in London, is well placed to offer convenient, cost-effective and flexible offshore facilities for single or multi-centre trust and corporate structures.

It has a significant presence in the Caribbean and Channel Islands and offices in Zurich and Monaco.

Hike in taxes 'to be opposed'

(49)

Sowetan 29/12/92

■ **Cosatu boss warns of mass action:**

LABOUR unions would embark on a renewed programme of mass action if the Government increased taxes in its 1993 Budget, Congress of South African Trade Unions president Mr John Gomomo warned yesterday.

Speaking at the 27th annual Labour Party conference in Port Elizabeth, Gomomo said Cosatu would not tolerate the Government's manipulation of taxes.

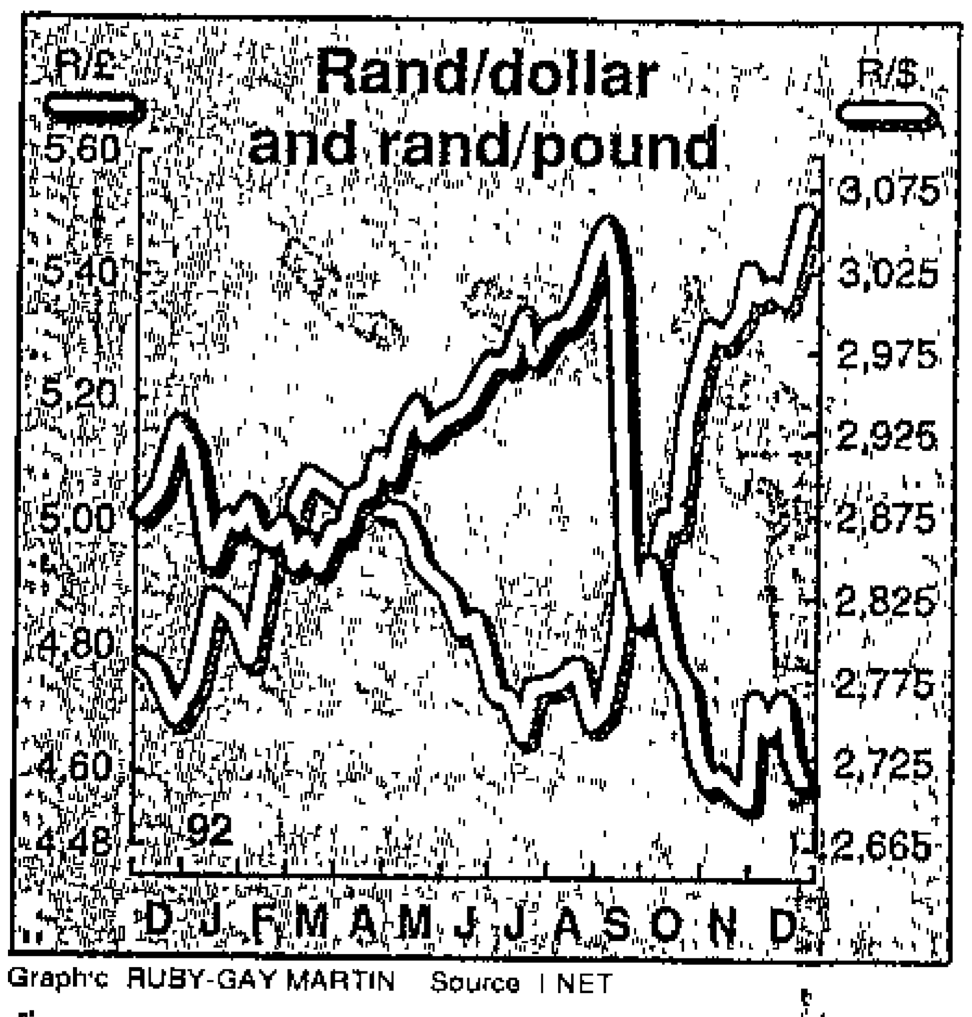
Political freedom had to be fought for, and mass action was an important part of that struggle, Gomomo said.

In his address, LP leader the Rev Allan Hendrickse called for the formation of a government of "national salvation" to rescue the country from economic ruin.

It was "nonsense to talk of a government of national unity" because the division that was the legacy of apartheid would haunt the country for generations to come.

"A government of national unity suggests we are unified when we cannot be at this stage in our history."

Instead, a government comprising a broad spectrum of political parties would create the kind of stability needed to attract foreign investment.



Graphic RUBY-GAY MARTIN Source I NET

Rand hits record low as dollar firms

HILARY GUSH (49)

THE commercial rand slumped to a record low against the dollar yesterday as the US currency continued to gain ground on international markets.

From Monday's R3,0328 close the local unit dropped to a low of R3,0655 against the dollar before mild exporter dollar sales pushed the rand back to finish at R3,0636.

Dealers said the Reserve Bank had not intervened to prop up the unit as the rand was seen to be relatively stable against the basket of currencies. They did not expect any Bank intervention in the short term.

Since early November the rand has been hovering around the R3,00 against the dollar level, but economists say the trend is now clearly downwards.

A year ago the rand was trading at R2,7435 against the dollar, compared with yesterday's R3,0633 close. This represents an 11,7% depreciation over the year.

Despite rand weakness against the US currency, the local unit has fared well against the crosses. B/DAY 30/12/92

Following the pound's withdrawal from the European exchange rate mechanism in mid-September, the British currency has lost ground against most currencies, including the rand. Towards the end of December last year South Africans had to pay

☐ To Page 2

Rand slumps

B/DAY 30/12/92 (49)

☐ From Page 1

R5,1275 for a pound. Yesterday the comparable rate was R4,6035 This translates into a 10,2% appreciation of the rand against sterling

Some economists say as most of SA's imports are denominated in third currencies, the appreciation of the rand against the pound is favourable in terms of limiting imported inflation.

A weaker rand against the dollar — in which most SA exports are denominated — spells good news for exporters

However, Sanlam economist Eric Coetzee said as many commodity prices were made on world markets the depreciation of the rand against the dollar "was not helping the SA mining industry as it will not sell more gold just because the rand is weaker". He said the unit's depreciation had very little influence on the price of gold and although rand gold earnings increased with a depreciation of the local currency, it had no affect on the country's foreign exchange earnings

Coetzee said most international trade was dollar-denominated, but traditionally SA had had very strong ties with Britain "Therefore if the rand appreciates against sterling, as it currently is, local exporters are harmed as their goods become less competitive in Europe"

The financial rand closed yesterday at R4,89 from Monday's R4,92, resulting in a narrowing of the unit's discount to the commercial rand to 37,4% from a previous 38,4%. A year ago the discount was around 14%. Coetzee expected the discount to remain at 30%-40% in the next 12 months

"There is no good reason for the discount to narrow, particularly with expected elections in 1994, which are bound to spur political uncertainty This will mean that foreigners will want to stay away from SA assets, thus putting pressure on the discount to widen," he said

Blacks bear the brunt

CT 30/12/92 (49)

Own Correspondent

JOHANNESBURG. — Blacks continued to bear the brunt of social and economic hardships throughout 1992, the South African Institute of Race Relations said in its latest report.

A compilation of statistics by the institute contained a "chilling reminder" that blacks suffered more than other population groups from political and criminal violence and economic decline.

The institute said racial imbalances were still evident in key areas such as education, employment prospects, housing, public amenities and health care.

Education statistics showed, for instance, that 1991/92 racial per capita state expenditure on school education was: Blacks R1 248; coloureds R2 701, and whites R4 448.

More than 1,7 million children aged between six and 17 were not in school, and only 41% of blacks passed matric, compared with 96% of white pupils.

While black enrolment at technical colleges had increased 230%, they still only made up a quarter of the student population at technical colleges in 1992.

Africa loses out to eastern Europe

(49)

BDay 30/12/92

KATHRYN STRACHAN

AFRICA was losing annual earnings of more than $130bn as a result of foreign assistance being directed to eastern Europe, Organisation for Economic Cooperation and Development (OECD) development centre president Louis Emmerij said.

In a report in the Development Bank of Southern Africa's latest newsletter, Emmerij said Africa was becoming increasingly cut off from the global economy, largely as a result of political and economic restructuring in eastern Europe.

Foreign direct investment, food aid and commercial credits from the developed countries to Africa had dwindled, said Emmerij. The IMF had continued to syphon financial resources away from Africa. This had amounted to $4bn in the past seven years, he said.

Although the amount of development assistance to the southern countries was about $55bn annually, the number of export barriers in developing countries, especially for agricultural products, and the trade barriers regulating multifibres,meant these countries had foregone annual earnings of more than $130bn — almost three times the amount of development assistance.

The UN Development Programme's report had included other items, such as international migration, bringing the total forgone earnings to $500bn a year.

Africa had been further marginalised by the developed OECD countries of the world because of"disturbing" human and natural tragedies.

In addition a marked failure in economic, social and political management over the past 15 years had resulted in an external debt burden of more than $270bn in 1991. But there was no satisfactory solution in sight, nor did creditors have the political will to take action.

"This has led some Africans to believe the debt situation is being used by creditors to control African countries politically and economically, leading to hardly disguised neo-colonialist practices," said Emmerij.

Not only were African countries young by comparison to developed nations, but independence came when there were sharp ethnic divisions, little or no education for the majority of the people and virtually no trained African administrators. Taken together, the extent to which some African nations had held themselves together after independence had been a major achievement, he said.

Broad money supply growth on track

HILARY GUSH

CHANCES of a further easing of monetary policy next year were enhanced yesterday with the release of November's money supply figures, analysts said.

Reserve Bank data showed that growth in the broad money supply kept within the Bank's 7%-10% guideline range for 1992.

Year-on-year growth in M3, which consists of cash in circulation and all deposits with banks, rose to 8,76% in November from the 8,44% — revised down from a preliminary 9,34% — posted in October.

From the base of the guideline year (fourth quarter 1991) M3 growth rose to 9,77% in November from October's 8,21%.

George Huysamer & Partners MD Werner Stals was not surprised by the figure. He said an increase in broad money supply could be expected during November and December as spending increased ahead of Christmas.

Stals said despite the fact that money supply growth remained within the Reserve Bank's guideline range and that the November inflation figure was well down on October's level, he did not expect any immediate change to monetary policy.

However, if the trend of smaller monthly increases in consumer prices was sustained, the authorities would have "more room to relax monetary policy".

He said the new money supply growth targets for 1993, scheduled to be announced in January, would be based on annualised money supply growth in the fourth quarter of this year. Assuming the Bank's present monetary policy stance was maintained, a range of 6%-9% could be expected.

Blacks 'still bear brunt of hardship'

49

BDAY 30/12/92

GAVIN DU VENAGE

BLACKS continued to bear the brunt of social and economic hardships throughout 1992, the SA Institute of Race Relations said in its latest report.

A compilation of statistics by the institute contained a "chilling reminder" that blacks suffered more than other population groups from political and criminal violence and economic decline.

The institute said racial imbalances were still evident in key areas such as education, employment prospects, housing, public amenities and health care.

Education statistics showed, for instance, that 1991/92 racial per capita state expenditure on school education was: blacks R1 248; coloureds R2 701 and whites R4 448.

More than 1,7-million children aged between six and 17 were not in school, and only 41% of blacks passed matric, compared with 96% of white pupils.

While black enrolment at technical colleges had increased 230%, they still only made up a quarter of the student population at technical colleges in 1992.

Employment prospects for black matriculants in 1993 were bleak, with predictions that the only sector offering job opportunities next year will be the informal sector.

The institute quoted National Manpower Commission figures showing that there were about 5,4-million people without formal employment in 1991.

Of these, about 2,5-million to 3-million earned a living in the informal sector, while similar numbers were unemployed.

Black incomes continued to lag far behind those of whites, with 58% of black households earning below R700 a month and 51% of white households earning more than R4 000 a month.

Overall, 66% of the black population and 50% of the total population lived below the poverty datum line, the institute said.

Between 3,5-million and 10-million people were currently living in informal settlements and backyard shacks and, to eliminate the housing backlog, 198 000 new houses were needed each year for the next 10 years, the report said.

In 1992 there were 604 000 beds in hostels, but estimates were that in some hostels there were up to six residents per bed. The institute added that 23-million blacks had no access to domestic electricity, 4-million people have minimal water supply, and 7-million had little or no sanitation.

ANC, PAC slated

Economists expecting feeble world growth

B/Day 31/12/92. (49)

LONDON — The world economy will grow only marginally more in 1993 than it did in 1992 but the composition of growth is expected to change, a survey of economists in financial centres around the world shows.

Economists predict most growth from North America, with the US leading the world out of recession. This will offset the slack in most major European economies, where strong anti-inflationary policies are expected to slow growth in 1993.

Japan, a past powerhouse of economic activity, is preparing for a year of very subdued growth.

Other Asian countries, including newly industrialised countries such as South Korea, Thailand and Taiwan, are expected to continue notching up spectacular growth rates of between 5% and 10%.

But, says Giles Keating, international economist at Credit Suisse First Boston (CSFB), Asia's rapidly developing economies are not big enough importers to serve as catalysts for broader world growth.

"They aren't going to be a major factor promoting growth elsewhere," agreed John Lipsky, chief economist at Salomon Brothers in New York.

China, emerging from traditional isolation, will also display spectacular growth.

"It is on everyone's lips as the growth area of the 1990s," says George Magnus, international economist at S G Warburg & Co Ltd. According to the Organisation for Economic Coordination and Development (OECD), growth in China in 1992 will be 11% and will remain as high, if not higher, in 1993. But, apart from a little help for major trading partners such as Japan, China's global business is too small to help other countries.

"China is peripheral," says Warburg's Magnus.

Nevertheless, the US won't be on its own in dragging the global economy out of its recent slump. Keating sees above average growth in New Zealand, Australia, Canada and Mexico all acting as counterweights to slowdowns elsewhere in the world.

All is not gloom in Europe either. Many economists hope for at least a 1% upturn in Britain's GDP in 1993. This contrasts with forecasts for German GDP to shrink by 0,2%. Forecasts for world growth extend up to just over 2,0% for 1993, but many economists doubt it will prove much more than the 1,5% growth rate seen for 1992.

For the US alone, 1993 GDP growth is expected to be as much as 2,8%, well above the small 1,5% expansion in 1992.

Economists see the pace of recovery in the US, as in many other major industrialised countries, tempered by a fear of lowering interest rates too much too soon.

This could encourage a fresh borrowing boom and risk the onset of a new inflationary spiral.

By contrast, the current global recovery has been delayed by the overhang of debt run up during the previous boom years of the 1980s. This has made economies less responsive to interest rate reductions and forced some governments to seek other ways of stimulating recovery. — AP-DJ.

The economy

Sowetan 31/12/92

(49)

■ An end to violence and greater stability hold the key to economic revival:

AN upsurge in the economy will be solely dependent on a lasting political settlement.

South Africa can hope for limited relief if the international economy takes a turn for the better. However, this is more likely in mid-1994 though optimists predict a global turnaround in late 1993 or early 1994.

This will also depend on American president-elect Mr Bill Clinton's early successes to reshape the ailing US economy to which the economies of most countries are attached.

All in all, South Africa must depend more on herself, for international investors will only invest if it is politicallly and socially stable.

The country seems to have succeeded in breaking the drought and ever escalating food prices will now be checked. This will then further curb inflation, particularly as the PPI has consistently been low in the latter part of this year and the CPI had an all time low of 11 percent in November.

However, at the close of the year the deficit before budget, the difference between Government income and expenditure, neared a frightening 10 percent.

Finance Minister Derek Keys has to savagely trim government expenditure, thereby reducing consumption which will further deflate the economy. Despite depleted government revenues, Keys is unlikely to increase taxes for this will kill the little investment there is. Instead, VAT may be increased to help government earn more revenues.

Union leaders will be hard-pressed to take appropriate action to fight the increase, creating new problems for an already unstable political environment.

An increase in petrol is looming for the new year and this may result in another round of increases but these will be marginal and are not likely to offset the CPI's decline.

Relief for the economy may come from the Reserve Bank which will be forced to lower the bank rate to stimulate investment.

On the whole, unemployment will worsen. This will be hardest felt in the primary sector. In mining falling commodity prices are marginalising most mines; and in agriculture farmers may protest the new labour laws by firing their workers.

Capital market turns bullish

Hopes rise for a further cut in Bank rate

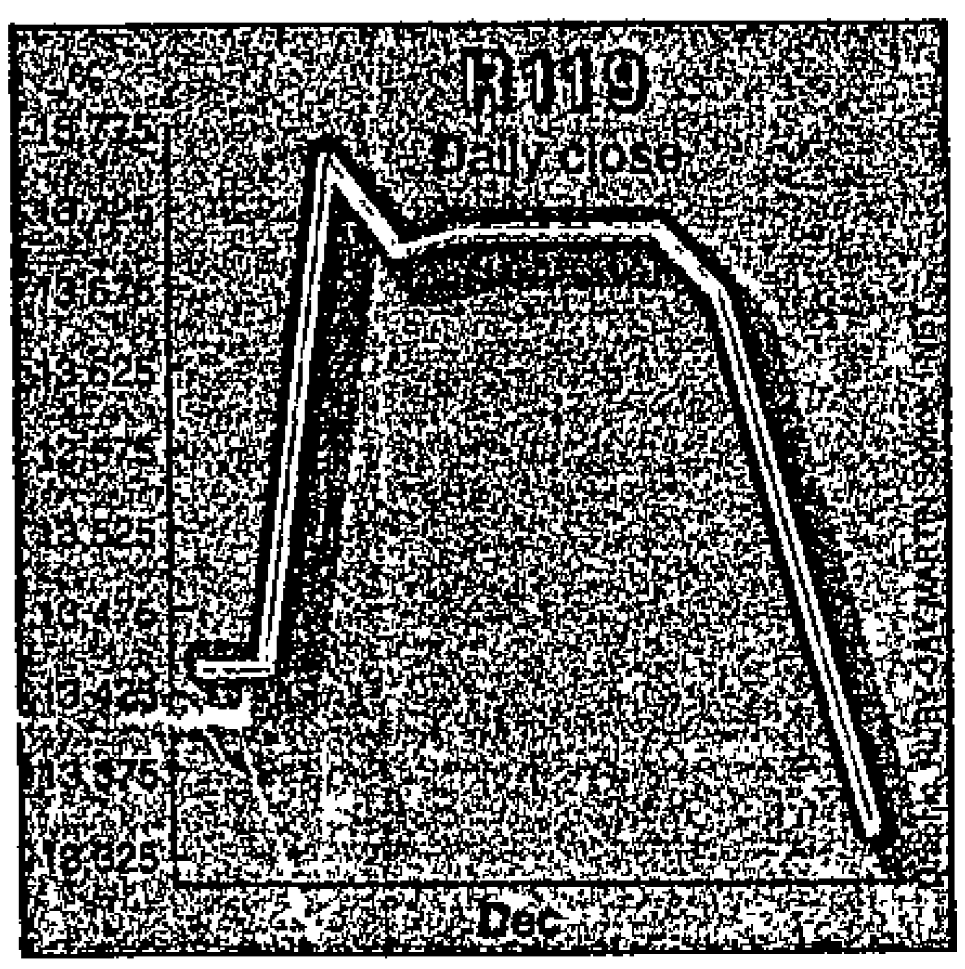
BDAY 31/12/92 (49)

GRETA STEYN

BULLISH sentiment gained momentum in the capital market yesterday in a continued response to positive inflation figures as players anticipated a one percentage point cut in Bank rate in the new year.

Sharp falls in interest rates on medium-dated gilts were sparked by the anticipation of lower short-term interest rates, dealers said. Rates on government's R119 plummeted 33 points while other similar-dated stocks declined by a substantial 15 to 20 points.

The movements on the longer-term stocks, the R150 and Eskom's E168, were more muted However, dealers pointed out these two key rates fell below the benchmark 15% level as rates adjusted to the positive inflation figures.



They said optimism over Bank rate was more likely to be reflected in the medium-dated area rather than the 20-year stocks.

The medium-dated R119 traded at 13,34%, more than 30 points down, while the R150 was last quoted at 14,945% from an overnight 15,085%. The E168 was quoted at 14,95% from a close of 15,085%.

Some dealers said there had been evidence of institutional buying, and they speculated that this would speed up in the new year as players returned to the market. The movements in rates were on small volumes, with one analyst estimating volumes below R100m.

Positive factors for a cut in Bank rate were the fall in inflation to 11% and the moderate growth in the money supply. M3 was this week reported to be comfortably within the Reserve Bank's 7%-10% guideline range.

However, an economist said the balance of payments (BoP) was cause for concern and could counteract positive factors for a Bank rate cut. Recent weakness in the trade surplus and large foreign debt payments were putting pressure on the foreign

☐ To Page 2

Bank rate

BDAY 31/12/92

☐ From Page 1

exchange reserves, and could see Bank Governor Chris Stals hold off until the situation improved.

The BoP problem would be further aggravated by local companies switching to domestic finance from foreign finance as SA interest rates dropped. This trend was already evident in the third quarter with the Bank reporting in its Quarterly Bulletin that "considerable switching from foreign to domestic trade financing took place in the third quarter of 1992, probably because of the relatively favourable costs of domestic credit". This could be a factor preventing Stals from cutting interest rates if the trade balance did not recover, an economist said. (49)

But economists regard the key factor for interest rates as the Budget, which will be released only in March.

Fears of a huge deficit were the main reason for the reversal of the major bull run in the gilts market, with long-term rates climbing back from their low of 13,7% reached in October to recent levels around 15,15%. Analysts are divided over whether the present turnaround signals a correction in a bear trend, or whether it is the start of a new bull run.