ECONOMY

1997

US survey raises overall policy rating

SA has 'mostly free' economy

CT (BR) 1/12/97 (49)

RICH MKHONDO

Washington DC — South Africa's economic policies improved slightly this year and could be rated as "mostly free," an influential US foundation and the country's biggest financial newspaper said in a survey.

In the 1998 Index of Economic Freedom unveiled on Sunday, the Washington-based Heritage Foundation and Wall Street Journal gave South Africa an overall 2,90 points rating, down from 3,00 in the 1997 Index released last December. The country received an overall three-point rating in 1996 and 1995.

After being ranked 73 in the 1997 index, South Africa has improved its ranking to 66 out of 156 countries of the world's 190 nations surveyed.

The 408-page Index scores the relative freedom of economies based on 50 criteria divided into 10 factors — trade policy, tax policy, government consumption of economic output, monetary policy, foreign investment, wage and price controls, property rights, regulation and the size of the black market.

In each category, a country is assigned a score on a scale from One (best) to Five (worst).

The Index is often used by US lawmakers to decide how to allocate foreign assistance. Economists, investors and trade representatives also use the rating when considering countries they should do business with.

The Wall Street Journal and Heritage Foundation's index of economic freedom gave South Africa an overall score of four in its taxation, after combining the average income taxation score of four, which means the country has stable but high tax rates; and three points in corporate taxation, meaning that South Africa has stable but moderate tax rates.

South Africa received the worst score in its trade policies, four plus (4+). Researchers said the country has a high level of protectionism.

However, the 1998's overall four-plus rating was an improvement from last year's worst score of five.

The country's best scores of two points were in capital inflows (low barriers), wage and price controls, government's regulation of economic activity and foreign investment.

The Pretoria government received three points in government intervention in the economy, monetary policy, banking and property rights and the black market.

Only 11 countries and territories earned scores of "free". The country enjoying the most economic freedom is Hong Kong, followed by Singapore, Bahrain, New Zealand, Switzerland, the US, Luxembourg , Taiwan, the UK, Taiwan, Bahamas and Ireland.

Of the 38 sub-Saharan African countries evaluated in the annual survey, not one received a score of free. Seven, including South Africa, received scores of "mostly free".

Cosatu fires broadside on job losses

(49)

STAFF REPORTER

Cosatu celebrated its 12th birthday with yet another stinging attack on the Government's economic policy, and warned that its strength should not be taken lightly.

In a statement yesterday marking its founding in 1985, the federation charged for the second time in a week that the Government's Growth Employment and Redistribution (Gear) strategy was directly responsible for the loss of jobs.

"Though we have praised the limited economic growth, that growth has been jobless growth. Most of our industries continue to shed jobs. The current macro-economic policy has not put an end to the carnage of jobless growth or continuing job losses despite promises by its authors and big business," Cosatu said.

Cosatu also called on the tripartite alliance, which includes the ANC and the SA Communist Party, to " as a matter of urgency conclude the debate on Gear and arrive at an amicable solution to the current differences".

It warned the finance ministry to stop blocking the health ministry's attempts to start a national health insurance system and the labour department's proposals for a training levy.

ARG 2/12/97

Cosatu criticised the Government's trade liberalisation policies, saying they were costing jobs.

Cosatu said its concerns should not be ignored.

"Cosatu is a reality. We have a constituency both employed an unemployed. We are committed to play a meaningful role in the shaping the future of our country.

"Just as we triumphed over apartheid we will win the war for jobs, houses, good governance, training, industrial restructuring and poverty," it said.

Timbuktu to thriving Cape Town ic growth in 1996. Growth should

Bold plan to beat the Budget blues

(49) ARG 2/12/97

New way to divide SA's finance cake aims to stop provincial shortfalls

INSIDE STORY

A budget reform plan aims to change the way the country is run. Business Editor **ALIDE DASNOIS** explains how it will work

Minister of Finance Trevor Manuel says that in one of her desk drawers his director-general, Maria Ramos, keeps a pile of bones. Like all economists, he claims, she throws the bones to determine trends in the economy for the years ahead.

Nonsense, says Ms Ramos. she has other ways of working out the figures for the finance department's new Medium Term Expenditure Framework (MTEF) – and anyway, she's a vegetarian

The MTEF might not seem like the stuff of which headlines are made But behind the unwieldy name is a budget reform plan which will make huge differences to the way the country is run

Ugly fights between provincial and central government about just who is to be blamed for the retrenchment of teachers or for cutbacks in hospital beds will be a thing of the past if the plan works properly.

The MTEF is the first attempt in South Africa – and one of the first in the world – to look beyond the one-year national budget and to prepare a set of spending guidelines for the years ahead

It is designed to put policy priorities back in the centre of the stage, making the budget into a tool for change, rather than a numbers game

The plan will give national departments and the provinces a longer timeframe in which to programme spending, minimising the roll-over of money left over from one year to the next.

It also will place the long-term responsibility for each province's financial affairs squarely in the hands of the provincial legislatures. If the MTEF is successful, the Western Cape government or that of KwaZulu Natal, for instance, will no longer be able to blame teacher cutbacks in their province on the central government each province will have its own budget envelope, based on careful planning and lengthy consultation at all levels of government.

National departments and the provinces have been working on three-year plans with Department of Finance officials since the tabling in Parliament of the 1997-98 Budget in March.

Instead of basing their plans on previous years' spending, as in the past, they all have been asked to go back to square one and start budgeting from zero

Zero-based budgeting is designed to filter out wasteful spending, so that each rand of taxpayers' money is used as efficiently as possible At least that's the theory, although in practice, the Department of Finance admits, some government departments and provinces are struggling to comply with the new rules.

The MTEF process starts from the total amount of money available for spending, based on estimates of economic growth over the budget period.

Here the Government's room for manoeuvring is limited by two policy decisions the decision to reduce the budget deficit each year and the promise that tax, as a percentage of the country's total income, will not rise above the present level of about 25%

Once the size of the cake has been determined, the Government will take a slice to repay the country's debt – which at the moment accounts for a staggering 20% of the total Budget – and another slice to set aside for a "policy reserve".

This is a sort of cushion against the unexpected and could be used to counter the effects of a weather phenomenon or natural disaster, for instance.

The next step is to settle on a fair division of the rest of the cake between the national Government and the provinces (roughly 58% to the national departments and 42% to the provinces in the 1997-98 Budget)

Finally, the provincial share is divided between the nine provinces.

The basic rules for the division between provinces are set by the Financial and Fiscal Commission, which has developed a formula taking into account population size and socio-economic criteria such as the numbers of doctors or teachers per head of population in each province

The aim is to reduce the yawning gap between the richest provinces, such as the Western Cape and Gauteng, and the poorest, such as the Eastern Cape.

But the MTEF also allows for some extra money to go to the provinces via "conditional grants", which can be used to fund teaching hospitals which are used by more than one province, or to reward provinces for progress in implementing the Reconstruction and Development Programme (RDP), or to fund better conditions of service for public servants

Each province gets a resource envelope and, in terms of the constitution, can spend the money as it chooses, on condition that does not overspend.

One of the MTEF goals is to make the budgeting process more transparent, at least on the spending side

The Budget Council (made up of the minister and deputy minister of finance and the provincial ministers of finance), Parliament and local government are being drawn into the process.

The MTEF won't mean more money to spend – Mr Manuel and his colleagues are as determined as ever to meet budget deficit targets.

But if it works, it should mean that taxpayers' money is – visibly – being spent on the things the Government was elected to do.

The proof of the pudding, as the saying goes, will be in the eating Even for vegetarians

Dem bones, dem bones: Finance Director-General Maria Ramos throwing the bones, according to Finance Minister Trevor Manuel

Manuel lifts lid on upbeat

Budget plans

SA's security to be bolstered with more funds to fight crime, R10-bn reserve fund to buffer economy against disasters

Star 3/12/97

BY HOPEWELL RADEBE
Political Staff

The Government would raise an extra R15,3-billion in taxes next year, build a reserve fund of R10-billion, and boost spending on social services and crime-fighting, Finance Minister Trevor Manuel said yesterday.

Providing the first-ever preview of a Budget, which he will table in Parliament on March 11, Manuel lifted the lid on the Government's plans as part of a move towards openness and the adoption of a three-year, rather than a one-year, budgeting cycle.

In years past, the Budget remained secret until the minister addressed a joint sitting of Parliament on Budget day.

"This is a hugely significant step in increasing transparency, openness and co-operative governance," Manuel said in Pretoria at the release of the Medium-term Budget Policy Statement.

Increased income would come from the combination of better collection procedures, bracket creep, inflation and economic growth. He warned that the figures he was giving were subject to change, but said they provided a framework for planning.

Interest and pressure groups as well as individuals were now welcome to comment on his proposals, he said.

He predicted that government revenue would increase from R161,9-billion this year to R178,1-billion next year, and that government expenditure would increase from R186,7-billion to R202,1-billion.

The Government remained committed to reducing its deficit before borrowing from 4% this year, to 3,5% next year and to 3% by 2000.

Manuel was upbeat about the country's economic prospects in the three years ahead and was confident the Government was operating within the targets it set itself when it adopted the Growth, Employment and Redistribution (Gear) programme last year.

Real growth in the economy as a whole, estimated at 2% this year, would rise to 3% next year and to 5% in 2000.

He expected inflation to "remain firmly on a downward trend" well into next year.

He even hinted at the possibility of a reduction in the overall tax burden, saying "Government plans to limit the share of national income taken by tax to around 25%"(of gross domestic product).

He conceded that the level was now higher than that, but said further cuts in defence spending and the paring of "subsidies to research organisations and education or health facilities that mainly serve higher-income communities" would help to balance the books.

More funds would be channelled to the justice, police and prisons departments.

Spending on crime fighting would increase by about 9,5% a year, from R18,3-billion this year to R24,1-billion in 2000. Other areas identified for increased government spending in real terms were education, welfare and health.

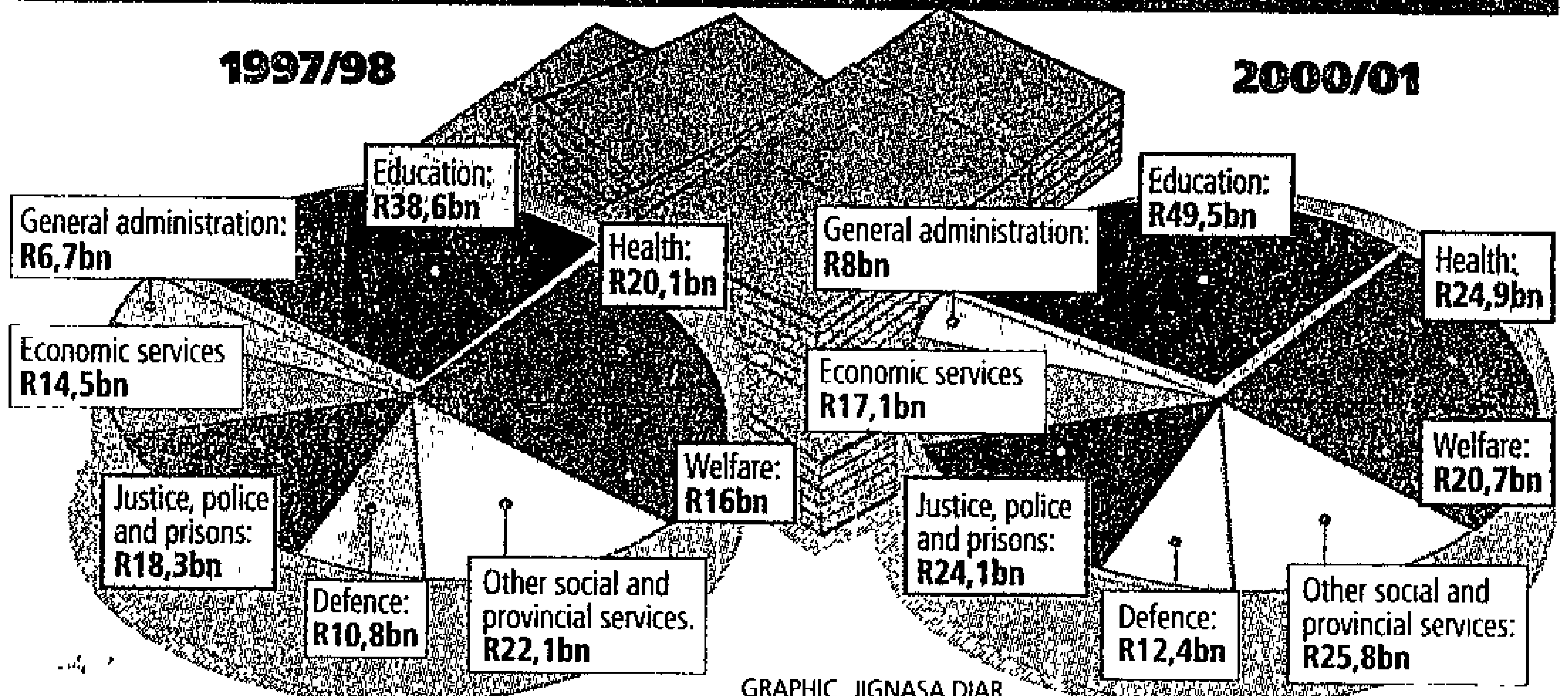
Manuel said he would establish a R10-billion "reserve" in two parts – a "contingency reserve" to "deal with any cost arising from unforeseen natural or other disasters" and a "policy reserve" to meet "specific policy priorities". The reserve would be launched with a R5-billion allocation next year.

"This is not a slush fund; rather, it is being established to address changing price trends, unforeseen emergencies and to help fund key policy initiatives."

Manuel conceded that job growth was lagging, saying "job creation in not keeping pace with the growth of the labour force".

He said a "structural reorientation" across several economic fronts such as spatial-investment projects, tourism and export support programmes, were initiatives intended to "put longer-term employment and productivity on a sound footing".

PROJECTED BREAKDOWN OF SPENDING BY TYPE OF SERVICE



GRAPHIC JIGNASA DIAR

El Nino stalls economic growth

Sowetan 3/12/97 (49)

Economist says SA will struggle to reach 1,5 percent growth this year

By Shadrack Mashalaba

THE economy is expected to show negative growth this year when statistics are released before the end of this month, and this could be exacerbated by the El Nino weather pattern, FutureBank economist Michael Schussler said yesterday.

Schussler, who was addressing the South African Railway and Harbours Workers Union (Sarhwu) strategy conference in Sandton, said because of El Nino – a weather phenomenon accompanied by devastating drought – South Africa will struggle to reach the 1,5 percent forecast this year.

"South Africa has been getting more portfolio investment instead of fixed investments to stimulate economic growth. Adding to the declining economic growth rate is the appreciation of the rand in relation to the currencies of countries we compete with, making our products more expensive in the world markets," Schussler said.

Restraints

He said the continuing low savings ratio was a restraint on economic growth and investment. The rand, he said was likely to fall to R5,25 to the dollar in the short term.

The interest rates, Schussler said, would not decrease in the next three to four months.

However, the inflation rate was on the decline and will in the short term hit the five percent mark.

The South African economy has in recent years been experiencing jobless growth. Schussler argued that there was a threat of more job losses which signaled the general slowdown in world economic growth.

The balance of payments – which is the difference in trade with the rest of the world – was showing signs of improvement. "This improvement can be attributed to South Africa's own enforced policies such as high interest rates."

A one percent increase in growth rate was possible next year, and this would be followed by a 3,4 percent in 1999.

"The reason is that privatisation will be accelerating, and some of the foreign direct investment in the country, which has not been utilised so far, will be put into use thereby creating jobs."

Future growth managing director Michael Leeman said an interesting trend was emerging in the financing of black empowerment deals with discounts being lowered.

Leeman said the ability to raise funds by black empowerment groups in the market was giving more credibility to their deals.

FutureBank economist Michael Schussler.

Manuel ends secrecy over fiscal policy

BD 3/12/97

(49)

Greta Steyn

FISCAL policy entered a new era of transparency yesterday when Finance Minister Trevor Manuel unveiled budget projections for the next three years.

The release yesterday of the medium-term budget policy statement was an important step towards realising the goal of three-year rolling budgets. The new approach means better planning, more checks and balances, as well as wider participation in the budget process.

"For too long, budgets have been made behind closed doors. These are important decisions which affect all our futures," Manuel said.

Much of the usual speculation about the next budget was taken away with the release of spending and revenue projections.

According to the policy statement, government spending in the next fiscal year would rise to a projected R202,1bn from R186,8bn in the present fiscal year. Revenue would rise 9,9% to R178,1bn; gross domestic product was forecast to grow 3%; and inflation was put at 7,5%.

The document failed to revise the figures for the present fiscal year, sticking to the budgeted numbers except to say that GDP growth had been scaled down to 2% from 2,5%. Manuel said lower GDP need not mean that revenue would lag behind budget, as much depended on beefing up tax collections. "We believe we can still do more by way of efficiency gains, and at this stage it is still too early to revise the deficit targets."

Government planned to cut interest expenditure to free up resources for spending on essential services. The statement said the annual rate of increase over the three-year period in noninterest expenditure would average 2,7%. Spending on interest would decline in real terms, partly as a result of a fall in bond yields to an average of 12% by 2000/01.

"The acceleration of expenditure ... is dependent on the performance of the economy," the document said. If the economy did not grow fast enough, then expenditure growth would have to be contained below the projected levels. The economy was projected to grow 3% in the next fiscal year, 4% in the following and 5% in 2000/01.

A key element of the strategy was to keep a lid on government's wage bill. Almost 50% of noninterest expenditure was budgeted for personnel costs. The total wage bill was projected to increase by an average of 8,4% a year over the period, marginally more slow-

THE MAIN POINTS

- ☐ **A deficit of 3,5% of GDP next year, and 3% thereafter**
- ☐ **Economic projections of 3% growth in the next fiscal year**
- ☐ **A fall in state debt costs from 6,4% of GDP this year to 5,7% in 2000/01**
- ☐ **The creation of a reserve, increasing to R10bn in 2000/01, to provide for policy priorities and to allow for contingencies**
- ☐ **Noninterest expenditure will increase 9% a year in the next three fiscal years**
- ☐ **Average annual growth over the next three years in spending on justice, police and prisons of 9,5%; education spending of 8,7%; and defence of 4,6%.**

Continued on Page 2

Budget

(49)

Continued from Page 1

BD 3/12/97

ly than total expenditure. "Pay increases must be held at fiscally responsible levels," the document said.

There was little detail on government's capital expenditure, except the comment that capex would remain at about 8% of noninterest expenditure.

A new feature would be the introduction of a reserve, which would make room for emerging new priorities and ensure funds were available to deal with contingencies.

The reserve would consist of two elements — a policy reserve and a contingency reserve. The policy reserve would be allocated to spending programmes between now and budget day. The contingency reserve would remain unallocated in this year's budget, to deal with any costs arising from unforeseen disasters without breaching the overall expenditure ceiling.

The contingency reserve would be R2bn in the next fiscal year and the policy reserve R3bn.

The document did not contain a detailed spending breakdown. However, it showed government intended to spend more on fighting crime and to keep cutting back on defence. Welfare and education could also expect substantial spending increases.

The chapter on the provinces showed that government was budgeting for their share of resources to remain broadly stable at about 54% of the total. However, transfers would be made to the provinces over and above their share in the form of grants. These grants would have strings attached; unlike the rest of their budgets, the provinces would not have discretion over how these allocations were spent.

The revenue sharing formula for the provinces would be fully phased in by 2002/03. The provinces that stood to gain most were Gauteng and Mpumalanga, with their shares of the total resources to provinces projected to rise 10% and 20% respectively once the formula had been phased in fully. Northern Cape, Northern Province and North West would lose the most.

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COMMENT & ANALYSIS

Budgets will never be the same again

Finance Minister Trevor Manuel deserves full marks for transparency and credit for the general direction fiscal policy is taking, writes economics editor **Greta Steyn**

(49) BD 3/12/97

No longer will the six weeks before D-day in the middle of March be taken up with a frenzy of speculation, rumours and leaks on the contents of the budget. Now the rumour mill will just about have to grind to a halt as the budget process has become much more transparent.

The move towards greater transparency started last year with the growth, employment and redistribution (Gear) strategy, which gave future deficit targets. The release yesterday of the medium-term budget policy statement took openness much further by making available projected spending and revenue figures for the next three fiscal years, as well as the macroeconomic assumptions on which these projections are based.

"We are publishing today the same information that is before government as we finalise the budget. Every citizen, every stakeholder will be able to read this statement and see what we are trying to achieve, and the resources we have available.... There is a level of transparency here that I would hazard you would not find anywhere else," Finance Minister Trevor Manuel said.

But Manuel seemed irritated that the document's cover was green — like the March budget. He did not want people to confuse the two; to think this discussion document was a firm budget.

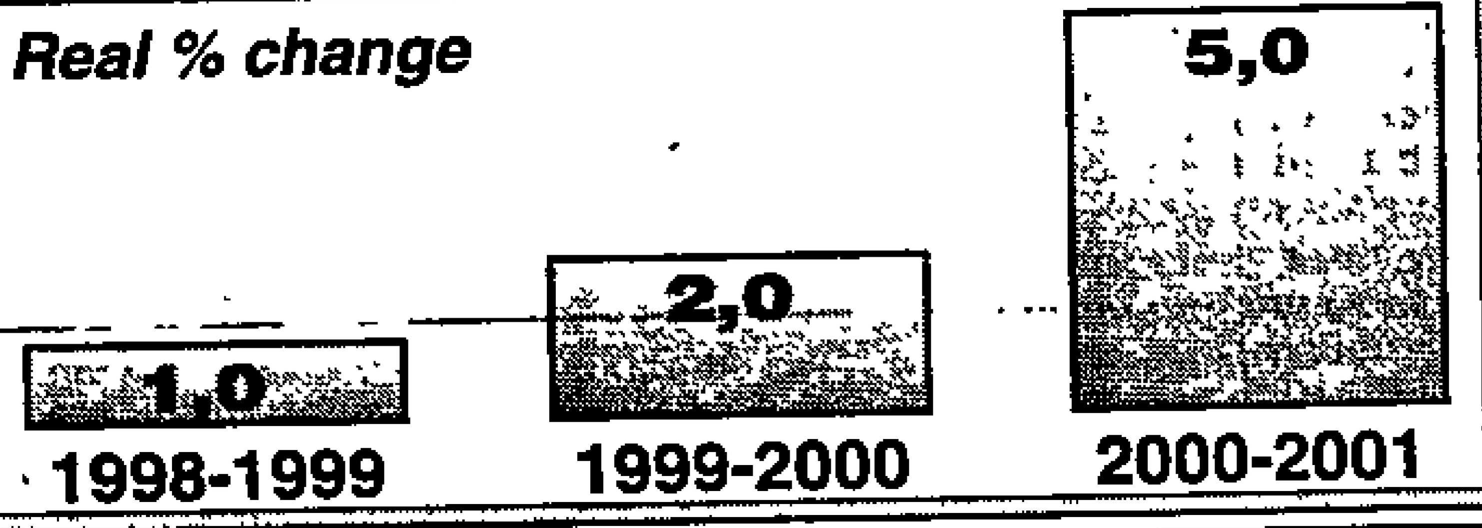
The policy statement is far from a budget — it does not contain a breakdown of spending, or any inkling of possible tax changes. Even with regard to the overall figures, much could still change between now and next March 11.

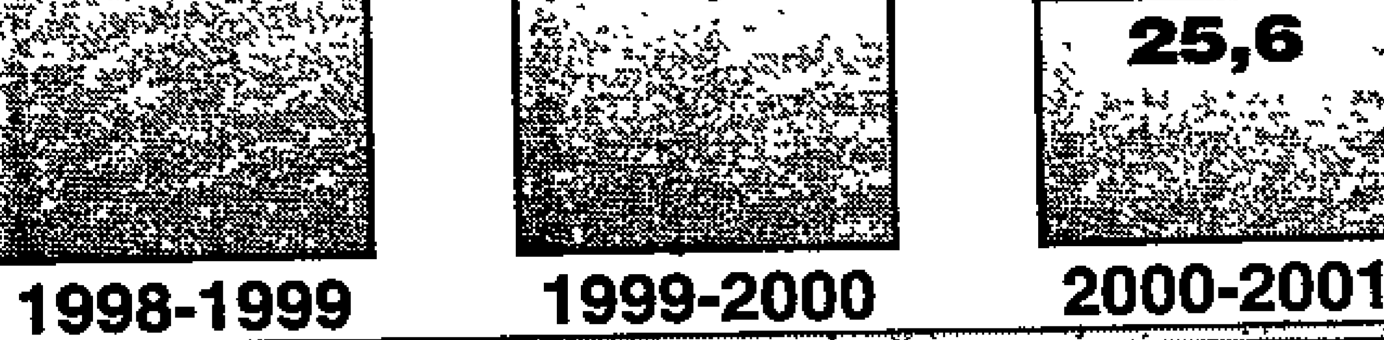
Nevertheless, it is the best information available at the moment about fiscal policy, and will therefore be scrutinised by local and foreign investors. The latter, especially, have an interest in government's finances as it is the one area where SA lags behind other emerging markets.

Unfortunately, the most immediate information on the 1997/98 fiscal year is not encouraging. Government has scaled down its growth forecast for the gross domestic product (GDP) for the fiscal year to 2% from the budget's assumption of 2,5%. The downward revision implies that revenue will be less than budgeted, and that the GDP number used to calculate the deficit as a percentage of GDP will also be less. That can only mean that the deficit will probably exceed 4% of GDP.

Manuel downplayed the importance of the GDP revision, and declined to be drawn on talk that spending overruns were also threatening the deficit. In this new age of transparency, some more information on the looming provincial spending overruns would not have gone amiss. It is no secret that at least two provinces have applied officially to have their overdrafts turned into loans. The situation begs for more than yesterday's vague comments that it was too early to give up on the 4% target.

In Manuel's defence, an admission now that the target is out of reach might send completely the wrong message to the provinces. Also, too much discussion on the present year's budget would have taken attention away from the overall package that was being presented yesterday. However, it goes without saying that if things go wrong in this fiscal year, the rosy projections for the future might have to be toned down.





Graphic: KAREN MOOLMAN Source: FINANCE DEPARTMENT

On the projections for future fiscal years, there are two questions that need to be discussed. Firstly, how realistic are the macroeconomic assumptions on which fiscal projections are based? Secondly, what do the projections for spending and revenue in future years tell us about the direction of fiscal policy?

The first thing that strikes one about the macroeconomic assumptions is that they do not reflect the Gear targets, which put GDP growth at 6% by the turn of the century. Obviously government had to use more conservative estimates than Gear's growth projections if it wanted to budget realistically. Manuel, quite rightly, insisted that the use of lower GDP growth figures did not imply that Gear had been discarded.

In fact, government could come under fire for not being conservative enough in its budgeting. The assumption of GDP growth in the 1998/99 fiscal year of 3% might be a bit too high — many economists are scaling down growth forecasts for next year to little more than 2%. The inflation assumption for next year also seems a bit high at 7,5%. Ironically, higher inflation helps government through fiscal drag and making the real increase in spending look less.

Granted, the growth forecasts have to take into account the difference between the calendar and the fiscal year. Also, the jury is still out on the effects on GDP of El Niño and of next year's interest rate cuts. So it is too early to start crying foul on the macroeconomic assumptions.

What of the fiscal policy direction? The deficit targets were already known and widely applauded as essential to get SA more in line with other emerging markets.

The spending and revenue targets for future years were not known; the first point to make on the spending side is that it is not austerity budgeting. The cartoon that was drawn of Manuel at the time of Gear's release, dressed as Margaret Thatcher complete with handbag, should be tossed into the dustbin for good.

As the graph shows, noninterest expenditure is projected to rise in real terms, reaching a growth rate of 5% by the 2000/01 fiscal year. At the same time, taxes will remain high.

On taxes, Gear set a target of 25% of GDP — which will still be exceeded at the end of the three-year period. Even though the ratio will not be massively out of line with the targeted 25%, Manuel clearly does not regard lower taxes as a priority.

If he had wanted to reduce taxes, he would have had to cut spending by more. By opting for a little bit more spending and somewhat higher taxes, he is taking a more redistributive approach without sacrificing fiscal prudence. And rightly so — SA's social backlogs are simply too big to justify huge cutbacks in spending and experiments with supply-side economics.

The surge in real noninterest expenditures at the end of the three-year period reflects the fall in debt service costs, and higher economic growth. Debt servicing costs are projected to rise on average by less than 7% in nominal terms over the three-year period.

An important aspect of lowering the cost of servicing government's debt will be a decline in interest rates. As inflation falls, capital market yields are projected to decline to an average of 12% by 2000/01.

Interestingly, no mention is made of using privatisation to reduce debt and hence the cost of servicing debt. It is an unfortunate omission which foreign investors will not fail to notice.

How likely is it that this scenario of rising real spending on essential services and less spending on interest will materialise?

There are a number of reasons why it could go wrong. The first problem could be lower economic growth. Even though government accepts the Gear targets will not be reached, it is still expecting fairly robust growth of 3%, 4% and 5% for the next three fiscal years. A harsh drought, or another run on emerging markets could spoil things. The second problem could be high interest rates. The document is assuming a major rerating of the SA bond market, with yields falling substantially. Again, this will depend to some extent on the vagaries of international markets. It also depends on Reserve Bank governor Chris Stals.

Government has to assume that things will keep going right, until the opposite is proved.

CLARITY RULES *A smiling Trevor Manuel is flanked by deputy finance minister Gill Marcus, left, and Nkosazana Zuma, the health minister*

Manuel fleshes out budget policy

CT (PM) 3/12/97 (49)

RICHARD STOVIN-BRADFORD

Pretoria — The radical overhaul of South Africa's budgetary process was fleshed out yesterday by Trevor Manuel, the finance minister, who presented South Africa's first medium-term budget policy statement.

"It is a significant step in increasing the transparency, openness and also co-operative government required by the constitution," he said.

The policy statement ushered in certainty for long-term planning purposes and a culture of expenditure prioritisation at all levels of government.

"We cannot achieve all our reconstruction and development goals in a single year ... so we have to choose what to put first," he said.

This was not the Budget, did not contain detailed spending plans or tax proposals and was not a new policy statement Rather it set out "the operational plan to give effect to existing policies", explained Manuel. The projections in the statement were clear guidelines and not a "thumbsuck", he added.

Among the major points of the statement were the government's reaffirmation of its commitment to the RDP and Gear, and to bringing the deficit down to 3 percent of gross domestic product before 2000.

The Budget would be based on "more cautious" projections than spelt out in Gear, and it contemplated a more equitable distribution of funds between national, provincial and local government government.

Total public expenditure was expected to grow at 9 percent over the next three years, enabling real increases in spending on public services

The statement effectively opened the previously closed doors on budgetary policy-making, Manuel said.

One analyst welcomed the statement, saying it sent a message that the finance department was serious about managing the country's finances and would boost investor confidence locally and overseas.

Business Watch, Page 20, also Page 21

From now on, the national Budget will take a three-year view

New structure will enable better planning by both Government and the provinces, at the same time reducing the yawning resources gap between the nine

Trevor Manuel ... moving his ministry towards both greater efficiency and transparency.

Own Correspondent
Cape Town

Minister of Finance Trevor Manuel says that in one of her desk drawers his director-general Maria Ramos keeps a pile of bones. Like all economists, he claims, she throws the bones to determine trends in the economy for the years ahead.

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Ugly fights between provincial and central government about just who is to be blamed for the retrenchment of teachers or for cutbacks in hospital beds will be a thing of the past if the plan works properly.

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The plan will give national departments and the provinces a longer time frame in which to programme spending, minimising the rollover of money left from one year to the next.

It will also place the long-term responsibility for each province's financial affairs squarely in the hands of the provincial legislatures.

If the MTEF is successful, the Western Cape government or that of KwaZulu Natal, for instance, will no longer be able to blame teacher cutbacks in their province on the national government: each province will have its own budget envelope, based on careful planning and long consultation at all levels of government.

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Zero-based budgeting is designed to filter out wasteful spending, so that each rand of taxpayers' money is used as efficiently as possible. At least that's the theory, though in practice, the Department of Finance admits, some government departments and provinces are struggling to comply with the new rules.

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Here the Government's room for manoeuvre is limited by two policy decisions: the decision to reduce the Budget deficit each year and the promise that tax, as a percentage of the country's total income, will not rise above the present level of roughly 25%.

Once the size of the cake has been determined, the Government will take a slice to repay the country's debt – which at the moment takes a staggering 20% of the total Budget – and another slice to set aside for a "policy reserve".

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The next step is to settle on a fair division of the rest of the cake between the national Government and the provinces (roughly 58% to the national departments and 42% to the provinces in 1997-98).

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The proof of the pudding, as the saying goes, will be in the eating. Even for vegetarians.

Maria Ramos ... not just 'throwing bones' but tasked with carrying out policy.

MAIL & GUARDIAN
December 5 to 11 1997

Budget 'revolution'

(49) M+G 5-11/12/97

Three-year rolling Budgets facilitate long-term planning, writes **Madeleine Wackernagel**

Minister of Finance Trevor Manuel has taken all the fun out of Budget day. No more anxious scanning of the Budget book in search of revenue and expenditure targets: they are now freely available for the next three years.

Some elements do survive Manuel's Budget revolution, however: tax changes will still be announced only in March, as will the breakdown of expenditure by sector.

But judging by the revenue projections made this week, there is not much room for manoeuvre. Better revenue collection and broadening the tax base are the priority; political considerations make a hike on value-added tax, for example, unpalatable.

Customs & Excise, Manuel admitted, is still the biggest problem, but with the autonomy granted the South African Revenue Service earlier this year, efficiency gains should be achievable.

At this stage, expenditure is forecast to increase at a rate of 9,5% annually over the next three years, while the Budget deficit as a percentage of gross domestic product (GDP) falls from a projected 4% in 1997-98 to 3,0% in 2000-01.

Economic growth for this year has been revised to a more realistic 2%, although the department still thinks 3% is possible next year. Most economists are aiming for 2,5%.

While these targets are indeed more conservative than those set out in the growth, employment and redistribution strategy released last year, they may still be too optimistic. Already there are doubts that the 4% deficit projection will be achieved in this fiscal year unless the provinces drastically rein in their spending.

Economic growth at 3%, 4% and 5% for 1998-2001 respectively could easily be knocked by the effects of El Niño or a worldwide slump sparked by this year's crisis in the financial markets. Asia has yet to recover its spirits and while recession is unlikely, a slowdown is imminent.

But Manuel is adamant that the Budget deficit will be cut to 3% by the end of the decade, in turn curtailing the interest bill and freeing up resources. The tax burden will also be limited to around 25% of GDP, something business has been urging for a while.

In addition, the reprioritisation of spending is firmly on track: defence is down to 1,7% of GDP, while social security and welfare is up from 2% to 3%; and public order and safety is up from 2,4% to 3%.

Thumb up: Trevor Manuel with Minister of Health Nkosazana Zuma and finance director general Maria Ramos announcing the Budget plans. PHOTO: SIDDIQUE DAVIDS

Economic think-tank scales down GDP guess

BD 5/12/97 (49)

Samantha Sharpe

CAPE TOWN — The Bureau for Economic Research has scaled down its real gross domestic product (GDP) forecasts and shifted its projections for expected economic recovery outwards towards the middle of next year, following the recent fall in the gold price and East Asian economic adjustments.

However, in its latest economic brief, the bureau said the strength of the anticipated revival was not at risk, with its major impact expected beyond the present horizon of the fourth-quarter of next year.

"The year-on-year real GDP growth rate is unlikely to decline significantly below the recently released third-quarter level for this year — that is 1,1% — over the immediate term until the middle of next year. Thereafter, real GDP growth is projected to accelerate to 3% by the end of next year, averaging 2,8% for the year compared to slightly below 2% this year," the bureau said.

It said the SA economy was in a consolidation phase, softened by a relatively stable financial climate and buoyancy in industrial exports, a feature reflected in declining inflation, improving liquidity, lower interest rates and a relatively stable trade-weighted value of the exchange rate.

"Producer inflation could dip below 5% towards the end of this year and early next year and money market and long-term interest rates could approach a 13% level during the second quarter of next year. Prime overdraft and mortgage rates are projected to decline by two percentage points during the first half of next year, remaining at that level," the bureau said.

On the rand, the bureau said the exchange rate could be at risk due to the sensitivity of the capital account of the balance of payments following large inward portfolio investments this year.

"In an uncertain financial environment: a weak gold price; speculative pressure against the emerging-market currencies in the wake of the southeast Asian currency meltdown and volatility in the major industrial country stock exchanges, balance of payments problems could arise should net capital inflows not be sustained."

Reserve Bank criticises govt spending

IN ITS customary cautious tones the South African Reserve Bank has criticised government spending habits in its latest Quarterly Bulletin writes **SVEN LUNSCHE**.

Referring to the trend as "ominous", the Bank says that a substantial part of the R24 8-billion budgeted deficit for the 1997/98 fiscal year had already been absorbed in the first half "This overshoot of the projected deficit was particularly acute in the provinces," the Bank says

The report also highlights a rise in total public sector debt levels At the end of September total debt rose to R334 7-billion, or 57 4% of GDP This is its highest level ever and has forced SA into a debt-trap situation, economists claim

Being in a debt trap implies government has to borrow merely to service its debts In its Maastricht criteria for admission to the European single market, the EU has set 60% of GDP as a maximum debt level allowed

The rising debt runs counter to this week's three-year budget expenditure framework

The framework projects that softer inflation and lower yields in the capital markets would result in lower financing costs for government

It estimates the national debt burden will fall to 5 7% of GDP by 2000/01 from 6 4% in 1997/98 Total public sector debt will fall to 50% by 2000/01, the Finance Department says The ministry said it planned to continue borrowing mainly in long-dated domestic securities, but would supplement this programme with limited foreign bond issuance and domestic short-term securities

Government spends 21 2% of its Budget on servicing debt The ministry wants to see this cut to 20% by 2000/01 "Not if current trends continue," is the veiled message by the Reserve Bank

Manuel sobers up with realistic new targets

ST (BT) 7/12/97 (49)

The medium-term Budget plan, however transparent, is still short on details, writes SVEN LUNSCHE

THE ANC government broke new ground this week when it outlined a wide-ranging three-year Budget plan — a plan that also underlined its commitment to sound monetary policies and fiscal stringency

Finance Minister Trevor Manuel cannot be faulted on his policies The Medium Term Expenditure Budget statement, a model in transparency, takes a more realistic view of economic prospects, the growth forecast contained in his Gear policy are adjusted downwards in his new document

But, as Manuel has experienced over the past one-and-a-half years since he launched Gear, setting economic guidelines, not to mention precise targets, is an exercise fraught with difficulties when you lack the means to implement it.

Like Gear, the medium-term budget plan is short on details on how to achieve the ambitious budget targets

In terms of the targets — termed operational guidelines by Manuel — total government spending would increase 9.5% a year from R186 8-billion in 1997/98 to R241 5-billion in 2000/01

This is probably a realistic assumption

Revenue over the same period would increase from R162-billion to R216-billion, a decline in real terms

The budget deficit targets remained on track with Gear forecasts — 4% of GDP this year, falling gradually to 3% by 2000

Despite fears that the provinces would overrun their 1997/98 budgets by as much as R8-billion this year, Manuel said there was no reason "at this stage to revise the 4% deficit target"

His long-term Budget plan contains few details on the structural problems facing the three spheres of government — national, provincial and local

In particular, two issues require urgent action how to substantially trim the bloated public service at national level and how to tackle the critical shortage of managerial capacity in the provinces and at local level

The document makes reference to "dismantling overcentralised and bureaucratic controls .. and affordable right-sizing instruments" but beyond these frameworks few details are offered.

Public Services Minister Zola Skweyiya was equally reticent at the presentation of the medium-term spending framework "We really can't give you the desired staff numbers — we would like a more realistically staffed and better trained civil service," Skweyiya said

Skweyiya and Manuel both indicate that without a significant reduction in staff budgets, deficit targets are probably out of reach

If this year's budgetary process is anything to go by Manuel will have a tough task ahead of him in meeting three-year guidelines without sacrificing certain social services.

With funds rapidly running out, provinces are asking Manuel for more funding So far, he has stuck to his guns admirably and turned them down, leaving the provinces with little option but to slash spending sharply

Education and health are likely to be the departments targeted for cuts, precisely those departments already experiencing shortages of nurses and teachers

Manuel said the provinces had been extensively involved in drawing up the three-year spending plan. They had to submit their official three-year budgets to him early next year.

This might have focused the minds of provincial finance MECs on achieving their budgeted targets, but they are nevertheless likely to ask for more funds judging from this year's experience

Over the three-year period, the provinces' share of total spending would barely change from 53.5% in this fiscal year to 53.7% in 2000/01

Social services would by and large receive a larger share of the budget in three years' time Spending on education was projected to rise from 26.2% of the budget at present to 27 1% in 2000/01

Similarly, welfare and the police and justice departments would receive a bigger slice, while health spending would remain steady

In addition, conditional grants would be available for provinces for specialised health services and clinical training, and for the continuation of the primary school nutrition programme.

The increases once again come at the expense of the SA National Defence Force, which is faced with a cut of 2% a year in real terms over the next four years

A policy reserve of R3-billion a year has been set aside to enable government to meet specific priorities, and a contingency reserve — R2-billion in 1998/99, R4-billion in 1999/2000, and R7-billion in 2000/01 — for unforeseen costs arising from disasters.

One of the most disappointing aspects of the forecasts is that Manuel does not foresee an increase in government spending on capital projects, but is projected to remain at 8% of total spending over the three-year period.

On the other hand, 50% of the budget will continue to be spent on personnel costs, with the total wage bill projected to increase 8 4% a year over the same period

"Since most consumption spending is wages and salaries of public servants, this means that pay increases must be held at fiscally responsible levels," says Manuel, only too aware that so far, government has not managed to convince public-sector unions of the merits of fiscal stringency.

What makes Manuel's three-year planning exercise even more difficult is the uncertain economic outlook.

The finance department has already cut its forecast for economic growth to 2% for1997/98 In its March budget, the ministry said it expected growth of 2.5%, while it predicted 2.9% for calendar1997 in the Gear strategy

"If our numbers are conservative it is to ensure we don't project beyond what we will have available," Manuel said

He emphasised that the document was not meant to replace Gear but that it was an operational plan setting out government's position

Inflation was projected as falling to 7 5% in 1998/99 from 9% in 1997/98 and reaching 6% in fiscal 2000/01.

Asked whether slowing growth would pressure deficit forecasts, Manuel said there was no plan to revise the ministry's predictions but signalled he was optimistic that the country could ease pressures on the public purse by improving on its poor revenue collection.

"We can do more through efficiency gains," he said, adding that present revenues were roughly in line with expectations.

The three-year framework also confirmed previous work done by the Fiscal and Financial Commission on the allocation of government grants to the provinces.

In terms of the formula, the allocation to the Northern Cape would fall 11 8% between 1997/98 and 2002/03 Over the same period, Northern Province would receive 8.9% less and Western Cape 3.8% less.

The provinces whose share of the budget would rise the largest were Mpumalanga (20%), Gauteng (10 4%) and KwaZulu-Natal (5 9%)

Graphic FIONA K[illegible]

ECONOMIC ASSUMPTIONS FOR MEDIUM TERM BUDGET

	1997/98	1998/99	1999/00	2000/01
GDP growth	[illegible]	3.0%	4.0%	5.0%
GDP inflation		7 5%	6 5%	6 0%
National budget revenue (R-bn)	162.0	178.1	195.8	216.2
National budget expenditure (R-bn)	186 8	202 1	218 5	241 5
Deficit (R-bn)	24.8	24.0	22.8	25.3
Deficit as % of GDP	4 0	3.5	3 0	3 0

Source DEPARTMENT OF FINANCE

PROJECTED BREAKDOWN OF SPENDING BY TYPE OF SERVICE

	1997/98		2000/01		
	R-billion	% of non-interest spending	R-billion	% of non-interest spending	Average annual growth
Education	38.6	26.2	49.5	27.1	8.7%
Health	20.1	13.6	24 9	13 6	7 4%
Welfare	16.0	10.9	20.7	11.4	9.0%
Other social and provincial services	22.1	15.0	25 8	14 1	5 3%
Defence	10.8	7.4	12.4	6.8	4.6%
Justice, police and prisons	18.3	12.5	24 1	13 2	9 5%
Economic services	14.5	9.8	17.1	9.4	5.7%
General administration	6.7	4 5	8 0	4 4	6 2%
Total	147.1	100.0	182.5	100.0	7.5%
Reserve	2.1		10.0		
Total non-interest expenditure	149.2		192.5		8.9%

Source DEPARTMENT OF FINANCE

THE VERTICAL DIVISION

R-billion	1997/98	1998/99	1999/00	2000/01
National spending (% of total)	66.1 (45.7%)	70.7 (45.8%)	74.8 (45.0%)	82.0 (44.9%)
Local government spending (% of total)	1 1 (0.8%)	1.2 (0.8%)	2 4 (1 4%)	2 6 (1 4%)
Provincial spending (% of total)	77.4 (53.5%)	82.5 (53.4%)	89.0 (53.6%)	98.1 (53.7%)

Source DEPARTMENT OF FINANCE

Apartheid's legacy

(49) Sowetan 11/12/97

South Africa is saddled with a galling R305 million debt left by the previous government. Does the country have to pay it? **Kumi Naidoo** considers various ways of getting rid of it...

OVER the past year non-governmental organisations (NGOs), churches, Human Rights Commissions, the South African National Civics Organisation and trade unions have raised concern about the resources that go towards servicing the debts incurred by the apartheid government.

In 1997 more than one-fifth of our national Budget was allocated to debt servicing. Our national debt, which now stands at R305 billion, costs almost R40 billion a year to service.

There have been discussions with the Ministry of Finance on how the apartheid debt could be better managed. These proposals emanate from studies commissioned by NGOs and churches and are backed by some of the country's leading economists.

All parties, however, agree that it is immoral for those who suffered under apartheid to be expected to repay the very loans that were made to oppress them. Sadly, unless we are able to deal with the debt in a creative manner, future generations will carry the burden.

It is untrue that nothing can be done because the structure of the debt is too complex. The submission to the Truth and Reconciliation Commission (TRC) on the apartheid debt has proposed specific actions that could be taken.

Firstly, with regard to the five percent debt that is owed to European banks, we propose that an appeal be made by President Nelson Mandela, civil society leaders such as Archbishop Desmond Tutu and civil society and government leaders in Europe for banks to voluntary forgive this debt.

We believe the weight of moral pressure and the embarrassment associated with making these loans should motivate these banks to comply.

Biggest opportunity

Secondly, the biggest component of the debt, some 40 percent, is owed to the Public Investment Commission, which invests civil servants' pensions. This is where the biggest opportunity lies and the reluctance of the Ministry of Finance to reverse an act of apartheid by the National Party (NP) is puzzling.

In 1989 the NP, seeing the inevitability of democratic rule, changed the structure of the civil servants' pensions from a "pay-as-you-go" to a "fully funded" system. This was probably done partly to ensure that the incoming government will be unable to meet its electoral promises

Crudely put, companies need to have a full pension fund since they might go bankrupt and might need to pay off all the workers at one go.

Governments on the other hand, as is the case in many parts of the world, need to hold only enough funds to cover the annual payments of those who have retired. Usually the incoming pension contributions of the younger workers subsidise the older workers.

There is no reason for the civil servant pension fund to be fully funded. The fund in South Africa is almost 70 percent funded and growing. This is substantially more than is needed for government to meet its pension obligations.

The fund was about R10 billion in 1989. Today it holds a whopping R135 billion. To have such huge reserves means that government has to borrow further and therefore the debt grows even more.

It is proposed that we revert to the pre-1989 formula by allowing government to reduce its debt burden as well as to release money for poverty eradication programmes.

The arguments of the Ministry of Finance against these proposals are unconvincing. They say these proposals will interfere with the civil servants' pensions. We are not advocating a path that will see civil servants – notwithstanding their loyal support for the apartheid regime in most cases – losing their pension benefits

The Constitution guarantees a fair and just pension to all civil servants but does not say, however, that we must use the current formula which does not make any difference to the pension payouts received by individual pensioners.

The argument advanced by the finance director-general has been that many governments in Europe who currently use the pay-as-you-go system are now considering changing to a fully funded system.

The demographic realities of Europe, with a growing ageing population, might necessitate such a shift but it remains to be seen whether such changes will be effected. However, we have a disproportionately large young population and this is reflected strongly in the civil service. The third component of the debt is owed to local commercial institutions such as Sanlam and Old Mutual. There are mechanisms available here to government which need to be explored.

We need to know how much was loaned, by whom and when and mainly how the interest payments are currently structured.

Here we are talking, in part, about the pensions of citizens and we need to be sensitive about how we proceed. It is wrong, however, to accept a position that our hands are tied and we have no options, particularly in the political context of the TRC business hearings.

Extent of profiteering

We would need to understand more clearly how the choice to lend to the apartheid government was made. We will need to take into account that there were certain regulations that required a certain level of lending to government.

Given the levels of actuarial competency available, we should be able to ascertain the extent of profiteering that occurred as a result of these loans.

The options available here, which also apply to the other parts of the debt, include long-term interest holidays (no payment of interest for a negotiated period), negotiated cancellation of certain portions of this debt, a complete forgiving of the interest portion of the debt and other forms of restructuring.

The burden of course should not be borne by individual policy holders but by the institutional shareholders wherever possible.

Right now, when future generations ask whether we gave thorough consideration to all the various options regarding these unjust debts, we will have to answer with a resounding "No!"

At its conference next week the African National Congress, and indeed all political organisations, should add their voices to that of civil society organisations which argue that there are many possible solutions that must be pursued vigorously and rationally as a matter of national urgency

(The writer is executive director of the South African National NGO Coalition.)

ANC did not consult enough on Gear — Molefe

BD 10/12/97 (49)

Jacob Dlamini

THE African National Congress (ANC) had not consulted adequately on the growth, employment and redistribution (Gear) strategy, but it was unlikely that government would ditch the policy, North West premier Popo Molefe said yesterday.

Molefe said the ANC had failed to discuss the policy thoroughly with its SA Communist Party (SACP) and Congress of SA Trade Unions (Cosatu) allies.

Molefe was speaking on the eve of the ANC's conference, which begins in Mafikeng next week.

Gear, which imposes stringent conditions on government expenditure and sets targets intended to reduce the deficit, is set to become the subject of intense debate among the 3 000 delegates expected at the conference.

However, government would not reject Gear nor deviate from its objectives as a result of opposition from some of the delegates, Molefe said.

He said the ANC had conceded that it had erred in not consulting its allies.

It had also reversed President Nelson Mandela's announcement that government's commitment to Gear was not negotiable. Government policies had to be reviewed and subjected to negotiations in order to allow for improvement and adjustments, Molefe said.

The public wanted to see a clear connection between Gear and the vision of the reconstruction and development programme, he said.

Molefe said Gear had not succeeded in rapidly creating jobs and that this had resulted in frustration among the unemployed. But the policy had helped build confidence in the new government among investors.

Molefe said government had recognised the need for a balance between private and public sector involvement in projects aimed at redressing past imbalances. He dismissed suggestions that government had been hesitant to increase its involvement in social upliftment programmes.

Molefe said government had also come to terms with the fact that the pace of delivery had been slow and that the "shopping list" of promises made before the 1994 elections had been too long.

The list needed to be reviewed to bring it in line with Gear and government's new approach to budgeting, Molefe said.

SA not alone in quest for competitiveness

BD 11/12/97 (49) (180)

Lucia Mutikani

SA COMPANIES had to get to grips with implementing performance management systems if they were not to fall further behind in the race for global markets, FSA-Contact MD Olof van Schalkwijk said this week.

Van Schalkwijk's human resources consultancy recently conducted a survey involving 80 businesses across the economic spectrum about the organisational challenges facing them as the new millennium approaches.

He said SA was not alone in its quest to become globally competitive.

"The rush is on by businesses throughout the world to boost their competitiveness."

"Local businesses ranked the need to become a more effective global competitor among their top eight organisational challenges for the future.

"This is in line with international research which shows that organisational change has become a permanent feature in the business world responding to the pressures of international competition."

A survey of more than 1 800 businesses in Canada, France, Germany, Japan the US and Britain found that all had undergone some kind of organisational change in the past two years, including downsizing and reorganisation.

Two-thirds of all respondents believed that their current restructuring activities would continue at the same rate or increase into the 21st century.

The survey was carried out by FSA-Contact's international affiliate Watson Wyatt Worldwide.

Van Schalkwijk said SA companies had adopted numerous strategies to enhance their competitiveness including restructuring, reducing their staff complement and installing new equipment with the aim of improving productivity and profitability.

"It is clear that business people around the world believe they can flourish only in an environment conducive to competitiveness, and that implies limited government regulation," he said.

Van Schalkwijk said another factor harming productivity in SA as well as overseas was the shortage of qualified employees.

"Local executives, like their overseas counterparts, have recognised that the best way to overcome the problems of low productivity is to employ people with the right competencies for the job, develop their abilities and then reward them appropriately," he said.

Van Schalkwijk said the FSA-Contact survey had found that most SA companies were concerned about their ability to measure and reward performance fairly, and many experience problems implementing performance management systems effectively.

"SA companies will have to get to grips with these issues if they are not to fall even further behind in the race for global markets," he said.

Don't repay unjust debts

Relieving the debt burden is a matter of national urgency, writes **Kumi Naidoo**

(49)

M+G 12-18/12/97

If South Africa is serious about reconciliation and justice, we need to look creatively at the burden of debt incurred by the previous government.

Over the last year, non-governmental organisations (NGOs), churches, the Human Rights Commission, Sanco and trade unions have raised concern about the resources that go towards servicing the debts incurred by the apartheid government. In 1997, more than one-fifth of our national Budget was allocated to debt servicing. Our national debt, which now stands at R305-billion, costs society almost R40-billion a year.

There have been discussions with the Ministry of Finance about how the apartheid debt could be better managed. These proposals emanate from studies commissioned by non-governmental organisations and the churches and are backed by some of the country's leading economists. Some media reports have carried factual errors; and contestable comments from the Ministry of Finance have created confusion and pessimism about the issue.

All parties, however, agree that it is immoral for those who suffered under apartheid to be expected to repay the very loans taken to oppress them. Sadly, unless we are able to deal with the debt in a creative manner, future generations will have to carry the burden.

It is untrue that nothing can be done because the structure of the debt is too complex. The submission to the truth commission on the apartheid debt has proposed specific actions that could be taken.

First, with regard to the 5% of the debt owed to European banks, we propose that an appeal be made by President Nelson Mandela, South African civil society leaders and civil society in the respective European countries, for these banks to voluntary forgive this debt. We are not suggesting a unilateral cancellation. We believe that the weight of moral pressure and the embarrassment associated with making these loans should motivate these banks to comply.

The water carriers: National debt restructuring would release money for housing and essential services. PHOTO: THEMBA HADEBE

Secondly, the biggest component of the debt, some 40%, is owed to the Public Investment Commission (PIC) which invests civil servants' pensions. This is where the biggest opportunity lies and the reluctance of the Ministry of Finance to reverse an act of apartheid keeping undertaken by the National Party is puzzling. In 1989, the NP, seeing the inevitability of democratic rule, changed the structure of the civil servants' pensions from a "pay-as-you-go" towards a "fully funded" system.

Crudely put, companies need to have a full pension fund stock since they might go bankrupt and might need to pay off all the workers at one go. Governments, on the other hand, as is the case in many parts of the world, only need to hold enough funds to cover the annual payments of those who have retired. Usually, the incoming pension contributions of the younger workers subsidise the older workers.

There is no reason for the civil servant pension fund to be fully funded. The fund in South Africa is almost 70% funded and growing. This is substantially more than is needed for government to meet its pension obligations. The fund sat at about R10-billion in 1989. Today it holds a whopping R135-billion. To have such huge reserves means the government has to borrow further and, therefore, the debt grows even more. It is proposed that we change back to the pre 1989 formula, allowing the government to both reduce its debt burden and release money for poverty eradication programmes.

The arguments advanced by the Ministry of Finance against these proposals are unconvincing. They have said that the proposals being made will hurt civil servants' pensions. We are not advocating a path that will see civil servants, notwithstanding in most cases their loyal support for the apartheid regime, lose their pension benefits.

The Constitution guarantees a fair and just pension to all civil servants, but does not say, however, that we must use the current formula, which does not make any difference to the pension payouts received by individual pensioners. The fact that there is an excess amount sitting with the PIC does not increase or decrease the current pension payouts.

The director general of finance has argued that many governments in Europe which currently use the "pay-as-you-go system" are now considering changing to a fully funded system.

The demographic realities of Europe, with a growing ageing population, might necessitate such a shift, but it remains to be seen whether such changes will be effected. However, we have a disproportionately young population and this reflects itself strongly in the civil service.

The third component of the debt is owed to local commercial institutions such as Sanlam and Old Mutual. There are mechanisms available to government that need to be explored. We need to know how much was loaned, by whom and when, and mainly how the interest payments are structured. Here we are talking, in part, about the pensions of citizens and we would need to be sensitive about how we proceed.

It is wrong, however, to accept that our hands are tied and we have no options. The options available here, which also apply to the other parts of the debt, include long term interest holidays (no payment of interest for a negotiated period), negotiated cancellation of certain portions of this debt, a complete forgiving of the interest portion of the debt, and other forms of restructuring. The burden, of course, should not be borne by the individual policy holders but by the institutional shareholders wherever possible.

As Reverend Molefe Tsele of the South African Council of Churches (SACC) notes, this is not only about righting previous wrongs, but also about the future, since this historical burden will be with us for decades to come. We owe it to those who perished fighting apartheid and to future generations to responsibly explore every possible avenue to bring down the burden of the debts incurred by the previous government.

Right now, when future generations ask if we gave thorough consideration to all the options regarding these unjust debts, we will have to say a resounding *no*! The African National Congress conference, and all political organisations, should add their voices to that of civil society organisations, which argue that there are many possible solutions that must be pursued vigorously and rationally as a matter of national urgency.

Kumi Naidoo is executive director of the South African National NGO Coalition

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Unions cool on Manuel's new budget framework

(49) ARG ~~15/1/98~~ 15/12/97

BUSINESS REPORTER

Three of the country's trade union federations have welcomed Finance Minister Trevor Manuel's newly unveiled three-year Medium Term Expenditure Framework (MTEF) but voiced reservations about the Government's monetary and fiscal policies.

The Congress of South African Trade Unions (Cosatu), National Council of Trade Unions (Nactu) and federation of Unions of South Africa (Fedusa) said in a joint statement the MTEF would lead to better planning and an effective use of the budget.

"All three federations are of the view that a more structured medium term planning process is the only one that is suitable for laying a solid basis for macro-economic growth and creating jobs," the statement said.

But the unions said the policy statement's budget deficit and revenue projections were unacceptable and would lead to a slowing down of economic growth and cuts in social spending.

Current monetary and fiscal policy was not consistent with the Reconstruction and Development Programme, the unions said.

They suggested that MTEF be debated in the National Economic, Development and Labour Council (Nedlac) early next year.

The MTEF plan, unveiled by Mr Manuel earlier this month, seeks to cost the Government's spending priorities for the next three years. It allows for spending from the national budget to grow by 9% a year for the next three years.

The figures are based on estimated economic growth of 2% this year, rising to 3% next year and to 5% in the year 2000.

ANC will accommodate Cosatu and SACP on Gear, says Mandela

Business Day Reporter

THE African National Congress (ANC) was willing to accommodate its alliance partners — the Congress of SA Trade Unions (Cosatu) and SA Communist Party (SACP) — on reservations on the growth, employment and redistribution strategy (Gear), President Nelson Mandela said yesterday.

He was responding to questions in an interview with a panel of journalists, broadcast on radio and television.

Asked whether Gear was negotiable — government had previously said it was not — Mandela said the alliance partners were separate organisations which might differ on some issues.

Regarding Gear, he said: "Where we feel they have a strong point, we will accommodate them."

At a policy conference last month, the ANC adopted a process intended to facilitate internal debate on Gear, introduced in June last year, because agreement could not be reached on some macroeconomic issues.

The policy, with its emphasis on monetary and financial discipline, has been strongly criticised by the alliance partners, which oppose privatisation and subsidy cuts and want the strategy to emphasise development and the basic needs of the majority.

Mandela also said he would welcome a merger with the Inkatha Freedom Party (IFP) in the interests of national unity. He said it would be "a very progressive development" as South Africans needed to speak with one voice. The proposed merger had nothing to do with black unity, he said.

"It is not a question of black unity, but the unity of the entire country that will be the guiding principle.... We are busy with the task of uniting the entire nation. That is why we have the government of national unity."

The ANC wanted a relationship with other parties as well.

While Buthelezi had not been offered the deputy presidency, "if he were offered the position I would be happy about that," Mandela said.

Sapa reports Mandela heaped praise on the men he wanted as the next president and deputy leader of the ANC — Thabo Mbeki and Jacob Zuma.

"He (Mbeki) is a man of exceptional gifts, very respectful, very warm, very sensitive to the suffering of our people. He is a diplomat, very much unlike me," Mandela said.

Mandela described Zuma as an "outstanding leader, generous, full of self-respect and highly talented".

Mandela said he would not allow former president PW Botha to defy the law by refusing to appear before the truth commission. "I have done my bit, but PW Botha is not above the law."

Cosatu to give input on Gear

Sowetan 17/12/97

(49)

By Ido Lekota
Political Reporter

THE Congress of South African Trade Unions will provide its input on how the Government's Growth Employment and Redistribution strategy could be refined, general secretary of the federation Mr Zwelinzima Vavi said yesterday

Vavi said this at the 50th African National Congress conference which started in Mafikeng

He said Cosatu had expressed concern about Gear's strategy, claiming that its intended objective of reducing the country's balance of payment deficit from 4.1 percent of the Gross National Product to three percent would impact negatively on the social expenditure

"What is currently happening in the provinces is testimony to our objection," said Vavi.

Reducing tariffs

Vavi said Cosatu had objected to the fact that Gear was bent on reducing tariffs below the levels agreed upon at the World Trade Organisation.

Cosatu general secretary Mr Sam Shilowa was, however, cautious, preferring to say the federation wanted to see how the ANC as a political party would lead the country into the next millennium.

He said the federation would watch with interest how the ANC would address the socio-economic issues.

"The issue is not about how the ANC and Cosatu differ on Gear, but how as an alliance we can work towards the socio-economic transformation of this country," Shilowa said.

In his presidential address, President Nelson Mandela said one of the challenges faced by the ANC as a ruling party was of "setting the South African economy on a sustainable growth path resulting in the elimination of poverty and unemployment"

Today the commission on Economic Transformation will resume its work, guided by the ANC's macro-economic policy of Growth Employment and Redistribution

Intense deliberations

This will undoubtedly lead to intense deliberations within the commission given the criticism levelled at the policy by provinces such as the Eastern Cape

On the other hand, both the South African Communist Party (SACP) and Cosatu will definitely use its observer status to impact on the deliberations within the commission.

● *Sapa* reports that President Mandela called for a system whereby owners of capital would, willingly, understand and accept the idea that business success could no longer be measured by profit alone.

"According to this thesis, to which we must subscribe, success must also be measured with reference to a system of social accountability for capital which reflects its impact both on human existence and the quality of that existence."

An important element of ANC policy was the deracialisation of the economy, to ensure that its ownership and management increasingly reflected the racial composition of South African society, Mandela said. – *Sapa.*

Mbeki reaffirms ANC's commitment to macroeconomic policies

Wyndham Hartley

MAFIKENG — Thabo Mbeki, in his first public engagement since being elected African National Congress president yesterday, moved swiftly to reaffirm the policy of budget reduction and the creation of a climate conducive to investment and job creation.

At a media conference shortly after he was elected unanimously by the more than 3 000-strong 50th ANC conference, Mbeki, in reaffirming the basic macroeconomic policy, said the general view of delegates was that "the policy directions are right". He said while the budget deficit strategy would be discussed in the conference's commissions, the basic policy that wealth should be placed in capital projects and that the private sector was where jobs were created was accepted.

His comments follow questions, particularly from the provinces facing health and education spending cuts, as to how "flexible" the deficit reduction targets really are in the face of vitally needed social spending.

Mbeki said government and the Reserve Bank governor Chris Stals wanted to see lower interest rates. This and the debate on inflation control versus money supply were among the measures being looked at.

Determination of interest rates was solely in Stals's hands.

Mbeki said more incentives for investment which created jobs were in the pipeline. Schemes already being implemented by the trade and industry department contained specific reference to the job-creation aspect.

The Industrial Development Corporation was moving away from "mega" projects, which created small numbers of jobs, to encouraging smaller producers with a view to job creation.

He said he was not daunted by the task he had been given because the ANC had strong, capable leaders and no individual had to carry the burdens of the country alone.

In response to a question, Mbeki said the positive words which President Nelson Mandela had for the Inkatha Freedom Party in his presidential report on Tuesday were a product of healthy co-operation between the IFP and the ANC. Mbeki said there were discussions on peace with the IFP, but the possibility of a merger had not been discussed. Other areas of co-operation would no doubt be discussed.

Asked whether IFP leader Mangosuthu Buthelezi could ever become deputy president of SA, Mbeki said, given the co-operation between the parties, it could be possible.

Comment: Page 5

ANC 50TH NATIONAL CONFERENCE (49)

Gear still grates after lubrication

FM 19/12/1987

Delegates leave this weekend knowing key issue still unresolved

The more than 3 000 delegates to the African National Congress's 50th national conference will leave Mafikeng singing and chanting this weekend in the uneasy knowledge that the most divisive debate on their agenda has not been finalised

The signs were there long before conference· documents and senior leaders, including the ANC's out-going president Nelson Mandela, made clear the concerns of the SA Communist Party and the Congress of SA Trade Unions would be accommodated in the Growth, Employment and Redistribution (Gear) strategy.

This means after 18 months of public acrimony in the long-standing tripartite alliance, there is still no clarity on how far the ANC is prepared to compromise on Gear

The policy has been lauded by investors, analysts and the World Bank. But the ANC's alliance partners condemn it as veering off the organisation's redistributive path In a draft resolution prepared for conference, the ANC has shelved the issue But the resolution itself indicates, as several party leaders have said, that the strategy is not cast in stone.

"The conference endorses the basic objective of macro-economic stability and that the Gear provides the basis for achieving such stability," it says.

This sentiment, spawned at the ANC's policy conference in October, was echoed by Mandela in a radio and television broadcast last weekend. "Where we feel (the SACP and Cosatu) have a strong point, we will accommodate them "

But such equivocation, which tries to seek a solution to the matter while avoiding a confrontation many believe may split the alliance, are at odds with those of Africanists within the ANC who want Gear to forge ahead as it stands, and not be diluted by the ANC's leftwing partners.

Their confrontation with the SACP and Cosatu has been described as a fight for the "soul of the ANC" Deputy Environmental Affairs Minister Peter Mokaba says the soul of the ANC was never in dispute and is unashamedly capitalist, while those on the left, led by the SACP's Jeremy Cronin, believe the ANC to be left-leaning.

"Much of what Ministers had said in defence of Gear was not immediately apparent in the Gear document," it says.

ANC Policy Unit head and Labour Minister Tito Mboweni said before conference he did not believe delegates would focus on Gear, but on the challenges of economic transformation and thus on macro-economic stability But even if the ANC is saddled with the Gear debate for a long time, he said, it would be in line with many economic debates which are never finalised, such as the issue of how best to create jobs

Justice Malala

Gear objectives gain delegates' approval

(49)

CT 22/12/97

MAFIKENG: The ANC quietly gave its blessing to the government's Growth, Employment and Redistribution macro-economic strategy.

A carefully worded resolution to this effect was adopted at a plenary session on Saturday after a debate lasting less than 15 minutes.

There is some dispute about its precise wording.

"The conference acknowledges the need for the basic objectives of macro-economic stability and that Gear provides a basis for that stability," ANC policy head Mr Tito Mboweni read out to delegates.

However, Mboweni later told a media briefing the wording was: "The conference endorses the objective of macro-economic stability. Gear provides a basis for achieving such stability."

Since its adoption in June last year, Gear has been criticised by many members of the ANC, SA Communist Party and SA Congress of Trade Unions who consider it neo-liberal and contrary to the Reconstruction and Development Programme.

It was emphasised at the conference that Gear was not intended to replace the RDP. Another resolution affirmed that the ANC's macro-economic policies must advance the RDP.

The focus would now move to the need for the ANC to develop a detailed programme for economic transformation, Mboweni said. The national executive is to appoint a committee entrusted with this task. — Sapa

Gear is the means for implementing the RDP

The finance ministry has taken issue with a recent article which suggested that the aims of Gear and the RDP were contradictory

(49) BD 23/12/97

THE article by John Aulesbrook regarding the provinces; the growth, employment and redistribution strategy (Gear); and the reconstruction and development programme (RDP) published in Business Day on December 4 is premised on a number of statements that are simply invalid.

There are three main issues that the finance ministry would like to clarify.

The first is whether the RDP and Gear are in conflict. The writer claims that the RDP was intended to aid delivery through government spending while Gear curtails spending in favour of deficit reduction.

This clearly reflects a lack of understanding of both the RDP and Gear.

The RDP is made up of five core programmes: meeting basic needs, developing human resources, building the economy, democratisation of state and society and an implementation programme.

Central to the RDP was that the economy would need to be transformed in order to achieve sustainable growth and job creation.

The RDP stated clearly that macroeconomic issues were important. Section 6.5.7 of the document states: "The existing ratios of the deficit, borrowing and taxation to gross national product are part of our macroeconomic problem. In meeting the financing needs of the RDP and retaining macroeconomic stability during its implementation, particular attention will be paid to these ratios.

"The emphasis will be on ensuring a growing gross domestic product, improved revenue recovery and more effective expenditure in order to make resources available.

"In the process of raising new funds and applying them, the ratios mentioned above must be taken into account."

It is clear, therefore, that while the RDP requires public spending to promote growth, with social spending targeted at the poor, it does not promote unfettered government spending — it requires reprioritisation of spending, and recognises the need for deficit ratios to be addressed.

What the Gear programme does is provide the right macroeconomic strategy in order to build the economy, one of the programmes of the RDP.

It is one of the principal instruments for the realisation of the policy objectives in the RDP. Gear is an integrated strategy consisting of a number of core elements — it is more than just a deficit reduction programme.

One of the core elements is budget reform, which is needed to strengthen the redistributive thrust of expenditure. This is exactly what the RDP was calling for.

Budget reforms have ensured nearly 60% of noninterest spending now goes to the social services:

- R40bn for education;
- R20bn for health services;
- R18bn for social security; and
- R4bn for housing.

In addition, public infrastructure spending has continued to increase. It increased 7% in real terms in last year.

Taking the Gear budget reform proposals a step further, government has just published the medium-term budget policy statement.

Government has adopted medium-term budgeting as a further instrument to prioritise spending to ensure that the objectives of the RDP are met.

Regarding deficit reduction, Gear spells out the reason for this as being "to contain debt service obligations, counter inflation and free resources for investment".

Debt servicing makes up just more than 21% of expenditure on the budget.

It is obvious that if one brings down the debt servicing costs, there will be more money available for government spending.

Government's macroeconomic policies have already increased the economy's long rate growth rate from less than 1% in the decade prior to the elections to more than 3% during the past three years. This means that despite reducing the deficit by more than half (from 9,8% in 1993/94 to 4% this year), expenditure has risen by an average of 2,5% in real terms since 1994/95.

This is entirely consistent with the RDP, which recognised that development resources would need to be generated through the reprioritisation of government spending while containing government spending within affordable limits.

It is clear, therefore, that the RDP and Gear cannot be described as "separately appropriate", and there can be no potential for conflict in implementation when the latter is actually the instrument for implementing the former.

Turning to another issue the author raises — that of the poverty relief programme — he claims that providing R300m for social upliftment sends a confusing signal to people on the ground, while the provision of essential services such as health and education is being disrupted and threatened by budget cuts.

This statement reflects the author's lack of understanding of the R300m set aside in the budget — not recently announced — for community-based poverty relief programmes. This money is to be used specifically for programmes in rural areas that benefit women.

To speak in the same terms of the specifically targeted investment relief and of the R40bn provided for education and the R20bn for health services merely indicates the author's lack of understanding of the budget.

Furthermore, there have been no recent budget cuts.

What we are seeing in the provinces is the reprioritisation of funds so that they can come out within the global amounts that were allocated to them in March and according to which they drew up budgets for specific departments.

On a third issue, the author asks why social spending is not structured in a comprehensive and transparent way, involving provincial and central government.

This question raises the issue of power and responsibility, which has been misunderstood by certain provinces.

The constitution provides that each sphere of government is entitled to an equitable share of revenue raised nationally to enable it to provide basic services and perform the functions allocated to it. Health and education have been allocated to the provinces.

So as to ensure transparency and fairness, the constitution requires that revenues be divided according to a formula, the components of which are the result of discussions involving provincial and central government, and the Financial and Fiscal Commission.

In the medium-term budget policy statement, published on December 2, these components were spelled out. Once the revenue has been shared out in this manner, block grants are given to the provinces, which are then responsible for drawing up their own budgets and presenting these to their provincial legislature for ratification.

The power to allocate, and therefore the responsibility to ensure that the allocations are complied with in terms of subsequent spending, lies entirely with the provinces. If they have not been transparent in the way that allocations have been made, then this is not something of which they can accuse central government.

The publication of the medium-term budget policy statement further confirms government's commitments to transparency in budgeting.

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No magicking Manuel's woes away

(49) mtG 24/12/97 — 8/1/98

Aladdin's lamp could solve some things for Trevor Manuel, but economics being what it is, more problems would arise, writes **Madeleine Wackernagel**

Forget the whiskey (in this case, a bottle of Klipdrift would be first choice), socks and ties What Minister of Finance Trevor Manuel would like in his Christmas stocking is a well-oiled, working economy

Imagine if he were given the proverbial three wishes — although in reality we need more like three hundred But it would be a start

How would he choose between full employment, floods of foreign investment, no El Niño and plenty of rain (but not too much either), a booming gold price, low inflation, soaring tax revenues, a balanced Budget, cancelling the public debt, higher social spending, electricity and houses for all? Tough call indeed

But the genie is out of the bottle and growing impatient. He's a busy lad, with plenty of other fantasies to fulfil

So Trevor considers his options .. jobs for all, definitely a must Just imagine, all that lovely lolly boosting the revenue side of the accounts, keeping the tax-man very happy. Not to mention the political kudos. The Budget deficit would soon be wiped out, no more worries Then there's the crime factor — without unemployment, there'd be no excuse for redistributing income unlawfully.

But hang on a minute, there is a downside Remember first year economics, the trade-off between inflation and unemployment One goes up, the other goes down, according to the Phillips Curve Granted, the theory has been revised and refuted many times since the late 1950s when AW Phillips first saw the connection But, you never know.

On the other hand . the United States is doing pretty well, no overheating even though unemployment is at its lowest in decades But the canny yet cautious Federal Reserve Board is already hinting at an interest-rate rise — just in case. Britain is experiencing a similar problem, which has seen the Bank of England raising rates with disconcerting — for consumers, at least — regularity since it won its independence.

Full employment presents other problems capacity, for one. All that money chasing goods is bound to lead to a shortfall, hence prices rise. And what if the supply of inputs can't keep up with the demand for the final product? Once again, up goes the price

In the first of many balancing acts, Manuel nonetheless goes for full employment Inflation is a small price to pay (the Reserve Bank governor would definitely disagree) to solve this country's biggest problem.

Best of all, he's got two wishes left. For a split second he thinks of all the goodies he would like for himself. Having sorted out the unemployment crisis, doesn't he deserve a little reward?

But no, the country comes first So what's it to be? Forget gold, even if the price did rebound, it would be temporary The world's central banks have too much of the yellow metal sitting in their vaults, gathering dust The weather? The threat of El Niño is receding and with it the potential to do serious economic damage No point in wasting a precious wish on that either

What about foreign investment? With crime now a distant, albeit unpleasant memory, wouldn't the world's multinationals be clamouring to beat down our doors without any further ado? Actually, no. Even with a 35% unemployment rate, labour was stroppy, unproductive and expensive Now that everyone's got a job, the likelihood is that wages will spiral out of control, strikes will become more frequent and productivity levels will decline even further

Manuel realises with dismay that wish-fulfilment is not all it's cracked up to be What if he asked for full employment *and* low inflation? That would solve everything and he'd still have one wish left

Not quite Even genies can't re-invent the wheel. If there were a magical way to solve the world's economic problems, surely we would have found it by now.

So he compromises, low inflation with some unemployment But we're still not out of the woods entirely Countries don't operate in isolation Look at the US: the recent downgrading of growth projections for next year is not of its own making On the other side of the world, an asset bubble bursts and everybody feels the effects

Thus, even if our exports are booming, growth is soaring and inflation is under control, the markets for those products may not be available Back to square one The genie, very sensibly, retires gracefully back into the bottle

Economics is not called an inexact science for nothing. Just think back to January 1997 when most pundits were looking forward to strong international growth, low worldwide inflation — indeed, some were worried about the threat of deflationary forces being unleashed in the not-too-distant future — and good employment prospects. All positive for the South African economy

But by the end of the first quarter, the numbers were being rapidly reassessed From a growth rate of 3,4% in the last quarter of 1996, the South African economy contracted by an annualised 1,1% in the first three months of 1997 Inflation was firmly set on a downward path, but suddenly, so was gross domestic product

Instead of a "soft landing", some economists began mentioning the dreaded R word Spending was knocked sideways as consumers suffered the double whammy of high real interest rates and slower real income growth, gold was weakening and investment was tailing off By the third quarter, nobody was serious about 2,5% growth for the year any longer, 2% was expected at best And by the downright pessimistic - 1,5%

But nobody could have foreseen the Asian currency crisis, or the slump in the gold price Problem is, this economy is less well buffered from shocks than others, being an emerging market doesn't help Investors bailed out in their thousands, seeking safer havens for their capital

Thanks to globalisation, the effects of the Asian fallout are being felt worldwide and the International Monetary Fund has already scaled down its projections for global growth from 4,3% to 3,5% for 1998

So serious are the potential ramifications that the US Federal Reserve Board has put aside its inflation fears and deferred a rise in interest rates for the foreseeable future

Europe is a different matter, with high unemployment, feeble growth and burgeoning Budget deficits, although Britain is booming, relatively

The greatest problem is Japan but the latest package of measures to stimulate the economy should keep recession at bay

South Africa will not escape the battering As the Asian economies slow down, commodity prices will be hit as demand falls Asia will naturally seek to export its way out of the crisis, lower prices will dent our market share A double whammy of greater competition and falling prices, just as South Africa's export market was picking up Lower world growth will exacerbate the trend

On the plus side, Africa is still an exciting and fairly untapped market for local producers Indeed, exports to the rest of the continent almost doubled from $2 billion in 1993 to $3,7 billion in 1996

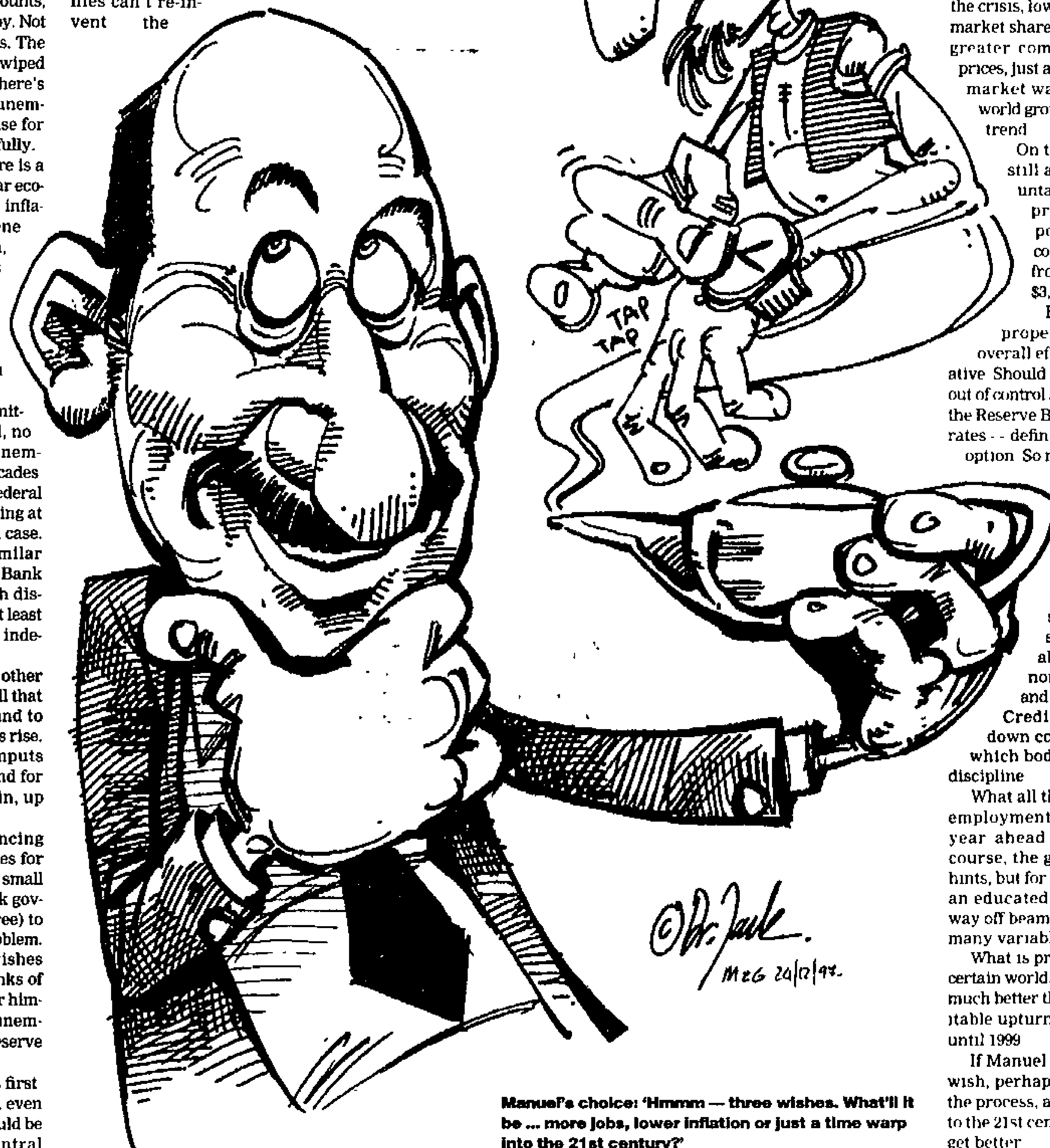
But knowing our high propensity to import, the overall effect could well be negative Should the deficit start getting out of control again, chances are that the Reserve Bank will raise interest rates - - definitely not the preferred option So much for the promised — or at least hoped-for -- cuts next year

Then again, should the consumer prove, once and for all, that he or she can be responsible spenders and preferably, savers, the governor may take pity on us and drop rates as a reward. Credit growth has slowed down considerably this year, which bodes well for monetary discipline

What all this means for growth, employment and inflation in the year ahead is still unclear Of course, the genie may offer a few hints, but for ordinary mortals even an educated guess is likely to be way off beam There are simply too many variables

What is pretty certain, in an uncertain world, is that 1998 will not be much better than 1997 For any creditable upturn we will have to wait until 1999

If Manuel still wants to make a wish, perhaps he should speed up the process, and fast forward us in to the 21st century Things can only get better



Manuel's choice: 'Hmmm — three wishes. What'll it be ... more jobs, lower inflation or just a time warp into the 21st century?'

Samwu congress rejects Gear as 'attack on the working class'

BD 3/11/97 (49)

Pearl Sebolao

THE SA Municipal and Workers' Union (Samwu) has "strongly rejected" government's growth, employment and redistribution (Gear) macroeconomic policy and resolved to look at appropriate forms of mass action to oppose its implementation.

The resolution received strong support from delegates at the union's national congress last week.

Samwu agreed it would actively contribute to and participate in campaigns against what it saw as an attack on the working class, including privatisation and subsidy cuts resulting from Gear's implementation.

Samwu general secretary Roger Ronnie said on Friday the congress had agreed to draw up a concrete programme based on issues outlined at the recent Congress of SA Trade Unions (Cosatu) congress in preparation for Cosatu's special central committee meeting, to be held within the next six months.

Ronnie said it was clear the union, as a member of Cosatu, would have to raise its position on Gear. Cosatu had opposed Gear strongly, favouring instead a macroeconomic framework which emphasised development and promoted the basic needs of the majority. However, Cosatu had stopped short of calling on the African National Congress and government to reject Gear, he said.

Samwu believed Gear contained a number of features opposed to the interests of workers. It relied too much on capitalist investment to stimulate economic growth and very little on using the power of a democratic state to redistribute wealth.

Gear's effects, he said, were being felt in the continuing attempts to privatise local government services.

Ronnie said Samwu's position on the extent and form of privatisation differed from Cosatu's.

"We are opposed to any private sector involvement in service delivery. We are opposed to the direct delivery of services by the private sector, as well as indirect involvement through the administration and management," he said.

Ronnie said the union was, however, not opposed to direct capital involvement by the private sector in local government, for example, by direct lending.

"It is a fallacy that the private sector can build the capacity of local government. There is nobody better than government itself able to build capacity," he said.

Government had to address the whole range of problems brought about by apartheid in order to build the capacity of local government. This should be done through education and skills training, he said.

The Samwu congress also called on Cosatu to spearhead a vigorous campaign against public debt inherited from the apartheid government.

The congress suggested that in the short term one rand in every five currently used to service the public debt should be allocated to reconstruction and development programme projects.

Neil van Heerden, the executive director of the South Africa Foundation, which represents South Africa's

into the country.

He said several South African groups, including Iscor, Nedcor,

Government on 'right track' to its delivery

(49) ET (BR) 4/11/97

MIRANDA STRYDOM

Johannesburg — Contrary to what some critics believe, the Free Market Foundation said last week that the government was on track and moving in the right direction in its delivery.

"I have before paid tribute to the government's cautious style, to the absence of the ill-considered and grandiose programmes that have so often characterised new governments in many parts of the world," said Michael O'Dowd, the foundation's chairman.

"If we judge the present government of South Africa by realistic standards, comparing it with other governments rather than by theoretical and perfectionist standards according to which any real government will come short, there is a great deal to be said in its favour," O'Dowd said.

He said there should not be any complaints if change had to take place, as is the case with privatisation. Privatisation could be mismanaged by undue haste, as had occurred in some countries, he said.

"I have no doubt that much privatisation is needed in South Africa, both to create an efficient economy, capable of sustained growth, and to signal to the outside world that South Africa has wholeheartedly joined the world of the 21st century," O'Dowd said.

He praised the government's continuing devotion to fiscal rectitude. He said although no miracles had been performed in cutting government expenditure, "not even Reagan or Thatcher had managed to do this.

They were sticking to their programme, moderate but serious and genuine, for the reduction of the deficit and were keeping up a steady pressure on wasteful and extravagant government expenditure, especially in the area of subsidies".

O'Dowd said the most conspicuous and painful consequences of fiscal discipline were the high interest rates, and the government and the Reserve Bank deserved particular credit for maintaining the high rates as long as necessary.

Macroeconomic policy on track, says Sacob (49)

BD 5/11/97

KROONSTAD — SA had to adhere strictly to appropriate macroeconomic policies to avoid a serious crisis in times of financial turmoil, SA Chamber of Business (Sacob) director-general Raymond Parsons said yesterday.

"The fact that we have emerged from the upheavals so far with minimum damage owes something to the fact that, unlike in early 1996, we are seen to be committed to a sensible macroeconomic strategy," he told the Kroonstad Chamber of Commerce and Industry.

"We will strengthen investor confidence by implementing our commitments (to government's growth, employment and redistribution strategy)," he said.

Parsons said it had become evident that countries which had strong economic fundamentals had the ability to rebound quickly from a financial crisis.

He described recent market turmoil as a "serious correction, rather than a fundamental collapse".

A sharp drop in southeast Asian and particularly Hong Kong stock market prices last week had sent shock waves around the world, causing international bourses to slump.

The Johannesburg Stock Exchange fell about 10% on Thursday last week after declining sharply two days before. However, it recovered somewhat on Friday and by Monday had stabilised on positive sentiment in New York and Hong Kong.

Parsons said the movements shook countries which had not been pursuing prudent financial policies, such as the southeast Asian economies, while key economies of the west with strong economic fundamentals had rebounded quickly.

He warned, however, that the effects of the global upheaval on SA's economy would take time to unfold.

For the time being, there was no reason to revise Sacob's growth forecast of 2% for this year, he said. — Sapa.

Asian crises knock Gear hopes

(49)

VERA VON LIERES

CT (BR) 11/11/97

Cape Town — The government's target of a 6 percent annual growth rate by 2000, which is set out in its macroeconomic Gear strategy, would be dealt a blow by the recent financial crisis in southeast Asia, Ryk de Klerk, the senior portfolio manager at PSG Asset Management, said last week.

"The impact on the South African economy is likely to be felt through lower volumes (and prices) of commodities and manufacturing production for exports," De Klerk said in his latest Investment Focus newsletter.

But he said a positive spin-off from the Asian meltdown could be cheaper imports from the region, through a relatively strong exchange rate, provided South Africa did not fall prey to currency speculators as it had done last year.

'Gear will not solve problems'

(49) Sowetan 13/11/97

By Shadrack Mashalaba

THE Government's Growth Employment and Redistribution (Gear) strategy, which is based on the International Monetary Fund (IMF) austerity measures, is not a panacea to curb the social issues faced by the South African economy.

This is the view of the Workers Organisation for Socialist Action (Wosa) executive member Salim Vally who said South Africa has voluntarily adopted austerity measures similar to the Enhancement Structural Adjustment Programme (Esap) – a loan facility used by the IMF to help low-income countries.

Vally was a guest of the Media Workers Association of South Africa (Mwasa) at the *Sowetan* offices in Johannesburg.

"The Government has abrogated its responsibility

"The elements of the Gear strategy have been cooked by conservative institutions. The implication is that the interest rates will remain high.

"The strategy calls for the reduction of tariffs, privatisation of state assets and repayment of apartheid debt which is morally and mechanically wrong," said Vally.

Last year, according to Vally, Gear promised 126 000 jobs and its results are ominous – up to 100 000 jobs have been lost.

Vally was critical of South African Reserve Bank governor Chris Stals' policies which he said were inappropriate to meet the needs of the country's poor people

Great on strategy, short on tactics

(49) M+G 14-20/11/97

The ANC draft Strategy and Tactics *document outlines economic plans but gives no indication of how they will be achieved, writes* **Charlene Smith**

Undermining the economy, including investor confidence and the currency, as well as greed-driven corruption, are all counter-revolutionary, according to the African National Congress's draft document on strategy and tactics, prepared for its December conference.

Strategy and Tactics, one of the documents under discussion at the ANC's recent policy meeting, traditionally defines the organisation's goals. This year's document devotes a significant amount of attention to the economy and reveals some ambiguous political thinking, some of which appears at odds with the government's pragmatic economic direction.

Business showed this week at the truth commission hearings that as a whole, companies will take note of new political realities as long as their role in past economic and political bungles is not questioned; the ANC too seems loath to leave behind all of its historical political baggage. The undermining of investor confidence and the currency as a deliberate counter-revolutionary act, as an example, appears to take no note of the recent remarkable see-sawing of international markets and the dearth of a single bogeyman or ideology to blame it on.

The draft *Strategy and Tactics* document, written by unnamed key ANC officials, states that: "In the narrow sense, counter-revolution can be defined as a combination of aims and forms of action that are mainly unconstitutional and illegal to subvert transformation."

Nonetheless, it notes that some counter-revolutionary forces may be loyal to the Constitution and the country's laws. Economic counter-revolution includes "underground efforts to [illegible] cluding investor confidence and the currency; deliberate acts of corruption driven not merely by greed, sabotage of the programme for delivery; wrecking the government's information systems and so on. Such efforts can be supplemented by open forms of mobilisation, not least through legislatures and networks in the judiciary, the economy, the media, and other centres of power."

Given the broad sweep of those claims it would seem that even some Cabinet ministers may be counter-revolutionaries — what does one say about slow housing delivery, for example? Or even the Basic Conditions of Employment Bill, which, according to Andrew Levy & Associates, a labour consultancy, could increase labour costs by 18%? The day after the Bill was passed in the National Assembly, the Central Statistical Service noted that a further 25 000 jobs were lost in the second quarter of this year.

As the document notes: "Counter-revolutionary mobilisation can only take root if there are real grievances to exploit, whether these grievances are deliberately engineered or not."

The discussion document — which will be debated in branches and at the December conference — suggests that these tactics are mainly undertaken by whites and those blacks who were involved in bantustan systems in the past to entrench apartheid privilege. There is the same tired finger-pointing: "The majority of public servants, especially at senior level, the captains of industry, and editorial rooms in which most media shared the perspectives of the former government or its white opposition — are strategically placed to influence the agenda of transformation in favour of the [illegible]

Congress in days gone by: The ANC glitterati get together to discuss policy. PHOTO: ADIL BRADLOW

The document acknowledges that "it is always tempting for revolutionary organisations in political office to characterise all opposition to their programmes as acts of counter-revolution. Yet ... the overwhelming moral and political legitimacy of the new order obliges counter-revolutionary elements to find clandestine and sometimes innocuous ways of subverting transformation."

While the document notes, correctly, that "in some instances, what is hailed as black empowerment is symbolic and devoid of real substance... some are dictated to by foreign or local big capital on whom they rely for their advancement", it fails to recognise that what started as black economic empowerment has become an unstoppable economic force of great energy and importance.

What should perhaps fill the ANC with greater concern is the high level of paper-chasing being indulged by many of the new black empowerment companies and in particular some of the union investment companies. The ANC's natural heirs in the economic forum are primarily involved in businesses that take a wide berth [illegible]

Towards the end of the 40-page discussion document, the ANC gets back into its governmental stride on economic issues, noting that "economic growth requires the implementation of an industrial policy which ensures more investment in infrastructure, manufacturing of electronic, transport, telecommunications, textile and other goods, efficient commercial agricultural production, eco-tourism and housing construction.

"Government must continually encourage the growth and strategic commitment of investment capital, including private savings, fiscal capital expenditure, investment from public corporations and foreign direct investment. Job creation is critical. Government will intensify public works and broad infrastructural development with the creation of jobs as part of its central focus."

However, it gives no indication of any vision on how this is to be done. There is not a whisper about tax incentives, or the conclusion reached in the Gauteng Trade and Industrial Strategy released a few months back that wages are too high and the country cannot afford an ex[illegible] massive unemployment. Boosting public works projects requires reliable tax collection, which a frustrated Deputy Minister of Finance, Gill Marcus, only last week complained is still not happening. Infrastructural development requires that benefitting communities pay rates — the bankrupt situation of local authorities shows how little this is happening.

In Johannesburg it is clear that neither the corporate sector nor the citizens are paying their way.

The ANC re-affirms its commitment to privatisation. "On a case by case basis, and in consultation with all main roleplayers, some public enterprises will be shed."

Land-reform programmes will be intensified, as will housing. Community water supply and sanitation projects, the multi-billion rand infrastructure programme, road construction and electrification will receive particular emphasis.

"Safety and security is critical, but ... the battle against crime cannot be separated from the war on want."

This is surprising, because the implication is that most crime is committed by the poor, but government has received enough research from police and intelligence agencies to show that most crime in this country is now controlled by international multi-billion rand syndicates.

Strategy and Tactics notes that the "integration of the Southern African region is critical to bring our joint strengths to bear in the wider world and ensure that the region becomes one of the nodal growth points of the world.

This includes the building of a common market and the promotion of the region as an important investment destination."

With regard to the civil service, it notes that "where appropriate, the public sector should form partnerships with private companies to bring about efficient, affordable and

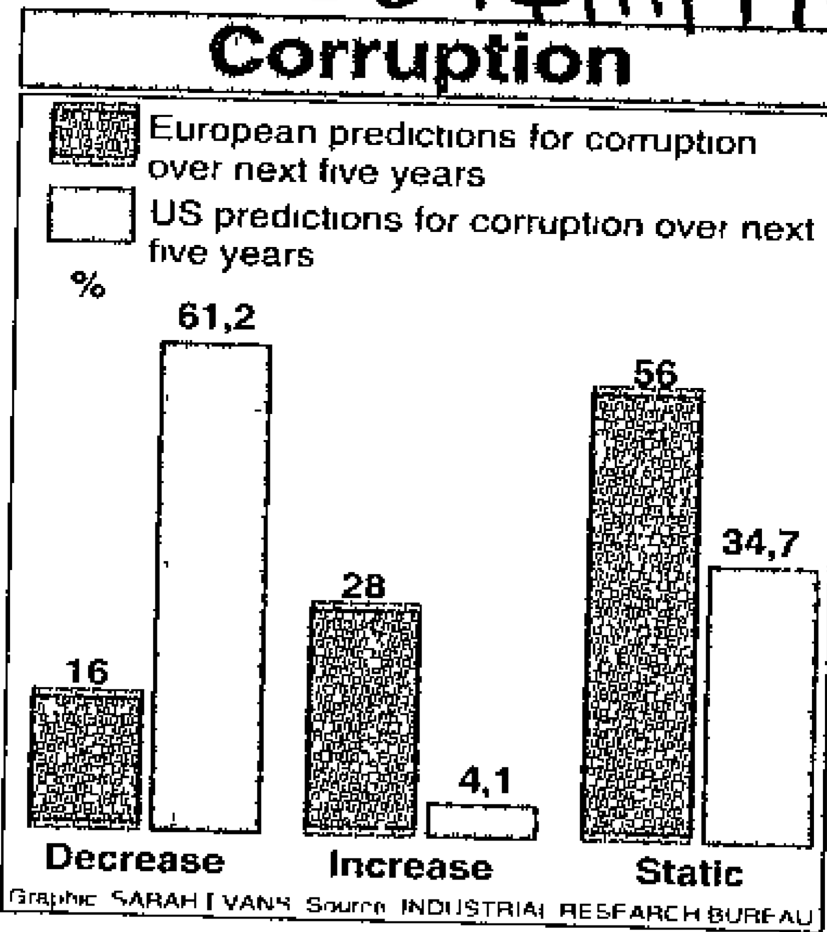
SA 'least corrupt' of 40 emerging markets

BD 14/11/97 (49)

Belinda Beresford

SA HAS been rated the least corrupt of 40 emerging markets in an international survey of business executives that also showed differences in perception between Americans and their more cynical European counterparts.

While 63% of Europeans thought corruption was widespread, only 19% of Americans did. The latter were more optimistic, with only 4% expecting corruption to increase over the next five years, whereas 28% of Europeans thought it would worsen.



The survey by the UK-based Industrial Research Bureau was commissioned by the Control Risks group and questioned 50 companies in Europe and the same number in the US on perceptions of corruption. Among the countries perceived as more corrupt than SA were Saudi Arabia, Malaysia, Kenya, India and Thailand. Russia was considered the most corrupt, with Nigeria the runner-up.

Control Risks information services director Christopher Grose said the findings demonstrated an inverse correlation between perceived business potential and corruption. Seven countries perceived as least corrupt had been shown as offering the most investment potential in another survey last year.

He said the findings were "a happy situation for SA to be in but you have to work at it to ensure it does not change".

NEWS

Scramble for R9-bn insurance trove

One suggestion is that the money could go towards paying off some of country's international debts

Star 14/11/97 (49)

BY RYAN CRESSWELL AND ADAM COOKE

All ministerial eyes are once again on the R9-billion South African Special Risk Insurance Agency (Sasria) fund, which has been lying unused for years.

In addition to the proposal made at the TRC this week that some of the money be used to pay reparations for apartheid victims, various government ministries are clamouring for a share of the money.

The fund, which is a Section 21 (not for gain) company, was set up at the height of the apartheid era.

The Government considered dipping into the fund a year ago but this plan met with protests from various opposition parties, which said Sasria's Section 21 status had put it out of the state's reach.

Afrikaanse Handelsinstituut past president Theo van Wyk re-ignited the debate about Sasria this week when he told the TRC's business hearings that society had a moral claim to some of the huge stash because the state was the ultimate underwriter of the anti-riot insurance agency.

Finance Ministry spokesman Jennifer Wilson said yesterday that the ministry had a say over how best the assets could be utilised.

"There has been an ongoing investigation into how the proceeds should be used.

"Much like the proceeds in privatisation, every minister has a need for more money and has an interest in this."

Wilson said that, with all proceeds, the Government would look to financing debt and, because the biggest charge on the national budget was international debts, the money could be used to pay off interest.

Ricky Naidoo, spokesman for Deputy President Thabo Mbeki's office, said the Department of Finance was handling negotiations with Sasria and it was too early to pick out which ministries could benefit.

Van Wyk told The Star he was especially considering Archbishop Desmond Tutu's TRC reparation plan, which needs R400-million a year, when he suggested diving into the massive fund.

"It (the fund) was a unique creation of apartheid and now is the time to use part of it.

"There have to be reparations, but if you impose taxes for that, you impose obligations, and this can damage the inclination and commitment to succeed."

Van Wyk said it was important that some consensus was reached between Sasria management, the Department of Finance and any other interested parties.

He said that perhaps the easiest solution would be for the company to change its business status.

He pointed out that when Sasria was set up in the turbulent 1980s, overseas insurance consortia would not underwrite it, so the state played that role and never asked for money for the risk.

Van Wyk said the fund probably now made a profit of R1-billion every year and the reparation payments would not be half of that.

He also said the annual payouts by Sasria were only about 10% of the annual profits.

Neither Sasria managing director Mike Strydom nor chairman C J Oosthuizen could be reached yesterday.

Last month Barry Scott, chief executive of the South African Insurance Association, said Sasria was in talks with the Finance Department, and a number of suggestions had been made, including using the fund to help combat crime and to lower the deficit of the road accident fund.

Trevor Manuel cool on spending by government to boost economic growth in SA

ARG 19/11/97 (49)

ALIDE DASNOIS
Business Editor

The poor would be hardest hit by inflation which would inevitably follow if the Government tried to spend its way into growth, Finance Minister Trevor Manuel said in Cape Town.

In a special briefing to Independent Newspapers' parliamentary bureau yesterday, he said the need to cut the budget deficit and maintain price stability had been written into ANC policy documents since 1992 and was part of the Reconstruction and Development Programme (RDP).

Those who called on the Government to scrap its plan of reducing the budget deficit were "in violation of the RDP", Mr Manuel said.

"In any case there is no instance in the world where inflation has benefitted the working poor or the very poor."

Discussing the question of how business could redress the wrongs done under apartheid, Mr Manuel said the Government would consider proposals.

The Afrikaanse Handelsinstituut (AHI) suggested earlier this month that part of the R9 billion in funds held by the South African Special Risks Insurance Association (Sasria) should be used to compensate victims of apartheid. Sasria was set up to cushion insurance companies against riot damage claims.

"Sasria doesn't belong to the AHI and it is not theirs to give," Mr Manuel said.

Nor could the Government introduce a wealth tax - a suggestion made by Stellenbosch economics professor Sampie Terreblanche - "on an ad hoc basis".

However, the Government recognised the need to find ways to accomodate these ideas "in a way which allows us to build".

Business had expressed some regret, "however clumsy or garbled", for wrongs done under apartheid and methods must be found to accomodate this, Mr Manuel said.

Gear strategy 'costing SA jobs'

Sowetan 28/11/97 (49)

Cosatu official says it has been proved capitalists can't be trusted

By Abdul Milazi

MORE THAN 171 000 jobs were lost last year through retrenchment, and this is proof that the Government's Growth, Employment and Redistribution (Gear) macro-economic strategy is leading to job losses instead of creating them.

This attack on Gear came from Congress of South African Trade Unions (Cosatu) assistant general secretary Zwelinzima Vavi at the Chemical Workers Industrial Union (CWIU) bargaining conference in Johannesburg yesterday.

"In South Africa, workers are being retrenched on a daily basis, and sentenced to face poverty in the rural areas. This is not because of the effects of the crash of the stock markets across the globe but because we want to be the good boys of capital and international investors," said Vavi.

Vavi said employment had been falling since the beginning of the 1980s. "Despite claims to the contrary, the capitalists have not let go of their investment strike

"They want the Governments to create a climate conducive to investor confidence. They demand that the Governments retrench its public sector workers and abide by the dictates of the International Monetary Fund and the World Bank."

He said business had to say how many jobs had been created since the implementation of Gear, not how much money had been invested

Vavi added that Cosatu wanted to know the number of jobs created since Gear was put in place.

"The opposite will be the answer. Instead of job creation there have been more job losses. This proves beyond any reasonable doubt that business cannot be trusted."

ANC must cultivate the new elite

(49) M+G 28/11 – 4/12/97

In a discussion paper for the ANC conference, Pallo Jordan advocates greater involvement with the black bourgeoisie, writes **Charlene Smith**

'No serious person could pretend that South Africa today is not a country of far greater opportunity than it was 10 years ago" — but should the African National Congress deliberately foster the emergence of a black middle class?

Minister of Environmental Affairs and Tourism Pallo Jordan, a key ANC intellectual and strategist, makes this point in a discussion paper for the ANC's 50th national conference in December Jordan takes a hard look at the economy and the rise of the black bourgeoisie He suggests that the ANC's "engagement with the emergent black bourgeoisie should involve the elaboration of certain standards of conduct and a business ethic that will speed the realisation of the goals of the national liberation movement

"In the immediate time-frame this must include job creation, skills development, the empowerment of women, the strengthening of the popular organs of civil society and active involvement in the fight to end poverty.

"The ANC must also encourage this black bourgeoisie to cultivate within their own enterprises and in those where they hold executive positions, the creative management of the conflict potential in industrial relations The ANC must influence the black bourgeoisie to assume certain Reconstruction and Development Programme-related responsibilities and to give the lead to the business community with respect to responsible corporate behaviour "

Jordan notes that the opening of new opportunities has developed a new strata of black capitalists and senior managers "The purpose of affirmative action is to create circumstances in which affirmative action will no longer be necessary." But he notes this has not been without problems.

"In the Western Cape and KwaZulu-Natal the impression has quite deliberately been fostered that affirmative action entails the laying-off of coloured and Indian workers or denying them opportunities. Racial and ethnic flashpoints over what are seen as diminishing job opportunities are being created to compound the existing tensions encouraged by the racial hierarchy in jobs and skills of the past "

He suggests that if the ANC does not become involved in the development of the black middle classes, other political organisations will. And yet the ANC is already a significant player among the new business elite: "In the past there were no captains of industry in the leading organs of the ANC, today a national executive committee [NEC] member heads one of the largest conglomerates trading on the Johannesburg Stock Exchange The corporation, moreover, employs thousands of other ANC members as well as ANC supporters.

For the economy to function effectively, race must be removed from the equation

"Prior to 1994, Transnet, one of the biggest state-owned corporations which employs thousands of ANC supporters and members organised in the South African Rail and Harbour Workers Union, was headed by one Johan Maree Today its managing director is a member of the NEC "

Although there is conflict potential between workers and companies - with potential political implications, Jordan also avers that the ANC and its senior members have a history deeply-rooted in business leadership. Jordan notes that Africans had a long history of involvement in the economy from being landowners and farmers to publishers of newspapers, mine and factory owners and by the time the Act of Union was passed in 1909, urban Africans shared common interests despite differing ethnic stock among themselves and white, coloured and Asian people.

Segregationist forces began to strengthen early in the century, culminating in the apartheid policies of the National Party, which came into power in 1948, thereby shattering the remnants of racial hegemony.

This was followed by the ANC's *Freedom Charter* in 1955, which envisaged the seizure of economic assets as essential to the transformation of the country However, electoral politics have brought new imperatives.

"The election results indicated that in many instances it was identification with particular parties and fear of others, rather than political platforms per se, that persuaded voters how to cast their votes. Race, ethnicity, gender and class were evidently salient factors in voter choice."

Pallo Jordan: Contemplating a truly democratic economy. PHOTOGRAPH: NAASHON ZALK

But should these be taken into account given the ANC's commitment to non-racialism? Jordan writes that the endurance of the ANC's principles of non-racialism and its non-ethnic ethos have been difficult to maintain in a racist society But the principles are essential to maintain, he says. "It is proper that we remind ourselves of our strategic goal — creating a democratic, non-racial, non-sexist society

"The radical transformation of the quality of life of the black majority is central to these objectives Putting an end to poverty, hunger, insecurity and economic exploitation should be at the top of the ANC's agenda.

"To the ANC, democracy, non-racialism and non-sexism do not mean that every five years Tony Leon and his African domestic worker can stand at the same queue in Houghton to vote

"They mean creating the conditions in which that domestic worker's daughter has a fair chance of competing equally with Tony Leon's son for a place at the best schools in South Africa, playing the same sports at sporting facilities of equal quality, with the best access to cultural amenities and to compete for a place at Wits to become a doctor or lawyer if she so wishes, and to move in next door to Leon (or even Harry Oppenheimer for that matter) if that is what she wants "

Jordan argues that a perpetuation of racist practices will undermine economic endeavour and political democracy.

He says it will be manifest in a number of ways and should be dealt with creatively. He suggests that Afrikaner petty bourgeois intellectuals will engage in ethnic mobilisation around the issue of language for the resonances they can expect from the coloured population, even though it will "prove unattractive to the majority of voters".

"Traditional leaders" and the institutions they represent have become a "lucrative source of income and patronage" and pose the danger of deepening ethnic divisions to perpetuate those sources of patronage Jordan suggests traditional leaders be stripped of state powers and stipends and their judicial powers circumscribed, leaving tradition to play a role only in those communities that choose to subscribe to it

The overall answer is simple, and yet the most complex of all "The ANC [must] pursue deracialisation with the same determination as racists pursued racism and division "

And so, Jordan says, for the economy to function effectively, race must be removed from the equation (and affirmative action is one of the necessary corrective steps in the short term) and ability must become the overriding criterion

DTI warns cluster process is falling short of empowerment goals

Get into gear, industry told

CT(BR) 1/10/97 (49)

SHERILEE BRIDGE

Johannesburg — Government had threatened to withdraw its support from several collaborative economic development initiatives if industry did not start to pull its weight, said the chief director industrial promotion at the department of trade and industry (DTI), Tony Heher.

The cluster initiative, a programme started by the DTI two years ago, is under threat over a disagreement between government and industry about who should take responsibility for industrial competitiveness.

Heher said the faltering cluster programme, which had been repositioned this year, would be dropped by 1998 if industry did not mobilise itself into industrial groupings.

"Business is too reliant on government. Both business and labour have been resisting the cluster programme by not becoming involved in the cluster process," said Heher.

The cluster process, which was primarily about engaging in debates about the future of South African industry in the global market place, was falling short of its joint economic empowerment goals, said the DTI.

"Without the cluster programme there is no alternative to economic growth in South Africa," warned Heher, who said the DTI was concerned about the conflictual relationship, which was routed in distrust, that was widening the gap between the economic vision of government and industry.

Fred Cawdry, the project development manager at the Industrial Development Corporation (IDC), said that if government pulled out of the cluster programme, "which plays an equally important role as the government's Gear strategy for macro-economic development, South Africa will go backwards. We simply will not compete internationally."

He said industry had not backed the cluster programme because the concept had not been properly promoted.

DTI's cluster process focus had also been far too broad, said Cawdry.

Compared with the DTI approach of grouping unrelated industries and concentrating on geographical groupings, the IDC had focused on micro-cluster studies by defining the scope and scale of the challenges facing manufacturers in a specific industrial sector.

Cawdry said the DTI needed to promote understanding of its cluster programmes and realise it was a key player in "Team SA".

□ Business Watch

SA must stick to Gear despite problems, says departing EU envoy

(49) BD 6/10/97

John Dludlu

SA SHOULD stick to its growth, employment and redistribution (Gear) strategy despite indications that government was struggling to meet some of the targets in the plan, said Angelos Pangratis, the deputy head of the European Union's (EU) mission to SA.

Pangratis also encouraged government to step up efforts to open the economy, as that was the only way it could achieve long-term prosperity.

Having served the EU delegation in SA for two years, Pangratis is leaving this month to take up a post in Brussels.

His call for role players to stick to Gear comes amid continuing attacks on the strategy by labour, with unions claiming the plan has led to job losses and failed to create new ones — a charge the government denies.

Pangratis is concerned that crime, "the ugly step sister of unemployment", which is already affecting investment decisions, will have a long-term impact on SA society, particularly the youth.

He believes government's major challenges include raising the efficiency levels of its bureaucracy, tackling the underdevelopment of human resources to drive economic restructuring and achieving a reasonable degree of empowerment for its previously disadvantaged citizens.

Referring to the EU's aid package to SA, he said the past two years had shown there was just so much that foreign aid could do. He accepted that disbursements had been slow, but stressed that they were being accelerated to avoid increases in backlogs. The fight against poverty, however, depended on SA's ability to mobilise its own resources towards meeting development challenges.

Pangratis said Brussels had hoped the EU-SA talks, due to reume at chief negotiator level in SA next month, would have produced a co-operation framework, including a free-trade area, much sooner. He hoped "the architecture of an ambitious accord" would be in place early next year.

Diplomats closer to the talks have warned that failure to reach an agreement early next year could seriously undermine chances of a good deal as the negotiations might be pushed aside by new EU priorities, such as the planned eastward expansion of the EU, preparations for the launch of a single currency and renewal of EU's co-operation with developing countries.

Asked about his general impressions of SA, Pangratis said he was "astonished by the unbelievable ability to reconcile" among SA's people.

Before joining the EU delegation in SA, Pangratis served in a similar position in Korea. Apart from heading an anti-dumping investigation of major Japanese and Korean consumer electronic firms, he was among the EU's negotiators on anti-subsidies talks in the General Agreement on Tariffs and Trade and negotiated the Organisation of Economic Co-operation and Development agreements on export credits.

His successor in SA has not yet been named.

SA economic policy 'does not have clear focus'

(49)

Nicola Jenvey

BD 7/10/97

DURBAN — KwaZulu-Natal premier Ben Ngubane issued a strong warning yesterday to SA economic policy makers who, in enforcing diverse reforms, were restricting SA to mediocre growth rates. This failed to resolve the serious economic and social backlogs, he said.

Speaking at the SA Institute of International Affairs seminar on relationships between SA and Indonesia, Ngubane said SA had not yet developed "an adequately clear focus" for its economic policy.

It spent too much time talking about transformation and not enough on building the economy which would make transformation possible, he said.

Ngubane also criticised civic bodies and labour for sticking to idealistic and outdated attitudes and failing to uphold the notion of fiscal discipline. "Dreams of transformation achieved through central planning and state control over production die hard," he said.

Meanwhile, the institute's president, Themba Sono, announced that next year's Nonaligned Movement's annual meeting would be held in Durban during August.

SA will chair the 140-strong movement next year, following its admission to the body three years ago.

NEWS

Government is fully committed to Gear, says Ramos

(49) CT (BR) 8/10/97

Maria Ramos

MIRANDA STRYDOM

Johannesburg — The government was unwavering in its commitment to its growth, employment and redistribution (Gear) strategy despite pressure from unions and other groups, said Maria Ramos, the finance director-general, yesterday.

"We are starting to get there, some positive signs are showing up, but it will take time. It is not a short-term policy so it will not happen overnight," Ramos said.

The idea of Gear was to create up to 400 000 jobs by the turn of the century and to reduce the deficit from 5,4 percent to 3 percent of gross domestic product (GDP) by 2000. It also called for trade liberalisation and privatisation.

But the unions objected, saying Gear was drafted to please big business and not the working class. Ramos said though there was much debate around Gear, the differences with the unions were "mainly of magnitude and not in approach".

She said few jobs had been created because a year was spent implementing a large portion of the strategy. Ramos said jobs would only be created once investors started coming into the country. Investors would only feel confident in South Africa if the country had a sound macro-economic strategy, she said.

Gear had to be put in place particularly given that the global economy was moving in a certain direction, she said. She also said South Africa had inherited a R325 billion debt, and 25 percent of the budget was used for servicing that debt.

"We had to find a way to protect investment and savings. We have started to see more direct investment, a more stable rand and more capital flows into the economy ... we are definitely starting to see a turnaround," Ramos said.

Ramos said the government was still convinced that the deficit could be cut to 4 percent of GDP this year.

"It will be hard shifting from 5,4 percent (of GDP) to 4 percent of GDP, but it is necessary and has to be done, and it will be done," Ramos said.

Gear failing on employment front, says economist

BUSINESS REPORTER

The inability of the Government's economic strategy to create jobs was its "single most disappointing failure", according to Azar Jammine, chief economist of Econometrix.

Dr Jammine told the Boland Bank seminar in Stellenbosch that business sa'labour as more costly than machins because of developments such ashe mooted payroll levy for trainin;the "furore" over the Basic Conditins of Employment Bill and the evemcreasing cost of retrenching worlrs.

"Onl once a strong government under nw leadership is in a position to act [illegible] in respect of the relationship between business and labour, is one likely to see the kind of job creation envisaged by Gear (the growth, employment and redistribution policy)," he said.

Dr Jammine said he believed economic growth was likely to pick up to "something closer to 4% to 5% by 2000, but not the goal of 6% set by Gear".

Gear is still on course, says Mbeki

(49) CT (BR) 9/10/97

GEARED UP *Deputy President Thabo Mbeki wouldn't take NP bait*

Lynda Loxton
Parliamentary Correspondent

Cape Town — Deputy President Thabo Mbeki yesterday denied that the government had diverged from its macroeconomic strategy and said it was still on course to meet targets set in the growth, employment and redistribution (Gear) programme.

In a mini-debate in parliament, he refused to rise to the baiting of opposition party members, who said that Gear was woolly on labour market flexibility and privatisation while it had unrealistic time frames for the achievement of its growth and employment targets.

Theo Alant, the National Party finance spokesman, said President Nelson Mandela had been placed on the defence at the Cosatu congress last month, where he expressed reservations about Gear and said that it was not cast in stone.

Mbeki outlined the main aims of the Gear programme, including reducing the budget deficit from 5,1 percent in 1996-97 to 4 percent in 1997-98.

"Actual budget outcomes may diverge somewhat from plans as revenue and spending trends cannot be foreseen with absolute accuracy, but at this stage it is expected that the national budget deficit target for 1997-98 will be met," Mbeki said.

Some concern had been expressed in the media about possible over-expenditure by the provinces but this was under investigation by provincial treasuries and Trevor Manuel, the finance minister.

On exchange rates, Mbeki said government was not trying to prescribe any specific level at which the real value of the rand should be pegged.

It was accepted that the depreciation that took place in 1996 was a necessary improvement in the competitiveness of the currency.

"It is evident that the more competitive rand has contributed significantly to the impressive rise in export earnings over the last 18 months," he said.

The relative stability of the rand this year had also contributed to a strong inward flow of capital, resulting in an increase in reserves to R26,5 billion, or more than double the 1994 level.

On monetary policy, Mbeki said: "The upward trend in prices has slowed in recent months, and the more favourable inflation outlook should in due course lead to lower interest rates as projected in Gear."

Government staying in Gear, says Mbeki

(49) ARG 9/10/97

The Government has not digressed from its five-year macro-economic strategy, Growth, Employment and Redistribution (Gear), Deputy President Thabo Mbeki has assured critics.

He said yesterday he expected the Government would meet its 4% budget deficit target in this financial year, and that fears the provincial administrations would overspend were unfounded.

Mr Mbeki was responding to Theo Alant (National Party), who said the Government was not sticking to the commitment it made in Gear to keep total taxes to within 25% of Gross Domestic Product, adding that last year this ratio had exceeded 27.1%.

In addition, 16 new taxes were in the pipeline. One of these, a planned dedicated training tax on payrolls, would increase taxes by R3-billion, he said. Sapa

Emulating achievements of 'Asian Tigers'?

A major stumbling block for real change in South Africa is the divergence between political power and financial power

By Moeletsi Mbeki

South Africa has everything to delight both the Afro-pessimist and the Afro-optimist.

If you are a pessimist about the continent's future, South Africa has plenty to help you confirm your pessimism. To name but a few indicators

- steadily rising incidents of Aids;
- violent crime that is out of control;
- a stagnant economy;
- unemployment rates nudging 50% in some areas;
- mushrooming shanty towns.

But South Africa also has plenty to confirm the views of Afro-optimists.

- one of the most liberal constitutions in the world;
- a functioning multiparty democracy;
- several companies that are among the world's top 500 corporations;
- leading world producer of platinum, gold, coal, diamonds, ferro-chrome and ferro-manganese;
- fastest growing trade union movement in the world

From this confusing jumble of indicators, let me try and paint a coherent picture.

To do that I will assess what the ANC inherited from the National Party when it won the country's first democratic election in April 1994. I will only touch on those inheritances I think have a direct bearing on the title of this presentation – i.e. can South Africa emulate the "Asian Tigers"?

This is what the ANC inherited from the NP:

- a weakened state;
- powerful natural resources-based conglomerates;
- a divided private sector;
- a powerful civil society – unions, NGOs, churches, etc.;
- weak and dependent black political parties and fragmented white parties;
- a politicised but low-skilled general population.

In its heyday in the 1960s the state was deemed unassailable. This was not just the view of the regime but also that of the US government whose assessment was summarised in National Security Study Memorandum (NSSM) 39 prepared under Dr Henry Kissinger's supervision in 1969

The two decades that followed were to prove analysts completely wrong as the South African state gradually lost control over the country.

- To combat sanctions the state became increasingly dependent on the private sector, which in turn demanded and got concessions such as export of capital, legalisation of black trade unionism and other non-governmental organisation.
- Trade unions and NGOs, with help from some corporations and foreign donors, provided a base for insurrection in black urban areas which by the mid-1980s had become "no-go" areas for the state.
- Administrative structures in rural black areas collapsed under the weight of maladministration and corruption.
- Security forces were overstretched by regional wars, especially in Angola and had started to improvise through "Third Force" activities, further entrenching lawlessness.

The political power of South Africa's mining companies first showed itself in 1895 when they conspired with the British Colonial Office and organised the Jameson Raid. Four years later, in 1899, a hint of their potential military capabilities was visible when, during the siege of Kimberley by the Boers, the De Beers repair works forged a large cannon known as Big Cecil after Cecil John Rhodes.

Sanctions and disinvestment increased the power of mining companies enormously as they were able to enter other areas of the economy, buying subsidiaries of disinvesting foreign companies cheaply. This enabled it to make major inroads, especially into the finance sector and manufacturing, distribution and agriculture.

By the early 1990s the conglomerates had become a state-within-a-state: virtually a law unto themselves. They controlled banks, insurance companies, manufacturing, mines, newspapers, farms, mineral rights to name a few.

More importantly, they accounted for most of the country's exports.

For 30 years between 1960 and 1990 black political parties were outlawed; their leaders jailed and exiled. To establish themselves after 1990 they therefore had to depend on the infrastructure provided by the mass social organisations that emerged from the early 1970s, ie trade unions, youth and sports organisations, church organisations, welfare and development organisations.

These institutions provided the skilled organisers who had the access to and trust of the mass of the black people.

Since these institutions, strictly speaking, are not controlled by these black political parties, the latter are therefore dependent on the former.

Black political parties are thus constrained from following policies that stray too far from the aspirations and agendas of the mass social movements.

Social movements, other than trade unions, have limited financial resources. Black political parties are therefore dependent in a second way. They are financially dependent on foreigners and primarily on the SA finance sector which as we have seen is closely allied to conglomerates. In these conditions what is the real capability of black political parties to bring about any change in South African society?

We have seen the over-arching position of the natural resources-based sector of the SA economy.

Below it is a diverse and vibrant small-to-medium corporate sector especially in manufacturing and services.

The interests of this sector do not necessarily dovetail with those of the conglomerates and in many respects diverge from those of the conglomerates.

They are threatened by the sudden opening up of the economy to foreign competition; the conglomerates are not.

They are hamstrung by high interest rates; the conglomerates, which sit on a cash mountain, are not.

They are adversely affected by falling/stagnant aggregate domestic demand; the conglomerates, who are mainly producers of raw materials for export, are not.

They stand to benefit from rising living standards which will be accompanied by growing skills, productivity and consumption; conglomerates are threatened by rising living standards as these force up their costs of production for minerals and metals in a world environment of fluctuating and even stagnant prices.

The diversity of economic, social and political players in South Africa and the absence now of a clearly dominant social group bodes well for the country's political stability.

But will South Africa's political stability lead to economic growth?

At US$3 100 (about R14 260), South Africa's per capita GNP is about a third that of the Asian Tigers.

What needs to be done if we are to catch up? A great deal of shaking up in order to ope[n] more opportunities for mor[e] players in the SA economy, bot[h] domestic and foreign

- Reduce the stranglehold [of] conglomerates over several sectors of the economy withou[t] reducing their ability to ear[n] hard currency;
- Increase autonomy of polit[i]cal parties without makin[g] them depend on the state;
- Strengthen authority, powe[r] and autonomy of the sta[te] without laying foundations f[or] dictatorship or authoritaria[n] rule;
- Improve skills level [of] labour;
- Re-think foreign econom[ic] relations.
- Explore methods of develo[p]ing capital goods sector.

■ *This is an abridged version [of] a recent briefing by Moelet[si] Mbeki to investors in Londo[n,] New York and Toronto. Mbe[ki] worked as a journalist in Zi[m]babwe and the UK and is now [a] director of a black-owned dev[e]lopment company.*

■ *The perception of the forei[gn] investors to South Africa will [be] published tomorrow.*

Three-year Budgets come a step closer

(49) CT (BR) 14/10/97

MIRANDA STRYDOM

MONEY-CHANGER *Maria Ramos, the director-general of the finance department, believes the new way of handling the budget will give the government's Gear strategy a boost* PHOTO LINDSAY YOUNG

Johannesburg — The finance department's new plan to reprioritise government spending by using three-year national Budgets would soon be sent to the Cabinet, Maria Ramos, the department's director-general, said yesterday.

Ramos said the new way of handling the government's Budget, known as the medium-term expenditure framework, would give the growth, employment and redistribution (Gear) strategy a boost.

"Its a change ... we're moving away from ad hoc budgeting. Departments and provinces will now have a long enough period over which to ensure that expenditure is reprioritised," Ramos said.

Government's Gear strategy calls for budgetary and fiscal reform, including a reduction of the deficit to 3 percent of gross domestic product.

To achieve this target while ensuring delivery on the RDP goals was met, government realised that the entire Budget would have to be looked at afresh. This would prevent arbitrary cuts that did not reflect policy priorities, Ramos said.

The new process created a budgetary process where policy priorities were costed, then expenditures reprioritised to finance policy priorities, she said.

"We believe that for us to be able to reduce our deficit to 3 percent, we need to change the budgetary process and move away from just a numbers game to a more policy-making budget. (It would be) a policy-driven expenditure process," Ramos said.

A third motivation behind the new process would be to inject more certainty into departmental planning processes.

In the past, uncertainties on whether departmental budgets would be cut in future years had led to departments requesting more funds than they would actually spend in one fiscal year. This led to the problem of massive roll-overs.

"Funds are allocated for capital projects, and at the end of the fiscal year there are still a lot of unspent funds," Ramos said.

But she said changing the system was not an easy task. "It's a steep learning curve, but I believe that we have to make a start. This is the first year that we are trying this. Next year we will be focusing more on our delivery objectives; we have thrown the budgetary process on its head."

A further aspect of the new process was that it removed the secrecy that had shrouded budget-making in the past. Once the draft had been presented to Cabinet it would be published for comments and inputs. These would then be taken into account before the finance minister presented the whole package with the 1998-99 Budget on March 11 next year.

EU firms 'positive about SA economy'

(49)

Patrick Wadula

EUROPEAN companies represented in SA generally have a positive outlook for future investments in the country, and an additional R3,4bn is expected to be invested locally within the next 12 to 24 months.

A survey, conducted by the EuroChamber of Commerce and Industry in Southern Africa on "European business confidence in SA", showed European firms in SA expressed positive perceptions on the overall business and economic climate in SA.

EuroChamber project manager Anahid Harrison said yesterday the survey, done between July and September with 327 firms, indicated that European companies believed the SA government had shown consistency in its policies.

"Whether or not they agree with the policies in question, as such (they) reflect a perception of stability," she said.

Harrison said opinions on contentious subjects such as labour-related issues had shown a slight improvement, while perceptions on productivity and accountability of unions were negative in comparison to the 1995 survey.

Although there was uncertainty on tax policies, almost 40% of respondents expressed a positive perception of the taxation situation in SA. "This result has interesting policy implications for investment promotion in this country — if companies believe they can make profits, they are willing to pay high taxes," she said.

Harrison said European firms were generally "noncommittal" on affirmative action.

The survey showed that 25% of the respondents were not considering implementing affirmative action policies. This was a 6% drop from 1995.

Harrison said that despite much attention to black empowerment business opportunities, 37% were ignoring black empowerment as a business development strategy. Only 28% of respondents had implemented such deals.

BD 15/10/97

European business sees SA less optimistically

(49)

Sowetan 16/10/97

EUROPEAN business perceptions of the South African economy have deteriorated over the past two years but the overall outlook remains positive, the European Chamber of Commerce said this week.

However, European perceptions of violence, crime and Government competence have fallen dramatically.

The Eurochamber, an umbrella body encompassing the individual European chambers of commerce in South Africa, said a survey on business confidence indicated that 50 percent of European businesses viewed the current economic environment as either excellent, good or satisfactory, against 72 percent in 1995.

Fourteen percent said the economic situation was bad, compared to eight percent in 1995, while 36 percent said conditions were "sufficient".

European Union (EU) ambassador to South African Mr Erwan Fouere said he hoped the generally optimistic response would contribute positively to debates surrounding the Government's economic policies and business relations between the EU and South Africa.

"The European Union's ultimate aim in supporting the Eurochamber's studies is to further strengthen the trading and investment relationship between the EU and South Africa," he said at the presentation of the report in Johannesburg.

Future planned investments totalled a healthy R3,5 billion, the survey showed, despite a limited response by firms canvassed.

Worrying trend

A worrying trend was the deterioration in the perception regarding crime, violence and corruption.

Businesses were concerned by the inability of Government to address the high level of crime.

The survey showed some 78 percent of the respondents (64 percent in 1995) were pessimistic about the Government's ability to control crime.

The negative feelings were particularly high among German business people.

Other areas of concern were the reliability of government leaders, corruption and the competence of the civil service.

Only 21 percent of the respondents showed confidence in the abilities of political leaders, and only three percent showed confidence in the ability of the civil service.

The survey showed an alarming 87 percent believed that corruption existed within Government structures, against 72 percent in 1995.

The respondents were generally optimistic about the political framework and the context of economic policy.

It showed the businesses were satisfied that the Government was consistent and committed to its economic policies.

Respondents expressed confidence in Government's commitment to ensure the free transfer of funds, return on investment and the maintenance of free competition.

They were less confident about operational factors, such as labour productivity and trade unions.

Firms also had relatively high and growing expectations regarding their living standards and quality of life in South Africa.

Crime remained the primary area of concern.

The survey questioned more than 670 European-controlled companies, of which 327 firms replied, representing 113 600 employees.

The EU accounts for around 50 percent of foreign direct investment in South Africa.

● The Eurochamber survey also shows a trend away from empowerment deals and commitments and affirmative action.

German finance minister Theo Waigel ... businessmen from his country are particularly pessimistic about the South African Government's ability to control crime. PIC: AP

European companies in South Africa are placing less emphasis on black economic empowerment deals and affirmative action.

Business confidence

The survey on business confidence and perceptions in South Africa indicated that 37 percent of the European-controlled firms canvassed were not considering black economic empowerment deals, up from 30 percent in 1995.

Thirty-five percent of the respondents said they were considering such deals, while 28 percent indicated they were either in the process or had already implemented empowerment measures, compared to 35 percent two years ago.

It also showed that 25 percent of the companies were not considering implementing affirmative action to raise their complement of black staff.

The figure was six percent higher than in 1995, when 19 percent were against affirmative action. – *Sapa.*

Hike in govt spending a blow to Gear

(49)

BD 17/10/97

Greta Steyn

GOVERNMENT spending continued to race ahead in September, placing Finance Minister Trevor Manuel's ambitious budget targets in jeopardy.

Exchequer figures released last night showed spending for the first six months of the fiscal year was up 11,5% on the same period last year. This compares with a budgeted rise in spending of only 6,1% for 1997/98.

Manuel wanted to slash government spending in real terms this fiscal year to reduce the deficit and free up savings for the private sector. A reduction in the deficit to 4% of gross domestic product (GDP) is a crucial first step towards the growth targets in the growth, employment and redistribution (Gear) strategy.

Economists are increasingly worried that the fiscal targets will not be met, which will be a bad omen for Gear. Spending overruns are likely also to harm fragile investor confidence.

Equisec economist Dawie Roodt said to meet the targets, noninterest expenditure would have to fall slightly in nominal terms for the remainder of the fiscal year. "It is difficult to see how government will be able to achieve that; Manuel is facing a big problem."

However, finance officials remained optimistic that the targets could be met. They pointed out that the figure in the monthly exchequer statement represented requests from departments and provinces for funds to spend, rather than actual spending. The final spending figures could be less. In addition, finance officials were working hard with provincial governments to resolve the problems.

Education spending was under pressure, but officials said the problem could be alleviated by laying off temporary teachers — many of whom were employed to meet pupil-teacher ratios.

Capital projects were also likely to suffer as provinces tried to find savings to finance their overruns on education, health and welfare.

One economist said she believed Manuel would find some way to produce a deficit of below 4,5% of GDP. "He will not lose credibility over a small overshoot." It was also unlikely that a small overrun in spending would require extra borrowing, as proceeds from privatisation had exceeded the budgeted amount.

The figures suggested there would be little help from a revenue overrun. For the first half of the fiscal year, revenue was up 10,6% on the previous year, against a budgeted rise of 11,1%.

The difference between spending and revenue — the deficit — came to R20,5bn for the six months. This compared with a budgeted deficit of R24,8bn for the full fiscal year.

Finance director-general Maria Ramos said last week she was "still optimistic" about the deficit target. "It is true expenditure is higher in the first half than we wanted it to be, but we are likely to see a significant slowdown in the second half. We are working closely with the provinces to sort things out."

The exchequer statement also showed that government had R3,9bn in the bank. Of that, R2,04bn was held with private banks in the money market, and the rest was in the exchequer account at the Reserve Bank.

State finances take turn for the worse

CT (BR) 17/10/97 (49)

CHRISTO VOLSCHENK

ECONOMICS EDITOR

Cape Town — State finances took a turn for the worse in September when income fell further behind budget and requisitions raced ahead, the finance department said yesterday.

With income and requisitions moving in the wrong direction, the deficit before borrowing yawned ever bigger in September, prompting Budget watchers to warn that it would be "almost impossible" for the government to bring the deficit in on target with only six months of the fiscal year remaining.

AMBITIOUS *Trevor Manuel set 4% target*

Requisitions from the exchequer account are amounts requested, but not necessarily spent, by state departments.

In his first Budget in March Trevor Manuel, the finance minister, vowed to bring the deficit before borrowing down to an ambitious 4 percent of gross domestic product (GDP) in the fiscal year at present from last year's 5,4 percent.

The finance department said yesterday that income in the first six months amounted to R74,8 billion (10,6 percent above the same period last year) and requisitions R95,3 billion (11,5 percent above the same period last year), leaving a deficit of R20,5 billion.

After five months requisitions were 10,8 percent higher and income 10,8 percent higher, slightly better on both counts than at the end of September.

Manuel budgeted for a deficit of R24,8 billion in the fiscal year.

The department warned not to draw conclusions from figures half way through the fiscal year, but analysts said it would be "very difficult" to stay within the budgeted figures even though income collections usually improved towards the end of the fiscal year.

Jac Laubscher, the chief economist at Sanlam, said the deficit before borrowing could come in closer to 4,5 percent of GDP rather than 4 percent, primarily because of overspending.

Manuel budgeted for expenditure to rise only 6,1 percent in the fiscal year from the previous year, and for income to rise 11,1 percent. At 11,1 percent, requisitions were still 5,4 percentage points above the budgeted 6,1 percent after six months.

Gear's slow pace a cause for concern

(49) CT (BR) 22/10/97

CHRISTO VOLSCHENK
ECONOMICS EDITOR

Cape Town — The slow pace at which the government was implementing the growth, employment and redistribution strategy (Gear) was cause for concern, Jac Laubscher, the chief economist of Sanlam Asset Management (SAM), said yesterday.

Speaking at the launch of SAM's latest quarterly economic and investment review, Laubscher said that in some areas of Gear implementation had been "rather tentative".

"Although progress is being made in a number of areas — for instance, with the lowering of import tariffs, establishment of financial stability, introduction of a new export promotion scheme, investment promotion and the reprioritisation of government expenditure — progress in other areas has been rather tentative," he said.

The momentum of the privatisation drive had "fizzled out" after the introduction of a strategic equity partner into Telkom.

"In our opinion government is still too concerned with maintaining control of the enterprises involved," Laubscher said.

The need for a flexible labour market was also not being fully appreciated, he said.

"Labour policy should focus on those already employed and those unemployed in equal measure. It is a luxury for a country with an unemployment rate of 30 percent to adopt standards of employment which do not recognise the developmental requirements of business.

"Any measure that would increase the cost of labour at the expense of employment should be avoided at this stage.

"As it is unavoidable for business to be exposed to the forces of international competition and globalisation, so it is equally impossible to protect labour from these very same forces," Laubscher said.

He said the lack of clarity on how the government would encourage greater competition in the economy remained an obstacle to direct foreign investment.

Monetary union 'to affect SA economy'

Belinda Beresford

BD 03/10/97 (49)

EUROPEAN monetary union would have a "tremendous effect" on the working of SA's economy and had implications for the country as a significant gold producer, Reserve Bank deputy governor James Cross said yesterday.

Speaking at an ABN-Amro bank presentation on monetary union, Cross said that it was unclear to what extent the new European Central Bank would hold gold. However, gold sales would be a union issue rather than the individual country's central bank.

Monetary union would affect SA technically in a number of ways,which could include changes to banking legislation. It was "the economic event of the century", and would create possibly the world's biggest trading bloc. SA's trade would be affected, especially since three of SA's top five trading partners were potential European Union (EU) members.

EU experiences with union had demonstrated the importance of macroeconomic discipline. The main lesson to SA, as a country and a Southern African Development Community (SADC) member was there "was no easy way out" of the need for basic monetary discipline. Although SA was not entering into formal union with its neighbouring states, there were moves towards looking at unification over a period of time. Yesterday's meeting between SADC reserve bank governors was intended to develop common policies.

The Reserve Bank had also used European policies as a guide for a paper, due out within two weeks, examining how monetary policy was transmitted to the economy.

ABN Amro director Dolf van den Brink said that countries, particularly those with European links, could start denominating contracts in euros instead of dollars. Ultimately the euro could become a major contracting currency with the possibility that some countries could peg their currency to a weighted combination of the euro and dollar.

Dov Fedler

SOUTH AFRICA

A new

Could the ANC become the first

Business is soon to be called before the Truth and Reconciliation Commission to explain and apologise for its role in apartheid Much like the TRC media hearings, these promise to be a titillating mixture of upmarket theatre and soap opera

Business apparently has little to worry about, apart from a few days of inevitably negative publicity One TRC team, visiting a large insurance company, was asked a few weeks ago by a nervous manager if they wanted the group to make a submission "Er . . , if you *want* to," came the reply

In one respect, the evident lack of expertise or even serious interest residing in the TRC on how business actually did operate under apartheid and sanctions is a pity It means that the hearings will contribute little to a comprehensive, or objective, economic history of the country Someone else will have to write it

The flip side — and a far more positive one — is that the future historian will have to record that just as the pillars of free enterprise were being put on trial by the victorious socialist/humanist/unionist armies, so these very forces were themselves beginning a painful process of embracing the free market and, thus, the forces that drive business

The ANC — at least its African heart — is slowly but unmistakably embracing capitalism, casting aside the socialist dogmas that glued it and its communist and labour allies together during decades of exile The process is generating great tensions within the alliance

It is hard to overstate the importance of the moment South Africa is witnessing the beginning of the vanquishing of socialist ideology in its biggest political movement, bled to death almost before it has had a chance to perform In its place capitalism — victorious in eastern Europe — not only stands a good chance of survival but of growing real roots among a poor and threatening South African majority

The touchstone has been a "discussion document" — in effect a political balloon from President-to-be Thabo Mbeki — calling for the ruling ANC to become a party of

kind of struggle

ruling party to impose a genuinely free market economy on the country? (49)

FM 24/10/97

national capitalists and to abandon its socialist heritage

There is nothing so absorbing in public life as an institution changing its mind, and this is what is happening to the ANC — all Africanist, populist, and redistributionist smokescreens aside.

In a few short years of power, profit and the capitalist ethic are becoming a Holy Grail The good news is that the conditions in which capitalism and the free market thrive — social and economic stability — will become more, not less, important to the rulers.

It is not just the metamorphosis of former communists in the union movement into investors that marks the change Their political constituency is too small to matter Rather, the paper written for the December tri-annual congress of the ANC by Deputy Minister of Environmental Affairs & Tourism Peter Mokaba marks a decisive shift in tone and intent deep within the African majority in the ANC

Mokaba would probably not have written his tome without an approving nod from Mbeki It is the most public recognition yet from within the ANC that long-term black (African) empowerment and enrichment rests not with socialist redistribution but in a free market

Obviously, the language is couched in liberation verbiage. Thus, according to Mokaba "The correct path for the development of the South African State of National Democracy remains one of building a democratic market economy with a strong anti-poverty programme" And crucially, "efforts to try to make its bias towards workers or employers will only destroy it and fail the national project of achieving full democracy and prosperity for all"

Remove the sloganeering· Mokaba is pleading for innovative ways to draw as many people as possible into the free market economy In this he is certainly on the right track

Business, as it will find at its TRC hearings, was always considered by the comrades in exile to have been apartheid's chief beneficiary As a result, it would have served its protector Wrong There *was* a relationship but it was almost accidental When economic sanctions hurt profitability, apartheid collapsed. But that merely serves to illustrate a wider truth about market economies — that they are an almost perfect pressure gauge for democracies

The way forward for this country must be an economic system in which — through widespread ownership of corporate equity and rapid entry of Africans into business — follies both of a corporate and political kind are quickly punished or protested by an engaged and investing electorate

The fact that the ANC government has done nothing yet to lower the overall unit costs of production will never be successfully combated by white business complaining about labour laws or high taxes Only the black majority has the electoral power to really move policy. That will only become a real possibility when blacks have a real stake (something to lose) in the market economy

Coverage of Mokaba's paper has focused on his remarks about the relationship between the SACP and the ANC. This misses the point Mokaba is a populist politician (as were hugely successful Western leaders like Thatcher and Reagan) and probably closer to the ANC's core constituency than most members of the Cabinet He knows mothers in the townships are not raising their children on dreams of becoming shop stewards or party apparatchiks.

>>What is genuinely exciting is that the conditions in which a market economy thrives are necessarily the same ones that will stabilise SA's fractious society. If Mokaba's vision finds resonance in the party, it will have to commit itself to policies and regulations which make a successful market economy possible<<

The new dreams are of wealth and economic independence

What is genuinely exciting, though this is not spelt out in the Mokaba paper, is that the conditions in which a market economy thrives are necessarily the same ones that will stabilise SA's fractious society This means that if Mokaba's vision finds resonance in the party, it will have to genuinely commit itself to policies and regulations which make a successful market economy possible.

There are no short cuts to a free and functioning free market There is no such thing as *African* capitalism, just as there is no such thing as an *African* media Capitalism delivers most abundantly in transparent democracies in which ownership of equity is widespread, taxes low, government involvement in the economy minimal, competition strong and where taking the huge personal risks involved in starting up job-creating businesses are much more obvious than they are now

Mokaba recognises this In an interview with the *FM* (People, page 142) he notes that popularising capitalism is key "Anything will be popular with the masses as long as it resolves unemployment, poverty and ensures broad participation That's why I favour antitrust legislation

"We don't need isms; we can't eat isms Sustainable development is our goal. Capitalism has evolved and thrown up many different forms, some of which failed and some of which succeeded Socialism was unable to evolve and therefore failed This is not a condemnation, merely an observation The ANC cannot build socialism. It can only build a market economy, which is capitalism It can reshape the market and the State to best develop democracy

"What I have seen is every country in the world embracing the market China is growing on the basis of acceptance of markets Capitalism is not a swear word."

Indeed The popularisation of free market economics will deepen democracy in SA, though Mokaba and his allies will have to work hard at creating the right regulatory framework within which a genuinely popular capitalism, rather than the relatively elite version prevalent now, can grow.

The JSE needs to become more transparent Issues of minority rights have to be addressed (see Deon Basson's *Open Season* column on page 64) The growth of N shares will need consideration. Revisions to company law and taxation cannot be left merely to small groups of experts, however well-intentioned. The greater the social consensus around these issues, the more powerful the rules become.

Mokaba would not want to be compared with Margaret Thatcher, but the fact is that her lasting legacy to the UK was not the destruction of the unions or her fight for independence within the European Union What lingers is her success in creating a national consensus on the evils of inflation

There are, of course, those in the ANC who would argue that the organisation has never been socialist For many years, before it was banned in 1960, the ANC was led by "anti-communist" middle-class intellectuals like Mandela. And the debate started by Mokaba is not new. SACP-ANC differences date back to the 1940s and 1950s when ANC leaders, Mandela included, openly criticised the growing communist influence in their organisation.

However, in exile the ANC had to depend on communist bloc countries for arms and on the West to educate the "cadres" who would run a liberated South Africa The side order that came with communist support was an increasing SACP influence within the ANC alliance

Though, to be fair, the ANC continued to talk of a national democratic revolution to establish a "bourgeois democracy," as Mokaba calls it, the identities of the two organisations blurred, in practice, to such ·· extent that they became an omelette What Mokaba is saying is let's unscramble ·e omelette and return to our roots," says ·t ANC member.

What is surprising about Mokaba's paper · the speed with which a "quasi-socialist" ganisation has embraced the market sys-m There is a growing acceptance of ·p·talism in the upper echelons of the ·IC Mokaba is merely declaring openly ·at others are still too scared to say ·blicly.

This is a far cry from the early 1990s ·ien the comrades-from-exile returned, ·re was a grudging acceptance of the ·ket system — but only because global ·ities ruled out a "socialist experiment" · minute the ANC, torn between its ·dle-class roots and its communist in-·ces, was committed to a mixed econ-

·he next, it was dismissing the stock ·ange as a "white man's casino" and ·tening to nationalise the commanding heights of the economy To add to the ideological confusion, the late Joe Slovo once remarked, during the early 1990s, that the market was not necessarily a capitalist institution

Nowadays, Mokaba uses phrases like "a capitalist democracy" so often that one has to wonder whether he has moved to the right, economically, of many social democrats who the comrades dismissed as Thatcherites during the Eighties

The "white man's casino" is now the playground of trade unions, charitable organisations, black capitalists and a company started by the ANC It is no longer shameful to be rich

At the end of last year, black companies controlled assets worth 12% of the JSE's market capitalisation, according to McGregor's Information Services. The money used to buy these companies may be white, as cynics would say, but the point is that more people, some of them ex-comrades and many former political prisoners, have embraced the market system

Below the listed black giants are scores of unlisted black consortia — some of them with stakes in listed companies, and others in joint ventures with listed companies. No doubt the "new country" has unleashed a wave of entrepreneurial activity within the black community

It is too early to proclaim the triumph of capitalism in SA, however Despite all the right noises coming from the ANC, the organisation is acutely aware that more people must taste the fruits of the market economy.

For all the empowerment that has been achieved, it does not go deep enough. The black entrepreneurial class, though it has grown in numbers, is still not large enough, or powerful enough, to give a more credible articulation to traditional business demands for lower taxes and more flexible labour markets

>> We don't need isms; we can't eat isms. Sustainable development is our goal. Capitalism has evolved and thrown up many different forms, some of which failed and some of which succeeded. Socialism was unable to evolve and therefore failed. This is not a condemnation, merely an observation. The ANC cannot build socialism. It can only build a market economy, which is capitalism. <<

Peter Mokaba

Browsing through McGregor's list of 40-odd black controlled companies, it is apparent that they are controlled by about six or seven conglomerates Robin McGregor points out that the country's listed companies have more than 25 000 subsidiaries which should be the next arena for empowerment.

The empowerment deals, so far, have mostly been done at the holding company level Tax breaks and foreign exchange concessions could encourage more listed companies to sell their subsidiary companies to black investors.

"Getting black people involved in real operating companies would provide a real training ground and revitalise the economy," Robin McGregor says.

He does not say so, but abolishing exchange controls and strengthening antitrust legislation would create the space for a new breed of entrepreneurs. Accessible (and less risk-averse) capital markets would also help

According to a recent *Wall Street Journal* article, the present dynamism of the US economy can be attributed not only to flexible labour markets, but also to a "free-wheeling capital market" in which entrepreneurs get second, third and fourth chances to secure finance

The ANC is not about to embrace an elitist model of capitalism For capitalism to flourish in this country, it is vital that more people be given a stake in it Mokaba and his supporters have moved away from sterile debates about "isms" to a more sophisticated examination of the role of the State within a market economy

The difference is that in the past "the role of the State" could have raised the possibility of nationalisation It now means giving the right incentives for the market system to produce socially desirable goods and services in partnership with the State

It is a good start **Peter Bruce and Duma Gqubule**

Gear should be rewritten — SAIRR

(49) BD 24/10/97

THE growth, employment and redistribution (Gear) strategy needed to be rewritten with full employment as its objective, the SA Institute of Race Relations (SAIRR) has said.

"On this issue SA needs to take its cue from 'new Labour' in the UK, where the (Tony) Blair (Labour Party) government has recently committed itself to pursuing full employment," SAIRR CE John Kane-Berman said yesterday.

In an article to be published in the forthcoming issue of the institute's monthly publication, Fast Facts, Berman said it was now common cause that Gear was falling behind.

"Perhaps it is just as well that President (Nelson) Mandela recently said Gear was 'not cast in stone'. It needs to be rewritten with full employment as its key objective. The appropriate policies and strategies to pursue this goal then need to be devised." — Sapa.

Mandela opposes Commonwealth economic charter

BD 28/10/97 (49)

Tim Cohen

EDINBURGH — SA's President Nelson Mandela yesterday highlighted wide opposition to the Commonwealth's new economic charter despite its adoption by the 54-member organisation, saying the document was "not binding in its present form".

Briefing journalists at the Commonwealth heads of government meeting, Mandela said "quite a large number of delegates" had reservations about the economic charter which endorses free market principles.

He said many delegates were "totally unhappy about it" and "we will have to look at it with our own experts until we can say that we support the declaration".

The opposition to the Edinburgh Commonwealth Economic Declaration on Promoting Shared Prosperity was over suggestions for a new round of trade liberalisation discussions similar to the Uruguay round of the general agreement on tariffs and trade (GATT).

The idea was supported by Canada, New Zealand, Australia, Singapore and the UK, which were pressing for across-the-board trade liberalisation in what was to be called "the 2000 round".

But many countries at the conference, especially smaller countries still smarting from the latest round of GATT, opposed this idea, which was watered down to refer only to "maintaining momentum towards freer trade through multilateral negotiations".

Opposition to a new round was led by India, which pressed hard for the negotiations to be confined to the existing talks on agriculture and financial services.

This position was eventually adopted by the report.

Mandela supported some aspects of the plan, saying: "We have not made the progress that we originally intended to from the point of view of building houses and other amenities", and the plan was intended to encourage development.

However, he said that "we must not regard this as a miracle that is going to be achieved overnight" and said that the plan needed to be discussed further.

On his discussions with Blair, Mandela said they focused on the forthcoming visit by Prince Charles to SA. He said the Lockerbie situation was discussed but that this had not beeen a central point of the talks.

Mandela's comments dominated UK media reports on the conference, and wide publicity was given to his assertion that Britain could not be the prosecutor, complainant and judge in the case and still maintain that justice would be seen to be done.

The first signs that the staunch British position on the issue was beginning to soften emerged yesterday after UK Foreign Secretary Robin Cook said he would not totally rule out holding the trial of the two bombing suspects in a third country.

JSE *Waves of panic hit bond and currency markets, leaving most indicators at new long-term lows*

Biggest one-day loss since '89

CT (PR) 28/10/97 (49)

Matt Getz
Market's Editor

Johannesburg — All the JSE's gains of the past nine months were wiped out in one fell swoop yesterday as the market underwent its worst one-day loss since 1989, sending waves of panic through the bond and currency markets and leaving most indicators at new long-term lows

"This is definitely the worst day since I've been around, and I've been here seven years," said one chief dealer.

The JSE's all share index fell 5,66 percent to 6763,2 points

Losses were heavy across the board but the most pain was felt in the all gold index, which lost 6,49 percent to 894,9 points, and the financial index, which shed 5,91 percent to 9785,3 points.

Graham Bell, the head of equities at Standard Bank London, said. "The fall in the South African markets surprised me, along with a lot of other people. Sappi, for example, fell 12 percent, which is quite extraordinary. We must now ask if this is telling us something we hadn't thought of."

Weakness was expected before the market opened. Gold, which continues to influence sentiment about South Africa, had fallen to a 12-year low of $307,30 in New York on Friday and the Hong Kong crisis continued, with the Hang Seng index losing a further 5,8 percent Stocks across the world were weak, with Germany shedding more than 4 percent.

But dealers said the real damage on the JSE, which was one of the world's biggest losers, was caused by futures dealers "Futures were down 400 points before we opened, which set the tone," said one chief dealer. The weak opening fed off itself as private clients, who had been nervous on Friday, immediately put in sell orders.

Futures players' strong involvement meant that big shares were the hardest hit. The Alsi-40 index of large cap shares lost 6,9 percent, pushing the index to its lowest level since January last year. But the small cap index fell 4 percent and the mid cap index shed only 3,7 percent The indices of top financial and industrial shares also lost more than 6 percent.

There were 384 losers on the day, against a mere 21 gainers.

Besides futures dealers, private clients were the main sellers. Foreigners did not seem to be very involved in the market, and institutions had no more than a nibble.

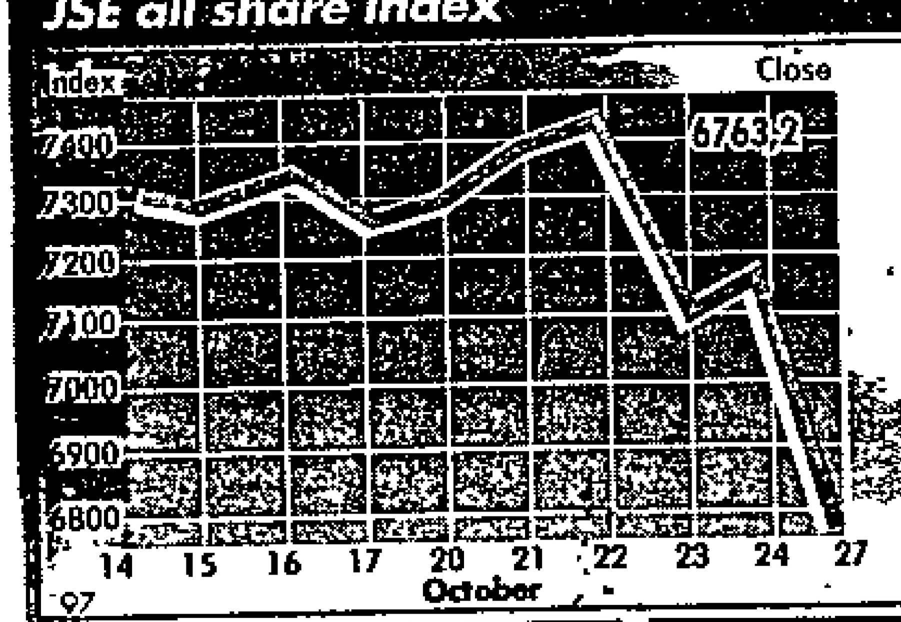
Libhold was the largest loser, falling R30,20 to R319,80. Anglo, also hammered by the weak gold price, fell R23 to R210. Banks were big losers intraday as sellers cashed in on their good run, but they recovered off their lows. Stanbic fell R10 to R220 and Investec was 900c down at R187.

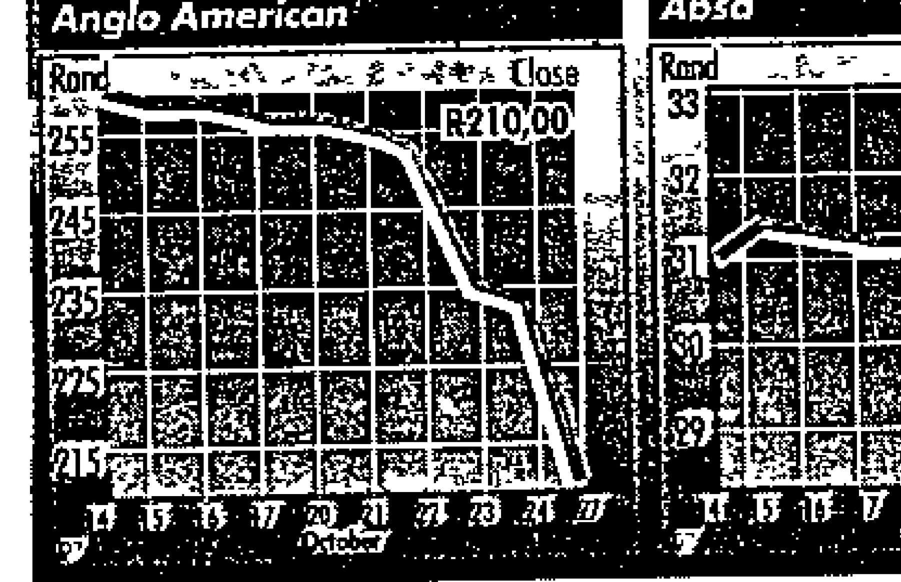
On the bond market the yield on the key R150 bond, which falls when the price rises, was whacked from 14,065 percent to 14,41 percent, a four-month worst. Dealers said foreigners had been the main selling force, with sentiment turning nasty to emerging markets, especially those dependent on gold.

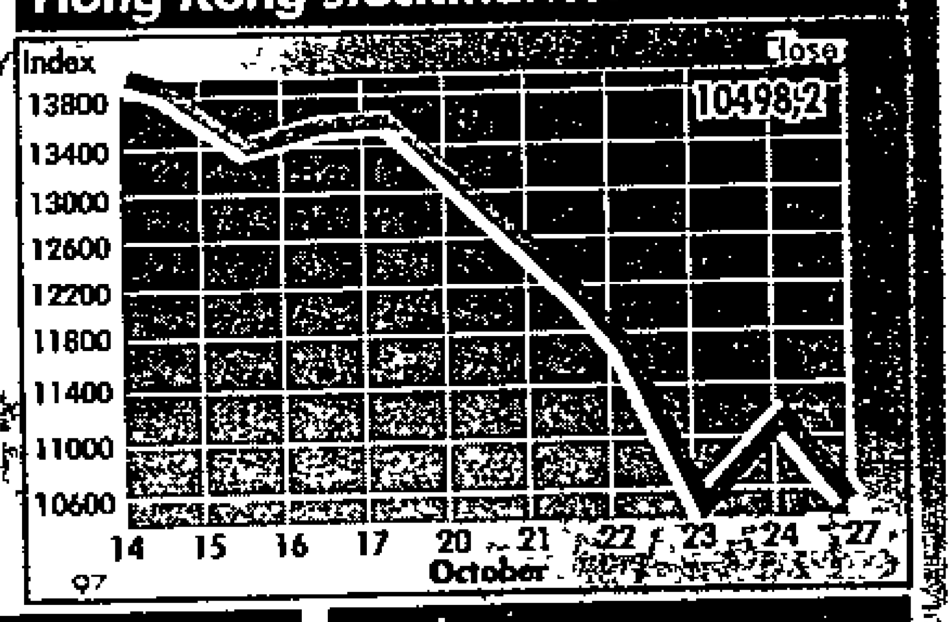
"They've been selling out from emerging markets to the safe haven of US Treasuries. I can't come up with any rational explanation not to buy, but you can't go against sentiment," said one dealer.

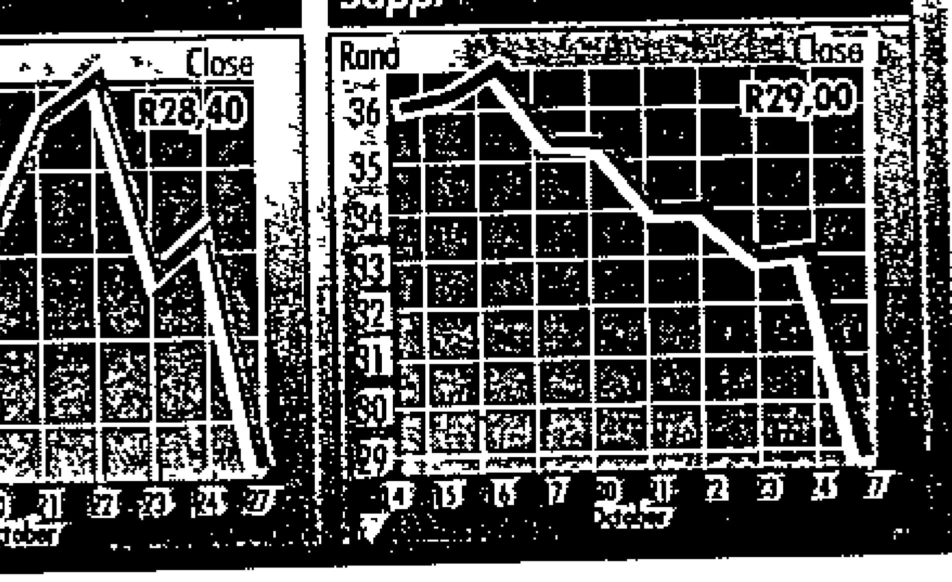
The Dow Jones was down 3,55 percent at 7441,59 points, two hours before it closed

☐ Business Watch, Page 18









Rand weakens in midst of turmoil

Matt Getz

Johannesburg — The turmoil on the stock market was more than matched on the currency market, where the rand closed at R4,7755 to the dollar, which was its worst level ever.

"The panic has overspilt from Friday, with gold and the bonds," said one dealer "It's mainly been out of London and New York, and some local selling."

Dealers said the Reserve Bank had stepped into the market to ensure liquidity as the rand weakened by almost 5c.

Bertus van Zyl, the general manager of the Bank's international division, said the Bank was concerned at the currency's fall, though it would not target specific levels.

Dealers expected further weakness today but, if the market could withstand the pressure, they said it should stabilise by tomorrow.

☐ Business Watch, Page 18

REUTERS

Crash: a trader 'takes cover' as operations stop in New York

ASSOCIATED PRESS

Pensive: traders react to the numbers minutes before trading was halted in New York

Worry: as the

Black Tuesday

(49) 28/10/97

Investors run for cover

EDWARD WEST AND LLEWELLYN JONES
DEPUTY BUSINESS EDITOR AND BUSINESS REPORTER

Shares recovered some of the R116 billion in value wiped out in early trade on Johannesburg Stock Exchange today, but dealers predicted more turmoil on the market, with waves of selling likely to occur for another day or two.

Local and foreign investors rushed to sell their investments when the market opened today and the all share index dropped more than 13% in the first 90 minutes of trade, the second-biggest loss on the history of the stock exchange.

The JSE's all share index recovered slightly to 6002,1 by midsession, bringing the decline for the day to about 10% so far. The13,5% slide in the first 90 minutes of trading represented a 21% drop in the value of the JSE since last Wednesday.

However, dealers polled by Cape Argus were preparing for another wave of selling today, driven mainly by the fact that there was still considerable pressure to sell shares on the New York Stock exchange when it opens later today.

Markets across world slumped today. Shares plunged more than 13% in panic selling on the Hong Kong Stock Exchange, driven by a growing currency crisis throughout the Far East, and a massive 7% dip on the New York Stock Exchange overnight.

The London Stock Exchange posted huge losses in opening trade today, slashing 8% off the value of Britains leading stocks, while German shares suffered even worse with the leading index, the IBIS Dax, falling nearly 13% at one point during early trade in Frankfurt.

Local stockbrokers said they expected the New York Stock Exchange's Dow Jones industrial index to open at least 150 points lower today – based on future trading trends – with the loss likely to have extended to 550 points at the close of trading.

"It took a long time to recover in 1987 and its probably going to be the same this time round," one dealer said.

The slide on the local stock market began yesterday when shares on the JSE fell by nearly 6%, wiping a massive R78,6 billion off the market's value.

Reserve Bank governor Chris Stals said today "the correction in world markets was not unexpected following warnings by central banks about high levels of asset price inflation", which occurs when speculators push the price of shares to unrealistic levels.

The economic scenario was dominated by the collapse of East Asian economies because they failed to pursue basic elements of sound monetary policy and financial controls, he said.

Cape Town brokers expected the local market to continue taking the lead from overseas markets.

"We have been following the New York and Hong Kong Stock Exchanges for the past month, and there is no reason why it should be any different today," one broker said today.

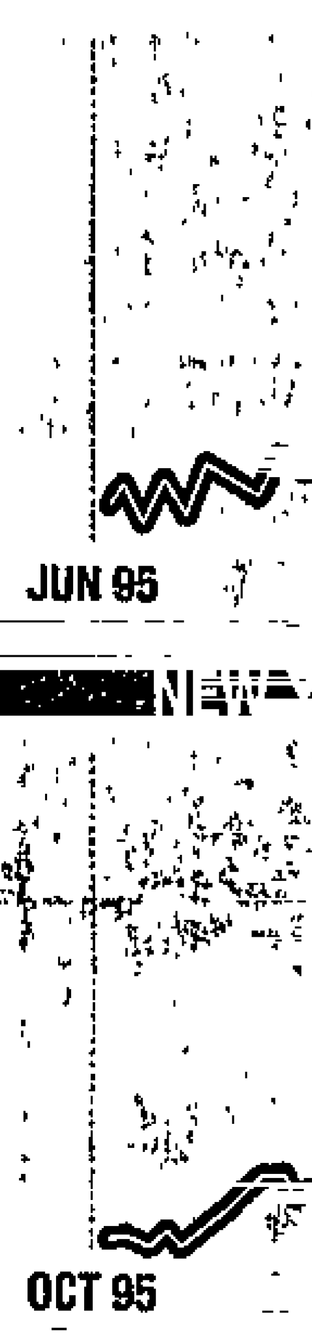
The stock exchange slide is likely to hit anyone invested in unit trusts and the Reserve Bank may be forced to increase interest rates again, less than a month after they were reduced, some experts predicted today.

Pressure had been put on the rand by foreigners who appeared to be selling rand-denominated equities, with R4-billion-worth sold off in only four days

"The result is that interest rates may have to be raised to keep the rand stable and attract foreign investment back to South Africa," an analyst said.

Standard Equities broker Brian MacMillan stressed the world stock market fall since Thursday should still be regarded as a correction rather than a crash, unless panic set in – in which case everyone would be affected.

"Although it is only paper assets which are affected, psychologically everyone feels poorer after a crash," he said



Keep calm – and plan new i

BRUCE CAMERON
PERSONAL FINANCE EDITOR

Don't panic yet! Financial markets are volatile and go up and down. Every bull market (rising prices) is always followed by a bear market (going down).

Although financial markets go up and down, they have always gone up by more, increasing the wealth of all investors

If you are a medium- to long-term saver you should not be considering pulling out in panic now. The underlying fundamentals of world markets remain sound.

Many of the panic started, many shares change. New Y nal growth after yesterday 12% real growth inflation – an

JSE growth, is about level on months. The nies are now assets and exp good time to

ASSOCIATED PRESS
the numbers minutes before trading was halted in New York

Worry: as the Mexican stock exchange plummets, a broker holds his head in anguish

REUTERS

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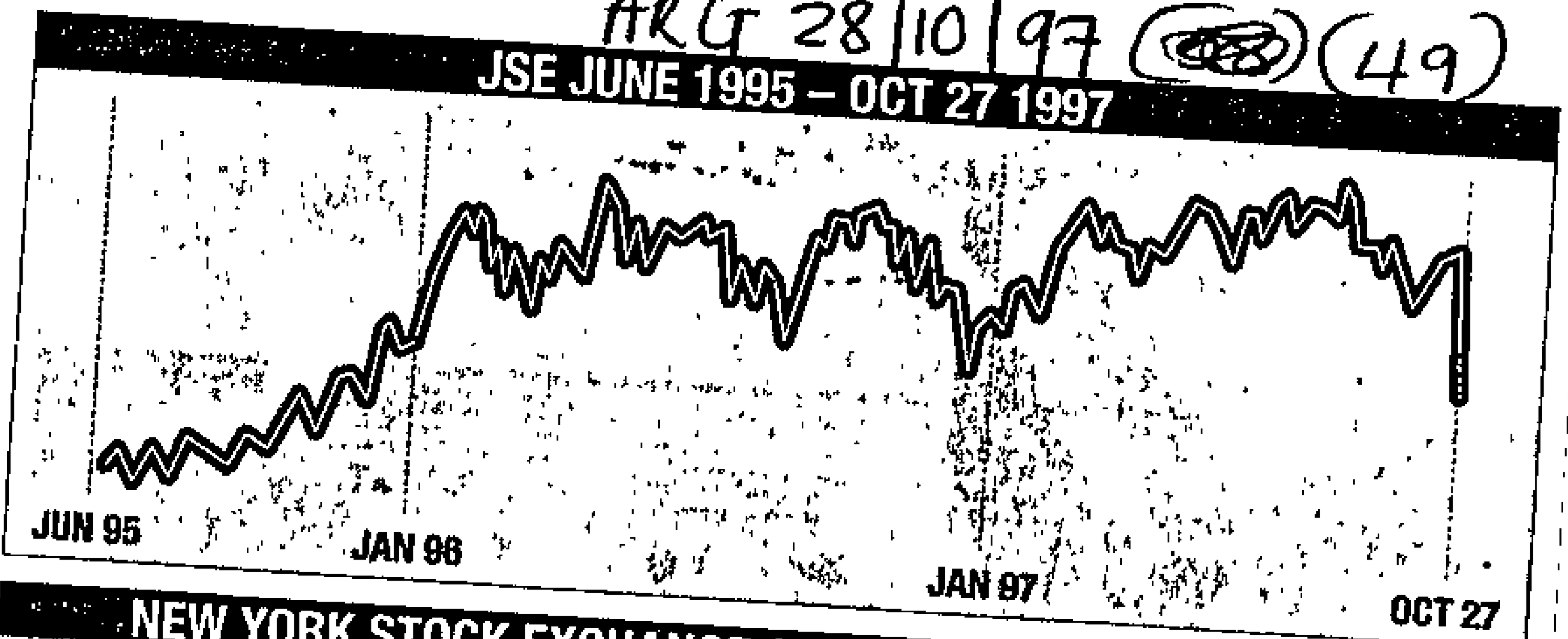
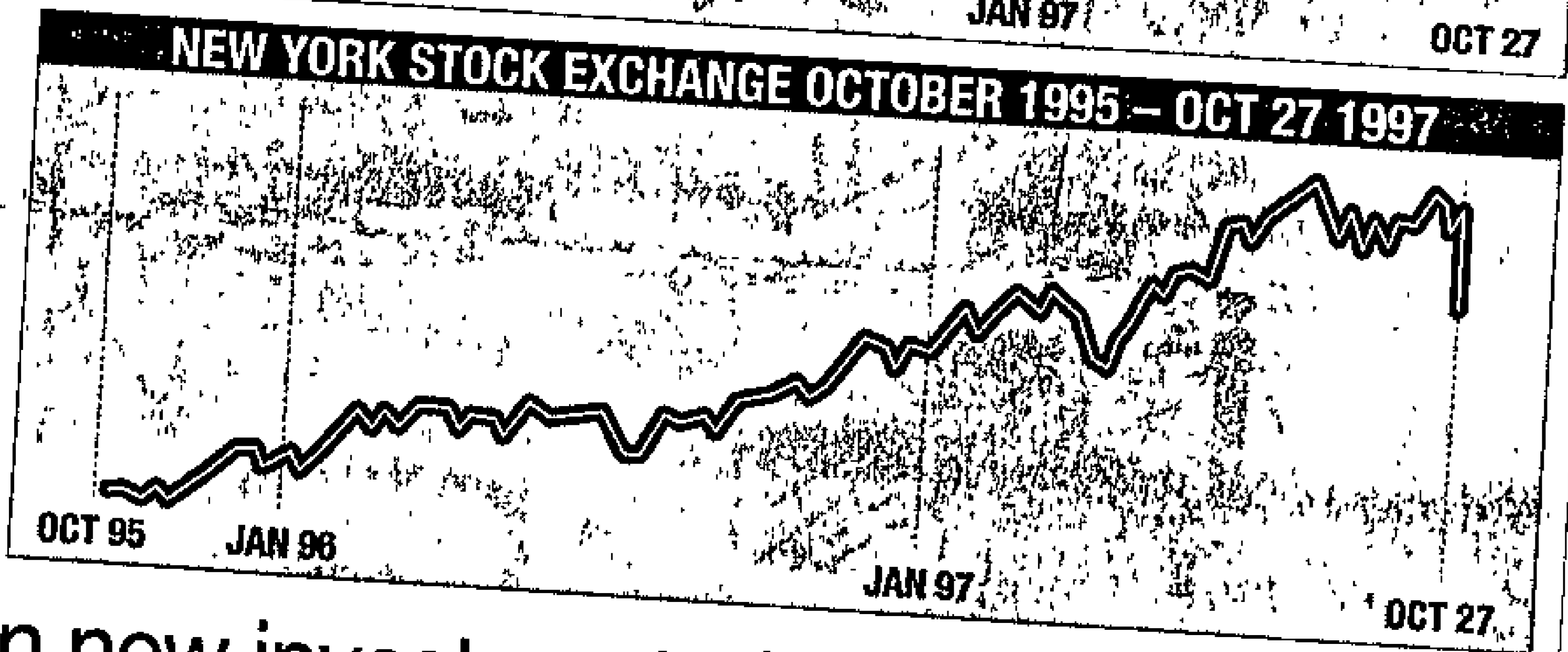
ARG 28/10/97 (49)





Keep calm – and plan new investments

BRUCE CAMERON
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Although financial markets go up and down, they have always gone up by more, increasing the wealth of all investors.

If you are a medium- to long-term saver you should not be considering pulling out in panic now. The underlying fundamentals of world markets remain sound.

Many of the Eastern markets, where the panic started, were over-valued, as were many shares on the New York Stock Exchange. New York was still 14% up in nominal growth from the beginning of the year after yesterday's correction. That means 12% real growth for the year after deducting inflation – an exceptional return.

JSE growth, after yesterday's correction, is about level on the year, but still up over 18 months. The shares of many of the big companies are now under-valued in relation to their assets and expected profits. It should be a good time to invest.

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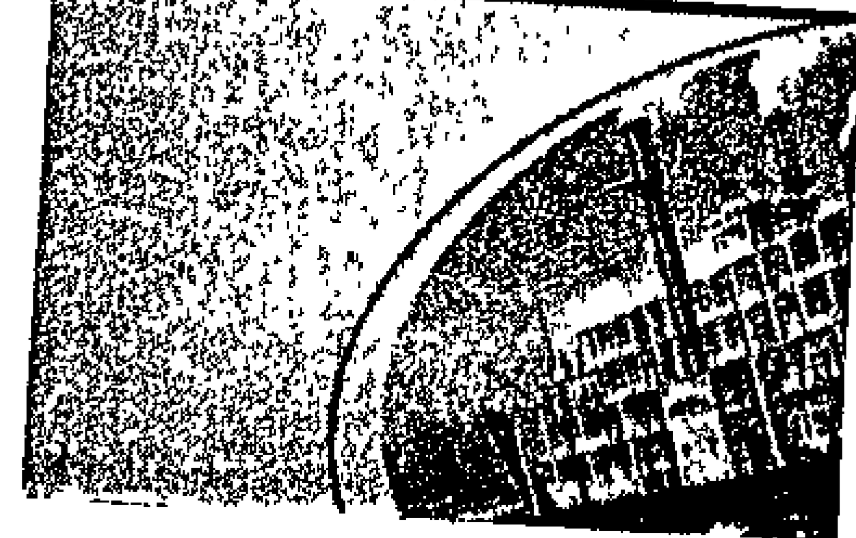


Outflow of foreign capital as panic hits

(49) (88) (49)

Greta Steyn

BD 29/10/97

SA HAS experienced huge foreign capital outflows over the past two days as panicky foreign investors scrambled out of emerging markets.

Bond exchange figures showed foreigners sold a net R1,68bn in bonds on Monday after dumping almost R1,3bn on Friday. Yesterday's gyrations in the bond market suggested the net selling continued. Foreign investors were also unwinding long rand positions in the currency market.

"Past equity market crashes have been good for bonds, but the huge foreign participation in the local market has changed that," said Chris Kenny, treasurer of West Merchant Bank. Offshore investors are looking for liquidity irrespective of the fundamentals of the local bond market. There has also been huge speculative activity in the forward currency market which has caused a liquidity drain."

Analysts said the foreign capital drain had left the money market short of cash, causing interest rates to shoot up as hopes of an early second cut in Bank rate faded. The money market shortage — the cash banks have to borrow from the Reserve Bank to square their books — surged almost R3bn to more than R7bn.

Standard Bank foreign exchange director Willie Potgieter said foreign banks had been unwinding long rand positions and there was strong demand for dollars in the forward market.

Traders said the forward market presented arbitrage opportunities because of the wide gap between money market yields and higher interest rates in the forward market.

Continued on Page 2

Capital

Continued from Page 1

According to ABN Amro, the effective borrowing costs for one month in the forward currency market had surged from 10,06% on October 17 to 17,45% yesterday.

ABN Amro said it believed the Reserve Bank had used the forward market to defend the rand without denting its reserves.

The central bank had sold dollars in the spot market and had at the same time bought dollars in the short end of the forward market. The result had been an "aggressive" rise in forward margins, creating opportunities for market players.

Tim Cohen reports from London that Barclays Capital Group economist Nick Douch said countries with recent high inflows of capital were particularly vulnerable, and as SA had had reasonable capital inflows recently, it had been caught in the wider sell-off. Developing markets were particularly vulnerable and SA was being painted "with a roller brush" as markets were not attending to the finer details.

Standard Bank group economist Nico Czypionka said SA's growth potential was hindered by a low level of domestic savings which was being compensated for by foreign capital inflows. This was a major reason why SA was particularly vulnerable to market movements around the world.

Gear not a success, says Taub

BD 29/10/97 (49)

Own Correspondent

PORT ELIZABETH — A government programme aimed at boosting the motor industry had created concern and disappointment, Motor Industries' Federation (MIF) president Oscar Taub said yesterday.

In his presidential report, delivered to members of constituent associations yesterday, Taub said the Motor Industry Development Programme announced in July 1995, with the intention of restructuring the vehicle manufacturing market to increase production of affordable vehicles, appeared to be working to the detriment of dealers.

"Their sales of the low entry models constitute nearly 40% of total vehicle sales and their margins have been slashed," Taub said.

He said completely built-up units were being imported on an ever-increasing scale and the makes and models were proliferating, giving the more affluent buyer a wider choice.

"The downside is the lack of service and spares availability."

Referring to the growth, economic and redistribution programme (Gear) announced in June last year, initiated primarily to create employment, Taub said the results to date were disappointing.

"Unemployment is still a major problem, which in turn creates a platform for crime, corruption and fraud.

"Problems are still being experienced in health, education and housing," he said.

Taub said another area of concern for the MIF was the lack of response from various government departments to proposals that had been made.

"Unfortunately these items appear to be either lost or ignored by the responsible authorities.

"One example is that in January at the road traffic safety board it was proposed that there should be compulsory annual safety tests on vehicles more than three years old.

"To date, no firm decision has been made," he said.

Taub said he was encouraged by the latest report from the transport department.

It said: "More frequent compulsory testing at predetermined periods — every three or four years — and the issuing of roadworthiness certificates will be investigated."

He said a motivated request for an increase in the margin for fuel had been made to the minister after a lengthy and expensive profit margin investigation and the MIF was waiting for a decision.

JSE loses 11% as world bourses plunge

BD 29/10/97

(49)

Lukanyo Mnyanda

THE Johannesburg Stock Exchange crashed by more than 11% yesterday, losing about R108bn of its market capitalisation after huge losses on Wall Street on Monday left world bourses reeling.

However, there was a glimmer of hope after the JSE closed as the Dow Jones industrial index had regained 138 points to 7 299 by 2pm in New York, despite having lost 160 points in early trade.

The JSE's all share index dropped by 756 points or 11,2% to 6 007 — the highest one-day points fall and almost 400 more than the 330 points lost in the "Black Monday" crash of 1987. It was the second-largest percentage fall after the 11,8% plunge of October 1987.

Foreign selling also played havoc with the rand, pushing it to its weakest levels yet against the US dollar and British pound. The rand, joining the downward slide of other emerging currencies, lost more than 8c against the dollar to close at R4,8615 and shed 27,74c against sterling to R8,1753.

Yesterday's global market slide followed a 7% free fall on Wall Street on Monday which caused trading to be halted. Emerging markets took the brunt of the punishment, although European stocks were also hard hit.

London's FTSE 100 index closed 85 points or 1,2% down to 4 755, having recovered from a fall of 458 points earlier in the day.

The Frankfurt DAX gave up 10% to finish at 3 492 points and Paris's CAC index shed 118 points to 2 651.

Hong Kong's Hang Seng index, which sparked the initial crisis with a 10% fall last Thursday, fell a further 13,7% yesterday as the Hong Kong dollar continued to come under speculative attack. Japan's stock market was more resilient with the Nikkei 225 index limiting its losses to 4,3% or 726 points to 16 313.

Comment .... **Page 15**
More reports .... **Pages 18 and 19**

Local dealers described the day's events as "frightening" as fearful investors rushed to retrieve their investments from the beleaguered market.

JSE equities manager Mike Bastenie said the exchange had recorded the highest number of deals in its history at 17 336 in trade valued at more than R1,5bn. But he was reluctant to describe yesterday's fall as a crash, saying it was a "temporary correction". The JSE was unlikely to halt trade in the event of a similar fall today.

Market capitalisation leader Anglo American Corporation emerged as the biggest loser, having shed R34 or 16,2% to close at R176, pushing its losses since last Wednesday to R20bn. It was temporarily dislodged into third place after De Beers and SA Breweries, having gone as low as R169, but recovered to second place.

SA's gilts came under renewed selling pressure as foreigners continued to flee emerging markets, leaving the government R150 long bond above the 15% yield level for the first time since January. It closed 67,5 basis points weaker at 15,105% from 14,430% the previous day and far off the 13,61% it hit last Wednesday.

The futures market recorded its worst losses for the second consecutive day with the SA Futures Exchange posting a record daily turnover of R6bn — almost four times that of the JSE.

JSE bounces back after fall

Market takes lead from offshore turnaround

ARG 29/10/97

BUSINESS REPORTER

Shares on the Johannesburg Stock Exchange (JSE) rebounded today in early trading following its hammering yesterday when a mammoth R108 billion was carved off its value.

The all share index gained 577 points to 6584,4 points in the first ten minutes of trade in the JSE.

The knock-on effect of the stock-market storm in Asia and fears of a further meltdown on New York's Wall Street continued to ripple through the local exchange yesterday, which is viewed internationally as an "emerging market" like its Asian peers.

However, relief may be in sight. Traders heaved a sigh of relief on the New York Stock Exchange yesterday as the market rose a record number of points while a record number of shares changed hands.

The Dow Jones Industrial Average rose a record 337,17 points, or 4.7%. The market had plunged by a record 554,26 points in a shortened trading day on Monday.

NYSE volume hit a record 1,4 billion shares, according to New York Stock Exchange chairman Richard Grasso. An average trading day sees 512 million shares change hands.

Asian stock markets followed Wall Street's lead yesterday, rebounding sharply from the region-wide sell-off that hit Asia early in the week.

Hong Kong's stock market rose more than 16% by the close of the early trading session today..

Dealers and analysts warned that the Hong Kong market would remain volatile. Share prices on the Tokyo stock market also rebounded sharply today in response to Wall Street's massive rebound. The Nikkei Index of 225 leading shares jumped 564,93 points, or 3,4%, from yesterday's close.

On the Johannesburg Stock Exchange, yesterday's 11,2% decline to 6007,4 points was the largest fall in percentage terms since the last world stock market crash in October 1987, when the JSE dived 11,8%.

Meanwhile the rand was quoted at R4,83 to the dollar last night, from Monday's close of R4,78.

The rand was nearly eight cents weaker at its worst level yesterday after a three-cent fall on Monday.

Forex dealers were confused by apparently contradictory statements from the Reserve Bank governor Chris Stals at the Sacob convention in Somerset West.

New three-year plan ready for approval

CT (BR) 31/10/97 (49)

Lynda Loxton

Cape Town — The long and sometimes difficult task of drawing up the government's first multi-year budget, which it hopes will help it start delivering on its policy promises more efficiently, is drawing to a close.

Maria Ramos, the finance department director-general, told the finance committee recently that it had been decided to develop the medium-term expenditure framework (MTEF) because the present one-year budgeting system limited opportunities for prioritisation and created an uncertain planning environment, often resulting in budget rollovers.

Instead, it had been decided to develop a three-year rolling budget from 1998/99, which would give departments and provinces a longer-term horizon in which to plan and assess what their priorities were and how they would implement them. The aim would be to identify cost drivers and link specific outputs to expenditure.

Ramos said the process started very soon after the tabling of the 1997/98 budget in March. National departments and the provinces were asked to develop three-year plans. They had to list their policy priorities and indicate how these could be implemented over the three years.

By May/June initial estimates had been handed to the finance department, which then worked out how much each department and province could get of what Ramos called a "resource envelope", or estimated central government revenue based on the tax to GDP ratio set out in the Growth, Employment and Redistribution plan (Gear). This was only done, however, after government debt service had been provided for.

Of the total "envelope" after debt service, 42 percent was allocated to national government and 58 percent to the provinces. In terms of a formula developed by the financial and fiscal commission (FFC), the funds going to the provinces were then divided between the nine provinces with the FFC budget council, consisting of the national and provincial finance ministers, approving the initial allocations.

"These provided a marker, a starting point, for the MTEF process," Ramos said. "You can't ask people to budget without giving them some parameters within which to budget.

"These allocations are soft. As new data comes in, these allocations can change. They can also change at the margin depending on what government deems its greatest priority."

Trevor Manuel, the finance minister, said the division of funds between the provinces would have to be reviewed next year after the release of the results of the 1996 census, and could have a serious impact on the budgets of some provinces.

In June, the departments of state expenditure and finance started pulling together all the MTEFs submitted by national departments and central government teams helped the provinces compile their MTEFs.

This month, officials spent two weeks examining and questioning the budgets submitted, adjusting where necessary.

While all this was happening, inter-departmental task teams were appointed to look at specific departments, especially the biggest spenders: health, education and social welfare. They examined spending patterns and policies and how these could be improved to achieve targets.

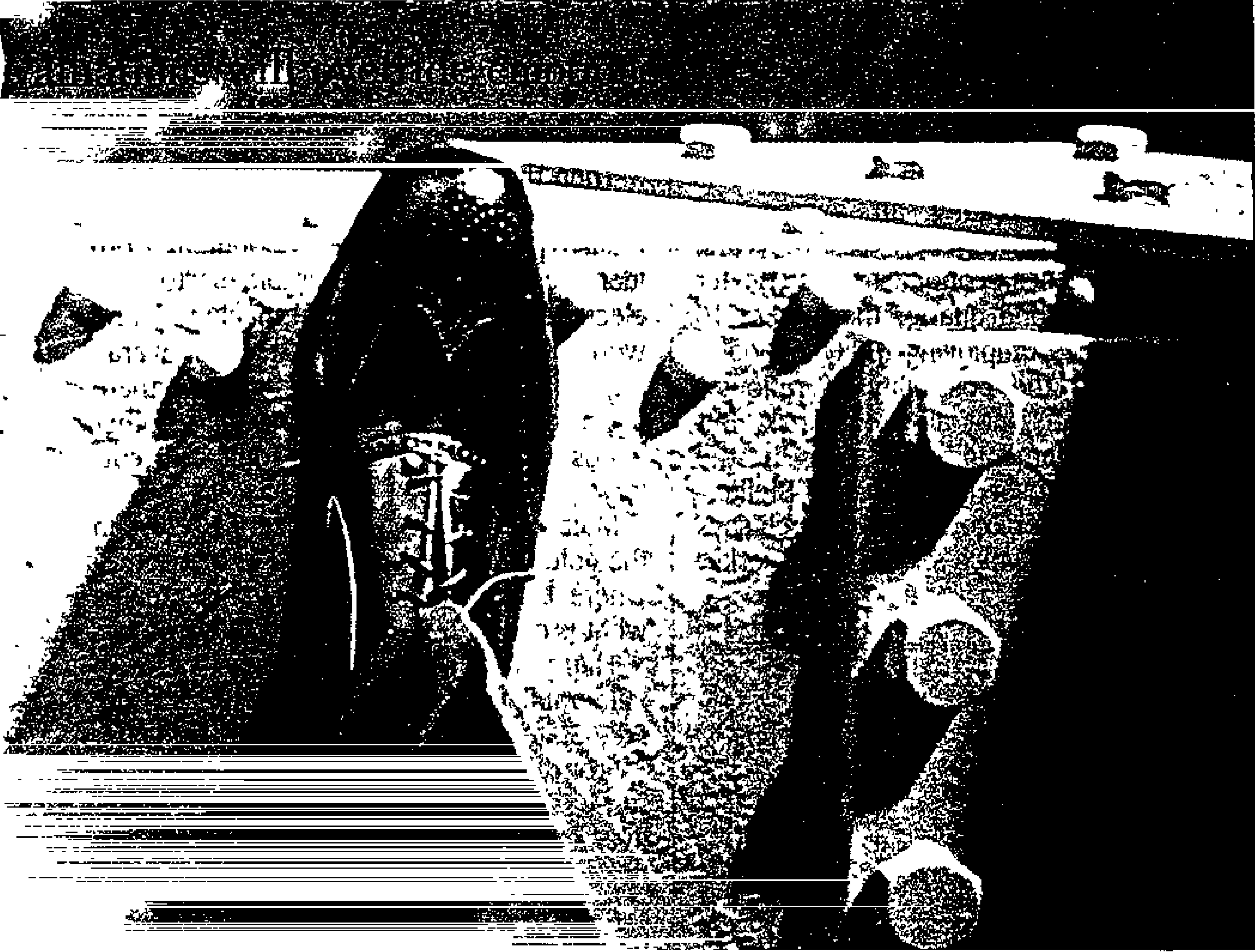
Similar, but less successful, probes were conducted into the departments of correctional services, justice and safety and security as well as defence. These were hampered by the restructuring under way in these departments. Officials also examined the public service and administration department.

The first draft of the MTEF as a whole was due to be presented to the budget council on October 27 and will go to Cabinet on November 5. It will be published soon after that for public discussion.

"The draft MTEF will describe the aggregate budget constraint in the expenditure envelope available, it will summarise the broad policy framework, it will propose three-year base allocations, it will assess the implications of these allocations, and it will provide Cabinet with a menu of expenditure choices," said Ramos.

"So what we will be taking to Cabinet ... is a menu of expenditure choices which says that if these are priorities, this is what the budget should look like. The MTEF will empower Cabinet to make decisions based on policy ... rather than ... expenditure."

The final version should go to Cabinet on December 4 and will be released with the next budget on March 11.



tremely volatile. They can fall fast or rise quickly.

Foreign buying, primarily of industrial and financial blue chips, had a large part in the upward rerating of Diagonal Street before the 1994 elections. Between October 1993 and mid-1994, the p:e on the All Share index rose from 14,5 to 20 and the Industrial index p:e climbed to almost 21. Like the political honeymoon, the market euphoria did not last.

While markets in other regions have climbed to levels which look dangerously high, the JSE's leading indices have eased back to more modest levels for the best part of three years.

Though East Asian economies maintained their high growth rates until well into this year, their expansion was accompanied by ballooning valuations of financial and other assets, as well as bulging current account deficits and spiralling debt.

The collapse in Asian currencies and stock markets is now forcing those countries to turn attention to remedying these strains in their economies. Thailand has accepted an IMF rescue package; Indonesia is working towards one. That will mean following IMF prescriptions. Mexico went through this several years ago. Yet over the past two years its stock market has produced magnificent returns.

While markets elsewhere were romping upwards, the SA economy and Diagonal Street have been swallowing some strong medicine. The budget deficit is shrinking, inflation is falling, short-term interest rates have at last been cut, and the rand is no longer considered over-valued.

It meant that this week Reserve Bank Governor Chris Stals was able to say there is no need for an increase in rates, and the market's retreat could be beneficial.

As fund managers abroad have rushed into the haven of US bonds, that has helped push up bond prices and eased upward pressure on US interest rates.

Historically, bear markets have come in various forms. The early Thirties and the mid-Seventies saw prolonged bear markets, characterised by numerous rallies followed by renewed and deeper falls.

In contrast, the 1987-1988 bear market was over exceptionally fast. That was partly thanks to astute management of the US economy.

There are always unpredictable risks when huge wealth is wiped out on financial markets. However, one reason for optimism now is that the US economy appears to have been particularly well managed since the opening of this decade. Technology is playing a benign role.

In these conditions, investors must simply go back to the basics. The duration of any bear market is difficult to predict, but there have been more bull than bear markets, and on average they have lasted for longer. That is an argument for locking away quality shares now.

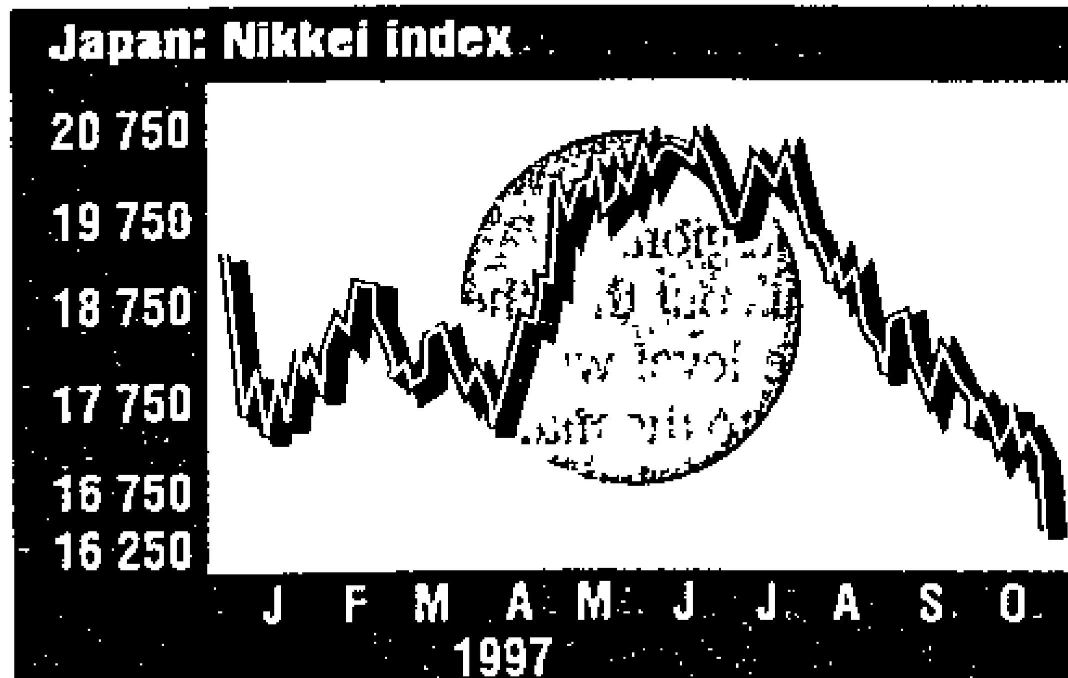
Quality and unambitious prices count. Though the blue chips were largely neglected this year, it was notable that on Tuesday many of the smaller cap companies fell furthest.

If serious buying resumes on the JSE over coming days and weeks, it is likely to be concentrated on what are seen as low-risk, defensive stocks. This means the blue chips, mostly, which make up the bulk of institutional portfolios and heavily affect pension fund valuations.

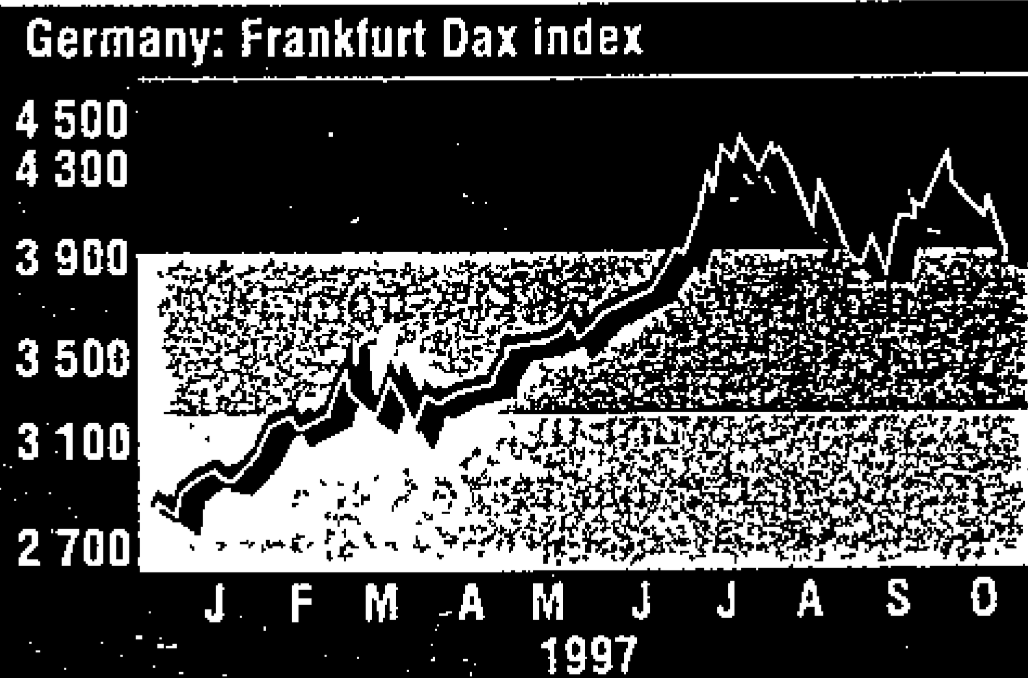
Certainly, in times of nervousness, the low p:e shares with capacity to grow their earnings over the next few years are the investors' friend.

McNulty is investments editor of the FM

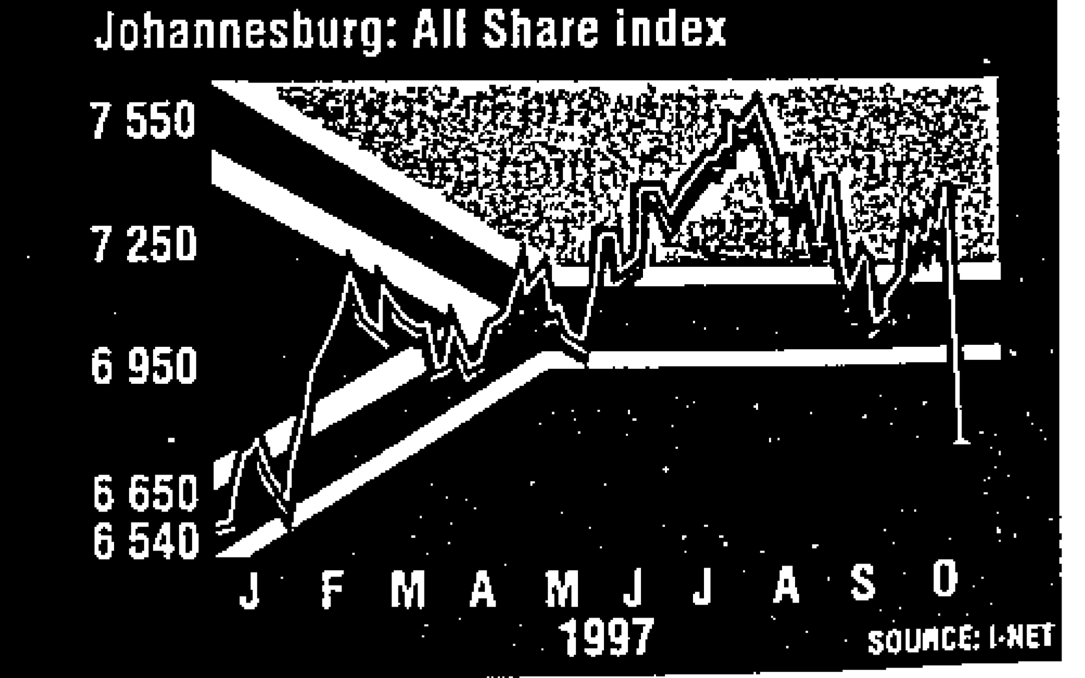
Japan: Nikkei index



Germany: Frankfurt Dax index



Johannesburg: All Share index



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THE ECONOMY

SA calculates the costs

FM 31/10/97 (49)

Absorbing a double whammy from the gold price collapse and turbulence in global stock markets

SA's fundamentals have changed since Reserve Bank Governor Chris Stals dropped Bank rate to 16% two weeks ago Two external events have sent shock waves through the domestic economy and it is difficult to determine the extent of the damage

South Africans are only just beginning to calculate the cost of the most recent run on the gold price as well as the JSE's collapse in the wake of equity market crashes around the world

Economists remain divided on which event will have the most serious consequences for future economic growth, but they all agree the fallout will be serious

Last week's threatened defection by the Swiss marks a new phase in gold's misfortunes. News that Berne was considering disposing of a substantial part of its gold holdings — 1 400 t — from 1999 caused the bullion price to fall to a low of US$307/oz last Friday

The effects will be far-reaching

For every dollar decline, SA could lose R16m over a year, says the Bank This calculation is based on last year's 497 t gold production figure and a dollar exchange rate of R4,75 And it should be seen against total export earnings last year of R99bn.

If the $56m fall in this year's price were sustained for a year, it would cost SA about R900m worth of foreign exchange

This may be a conservative calculation. SMK economist Herman van Papendorp says production could drop to about 480 t Using an average gold price of $310 next year, against an estimated average price of $325 for this year, he calculates a loss of R1,1bn.

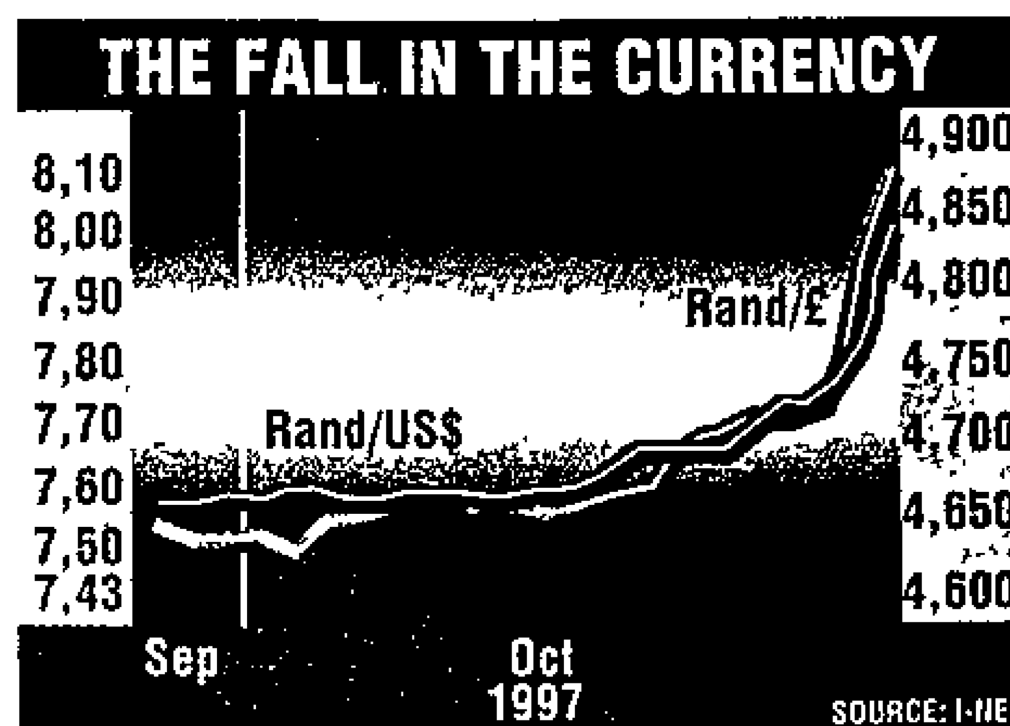
Because GDP is measured in volume terms, the effect of lower revenue is not immediately translated into lower growth in the real economy. And hedging policies at some mines will cushion the blow, allowing time for adjustments to be made.

But there is no avoiding the inevitable. And, as marginal mines close and production falls, less value will be added to the economy each year by the mining industry — now about 3% of the total, says Van Papendorp

Perhaps more serious is the loss of employment at a time when government is committed to creating an average of 270 000 new jobs a year over five years Chamber of Mines economist Roger Baxter says in the second quarter there were 15 marginal mines, employing 168 000 people

Because of the possibility of rationalisation of shafts, not all are at risk. But major retrenchments must be in the pipeline. And Pieter Laubscher of Stellenbosch's Bureau for Economic Research says there is research which shows each worker has 10 dependants.

THE FALL IN THE CURRENCY



Then there is the spillover from the mining industry into support industries. Jorge Maia of the Industrial Development Corp identifies the most vulnerable sectors as electricity, special industrial machinery and wood & wood products. But the overall impact goes far beyond this because there are also suppliers of a wide range of other goods, right down to hand tools and cutlery

Maia estimates that for every R1 lost in the gold mining industry, R1,1 is lost somewhere else in the economy. This creates what is called a GDP multiplier effect of 2,1.

There will also be geographic areas of vulnerability. The worst hit regions are the Free State and far West Rand gold fields

From there, the effects will flow out into rural areas where dependants of miners live, sending another wave of migrants to the cities.

At the same time that the gold price is hitting the current account, the capital account is suffering from the suspension of the southeast Asian miracle. The events of

BOND MARKET

Foreign speculation is the culprit

The bond market took a mauling this week as foreign investors bailed out of emerging markets and into safe haven US Treasury bonds (US TBs).

SA bonds caught the brunt of the swing in sentiment and the benchmark R150 government stock stopped just short of 15,60% on Tuesday — a full 117 basis point slide off Monday's close — before settling down at around 15,15% towards the end of trade Meanwhile, the yield on the 30-year US TBs dropped to a 20-month low of 6,14% from 16,4% last week.

Analysts warn that the knock the domestic market has taken is not solely tied to the international financial market crisis and has more to do with the fact that capital market yields were pushed too far by speculative foreign investment.

But there is also some concern that the wholesale bond disinvestment around the emerging market world may signal a swing towards greater risk aversion.

The spread between emerging market bond indices and US Treasury Bills widened considerably this week to around 500 basis points from close to 300 basis points before the crisis took hold

HSBC Simpson McKie capital market director Marilyn Visser believes the slide in domestic yields has more to do with foreign profit-taking and an overvalued bond market than with the emerging market contagion.

She points out that the market stopped short of the level where most foreigners first came into the market

"The gilt market has been showing such good dollar returns that it was a

GOLD SHARES

There is still money to be mined

With gold price at present levels, look for bargains only in quality shares and note the hedging positions of houses

Even with gold under US$310/oz, seven large gold mines (see graph) will remain profitable unless there is a further 20% deterioration in the rand gold price

And the hedged mines, primarily those in the Anglogold stable as well as Gengold's Beatrix and JCI's Western Areas, will not be affected by a deterioration of the spot price for at least two years

On the Anglogold mines, the prices received in the past quarter were well above the average spot price of R48 300/kg, as much as 18% ahead for Elandsrand and 10% ahead at its three largest operations, Western Deep, Freegold and Vaal Reefs

Anglogold marketing director Kelvin Williams says the market does not give credit to mines with effective hedging policies, even though the hedges represent a significant war chest in the current market Anglo has significant hedges for the next two years, with some gold sold forward five years from now

In Monday's bloodbath the hedged Vaal Reefs fell 9% and Freegold fell 6%, but unhedged Driefontein was off 1% and Gold Fields stablemate Kloof was off 3%.

Even with the merger of the Gold Fields and Gengold mines into Goldco there is unlikely to be much change in attitude. Gengold MD Tom Dale says he does not believe in regular hedging, unless it is needed to underpin a major capital project He says shareholders are entitled to be fully geared to the gold price — though it means they are also fully exposed to price falls

Gengold has focused more on reducing costs than on trying to engineer increases in revenue This is particularly true at Evander, which was one of the biggest disappointments of the quarter as working costs increased 12% to more than R54 000/kg and it made a net loss of R18,6m Dale says there was a higher than expected deterioration in the payability (profitability) of the ore but there have been 6 300 retrenchments and three shafts closed

"The whole future of the industry depends on increased productivity We aim to reduce working costs in the whole group below $300/t "

Analysts do not expect gold shares to remain the strong income sources they have been in the past, when mature mines were used as cash cows.

This is particularly true at Gold Fields, as both Dries and Kloof require high capital expenditure, which will eat into their revenue Dries's capex of R161,6m was barely covered by its R177,1m profit

In June it paid out R153m in dividends but this looks highly unlikely in the current financial year

Kloof is still perceived as a high-quality mine and the Kloof operation itself is still the richest mine in the industry with a yield of 12,4 g/t. But the losses at its Libanon and Leeudoorn divisions meant that the mine barely broke even and lost R61,2m after capex The profitability of the rich Gold Fields mine could be increased considerably if the cost per ton milled could be reduced from R494/t at Kloof and R359/t at West Driefontein, closer to the R190/t at Gengold's Beatrix.

After the Goldco merger, expected by January, there will inevitably be a drastic downscaling, if not closure, of the marginal shafts The chances are, however, that by then Kloof will be merged into the new group and shareholders will not enjoy the benefits of recovery

BOE NatWest Securities gold analyst Gerard Kemp says some gold shares are still overpriced, based on a price of $300/oz He believes that Western Deep is worth R76 (now R98) and Vaal Reefs R187 (R212), that Southvaal (R88,50) and Western Areas (R34) are correctly priced but that shares such as Randfontein, Durban Deep and Avgold are oversold.

But he says there are greedy bargain-hunters who are trying to bring prices down even further and it is too soon to call the bottom of the market

Deutsche Morgan Grenfell's Greg Hunter says that though investors should be underweight in gold shares now, the metal is entering its period of seasonal strength before Christmas

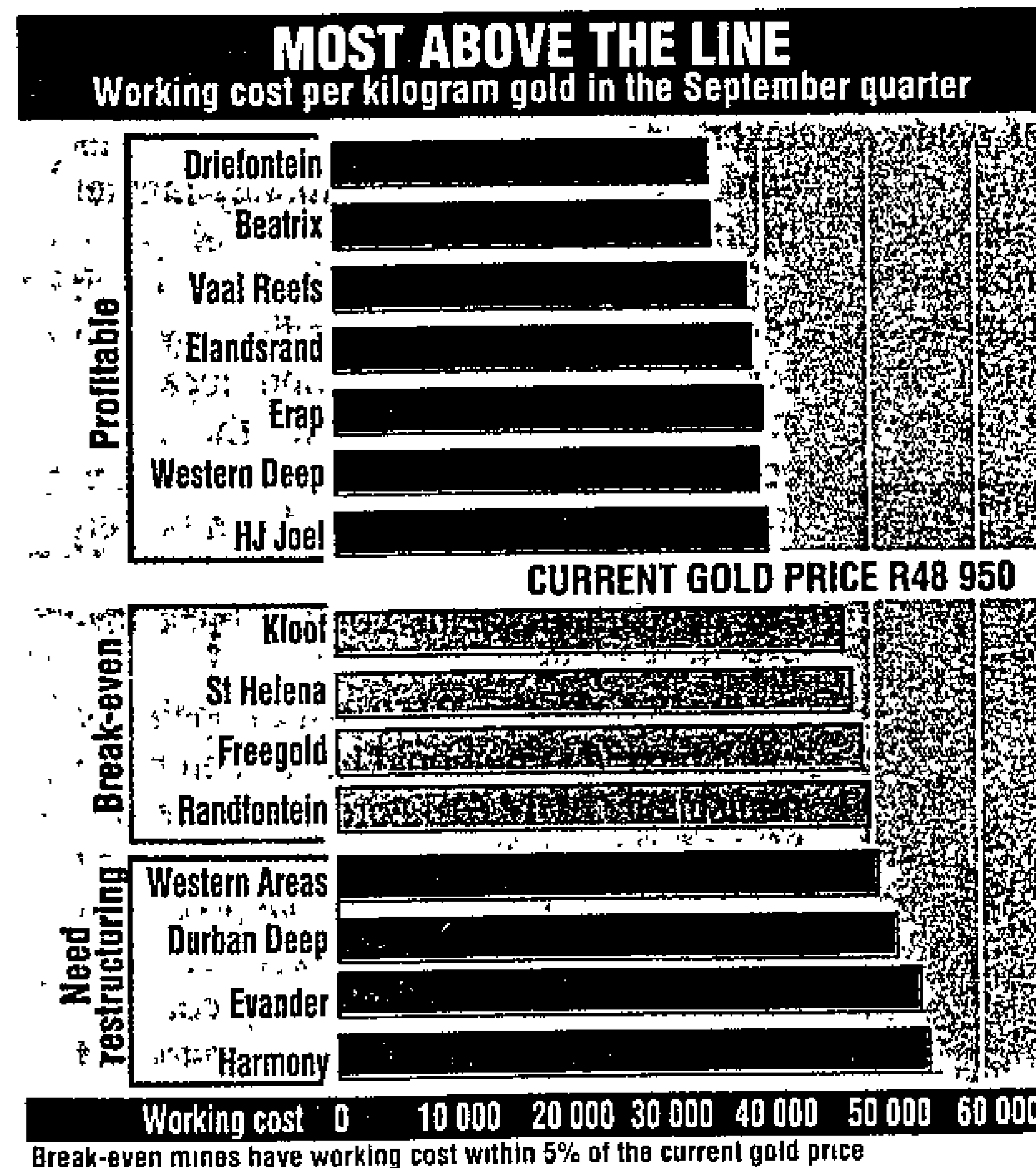
He also says that few gold shares will not be affected by restructuring. There will be opportunities to select the cheapest entry into Goldco, as the ratios between the shares has already been set, but might not reflect the relative share prices between the component mines next year

A low gold price is often a good thing for the mining industry as it concentrates minds on survival by reducing marginal capacity. Both Anglogold and what will become Goldco aim to reduce cash costs on their long-term shafts to $250/oz Older shafts at Freegold and Vaal Reefs have either been closed or put up for sale to groups which have lower overheads and can specialise in marginal capacity

But these groups, such as the restructured Harmony and Durban Deep, are inevitably highly geared to the gold price, particularly as they are opposed to hedging The groups need a gold price of at least $350/oz, or alternatively a substantial devaluation of the rand, to be consistently profitable There may be a "dead cat bounce" in the gold price above $320/oz, but most analysts expect that the metal will trade between $305 and $318 for the rest of the year

(See *Fox*, page 80)

Stephen Cranston



Break-even mines have working cost within 5% of the current gold price

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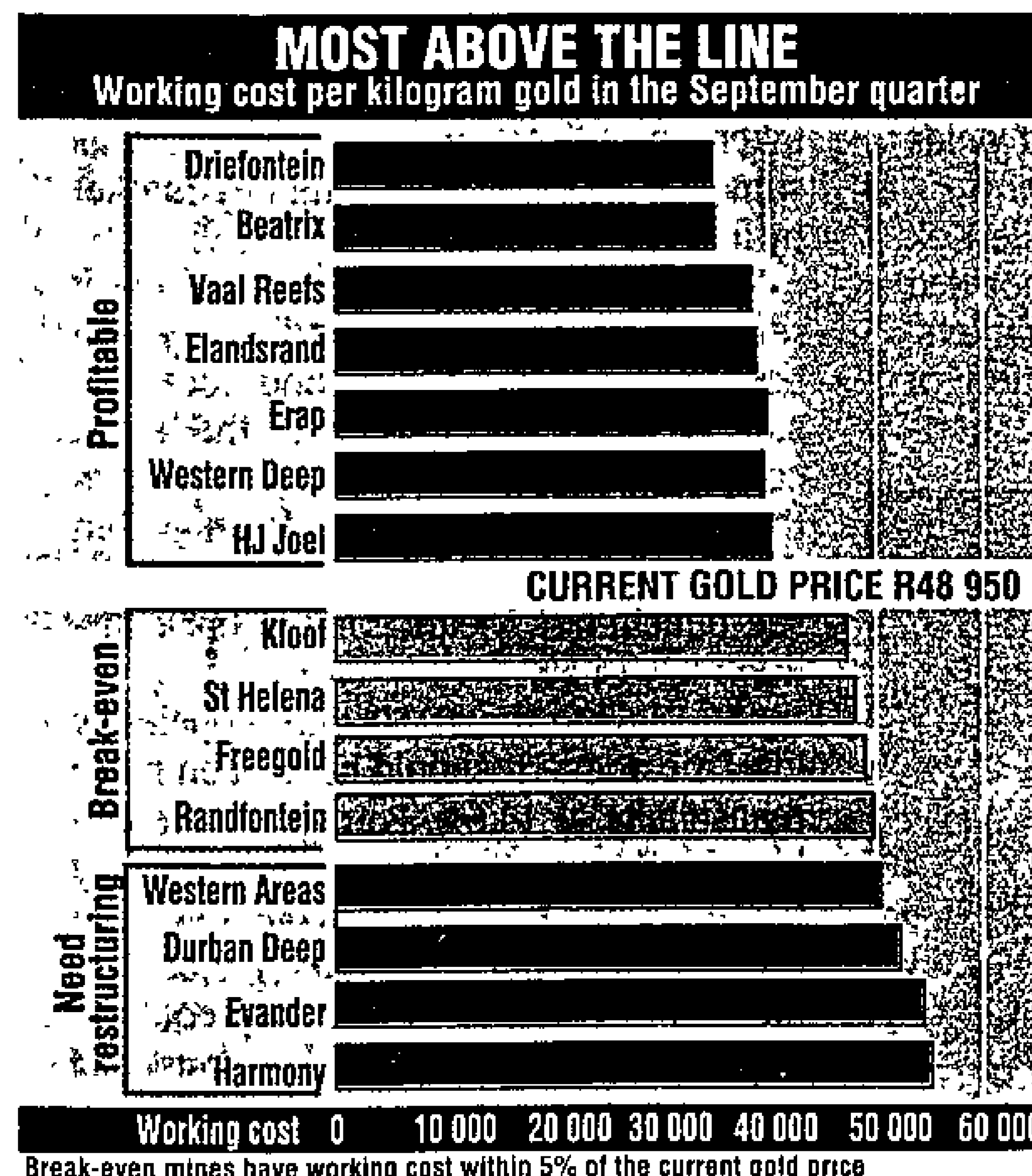


Break-even mines have working cost within 5% of the current gold price

GEAR

Strategy gets nod from IMF

(49)
FM 31/10/97

But fund urges faster labour reform and trade liberalisation

The Growth, Employment & Redistribution (Gear) strategy is "courageous," says the International Monetary Fund (IMF)

The fund's board of directors, chaired by MD Michel Camdessus, has "strongly welcomed" the strategy, saying it provides "an appropriate framework for macro-economic stabilisation and structural reforms "

Directors say they particularly agree with Gear's "emphasis on accelerated economic growth and reducing unemployment by facilitating private-sector growth and employment," but caution that "further elaboration" of the framework is needed, particularly "concrete measures in regard to trade and labour market policies."

The comments come out of the IMF's 1997 Article IV consultation with SA

The IMF praises the Finance Ministry for its commitment to implementing the economic stabilisation package, and its "firm determination" to achieve the Budget deficit target of 4% of GDP in 1997/1998.

Other policies commended include the "acceleration of programmes to reorientate expenditure to social objectives" and "structural and fiscal reform efforts "

But the fund stresses the need for a more flexible labour market, saying the scale of SA's unemployment problem will necessitate "bold initiatives to increase the demand for unskilled labour through added flexibility in wage determination "

Directors urge that, given the existing large employment and wage rigidities, "careful consideration" should be given to the proposals on the basic conditions of employment Several caution against the proposed training levy as it "might discourage job creation "

They also see a need to "strengthen SA's competitiveness through further training and accelerated trade liberalisation " The board recommends "broad-based tariff reductions that would lower effective protection at a faster pace than currently envisaged, and further progress on the SADC and EU free trade proposals "

The board also stresses the need to streamline the civil service, and suggest speeding up privatisation

On the subject of the Reserve Bank, directors voice concern over the outstanding amount of forward cover provided by the SA Reserve Bank to SA importers and other users of foreign finance

They say "underlying pressures in the foreign exchange markets should be addressed by adjustments to macro-economic and structural policies," rather than by intervention in the forex market Also, "further upward pressures should be used to reduce the Bank's net open forward position, while substantial downward pressures on the rand should be resisted through a tightening of financial policies and, in the view of a few directors, by increasing the Bank rate "

Bank Governor Chris Stals's response was that to reduce the Bank's net open forward position, and to let interest rates rise in the process, made sense "in a macro-economic context," but whether it was the best policy when there was so much pressure for a reduction in interest was "a different question "

Adrienne Roberts, Washington

PEOPLE'S PARLIAMENT

CLIVE SAWYER

Sarafina leads to change at the Treasury

(49)

The Sarafina saga has had a sequel with a change to Treasury instructions, which takes effect today. ARG 11/9/97

Finance Minister Trevor Manuel disclosed details of the change in reply to questions in the National Assembly by Mike Ellis of the Democratic Party.

The change deals with anonymous donors.

The regulations will now state that when a donor asks to stay anonymous, the accounting officer of the department concerned must give the Treasury a certificate from both the public protector and the auditor-general that the identity of the donor has been disclosed to them and that they have no objection.

This provision will not stop the auditor-general or the public protector from being allowed to report this information to their staff "and where in the public interest he or she deems it necessary to report in relation to this". If a donor objected to these rules, the donation would be rejected, Mr Manuel said.

ANC says Gear policy is 'not cast in stone'

ET(BR) 2/9/97 (49)

FROM REUTER

Johannesburg — The ANC and its alliance partners said yesterday that the government's growth, employment and redistribution (Gear) policy was not "cast in stone".

Cheryl Carolus, the organisation's acting secretary-general, said after a two-day summit between the ANC, Cosatu and the South African Communist Party that the five-year programme was a continuous process.

"The summit recognised that the macro-economic policy needs to evolve in line with the objective needs of our transformation process, while recognising the constraints which we face," Carolus told reporters.

"To that extent any macro-economic policy is not cast in stone," she said.

The government adopted Gear last June. It aims for economic growth of 2,9 percent this year, rising to 6,1 percent in 2000. The programme also aims to boost the creation of new jobs from 252 000 this year to 409 000 by 2000.

Carolus said the present impasse between business and Cosatu concerning the Basic Conditions of Employment Bill had not been discussed, but that "processes" had been set up to deal with the stand-off.

Earlier this month Cosatu embarked on four days of rolling protests against the bill to press for its demands of a shorter working week, longer maternity leave and higher overtime rates.

The trade union federation has been at loggerheads with the ANC over the generally moderate economic policies adopted since white rule ended in 1994, and has failed to reach an accord with Tito Mboweni, the labour minister.

Carolus said, however, that the alliance between the ANC and Cosatu remained strong. She said both parties had resolved to continue discussions on areas of disagreement.

"Despite unending, if wishful, predictions from quarters outside of our ranks that the alliance is on the point of collapse, the opposite is the case," Carolus said.

ANC softens stance over Gear debate

(49)

BD 2/9/97

Reneé Grawitzky

IN A move to ease tensions over government's macroeconomic policy, Gear, the African National Congress (ANC) and its labour and communist allies agreed at an alliance summit at the weekend to thrash out differences over the policy.

The leaders of the ANC, SA Communist Party (SACP) and Congress of SA Trade Unions (Cosatu) acknowledged that the macroeconomic policy was not "cast in stone" and could be reviewed and assessed, depending on the "constraints which we face".

The ANC's willingness for "strategic" engagement on Gear (growth, employment and redistribution strategy) one year after its implementation is in marked contrast with its previous stance that Gear was non-negotiable.

A labour source said the commitment to debate Gear had to be viewed against the backdrop of the upcoming Cosatu and ANC congresses, as well as the 1999 election. Cosatu had agreed to "constructive engagement" and debate without losing sight of the economic constraints facing government.

Cosatu general secretary Sam Shilowa said debate would not only focus on the macroeconomic strategy.

SACP general secretary Charles Nqakula said policies had to be developed recognising the realities.

ANC acting general secretary Cheryl Carolus said alliance task forces would be established to look at areas such as the social wage, labour market policies and industrial and investment strategies.

Deputy President Thabo Mbeki would head an alliance task force to develop a more effective programme to restructure the public service.

A labour source said aspects of Gear would be debated in various committees. It remained unclear whether government would reconsider its positions on the policy. The ANC had, however, promised that future labour and other economic policies would be discussed within the alliance before they were announced, so that parties did not publicly attack each other.

The summit agreed to a Cosatu proposal that the alliance should develop a joint approach to employment strategy ahead of the proposed presidential job summit. However, such a strategy would "harmonise" with "all aspects of government policy".

The summit agreed to "consolidate a common alliance platform". It is unclear if this would be in line with Cosatu's initial demand for a common alliance programme of action.

Carolus said many areas already existed where the alliance was working together. She referred to the Masakhane campaign, health policy and agreement which existed on large portions of the Basic Conditions of Employment Bill. It was unfortunate, she said, that attention had been focused on perceived differences. Despite "unending" predictions from outside ANC ranks that the alliance was on the point of collapse, the reverse was true.

Shilowa said there was no agreed form or content for the programme, and further discussion within Cosatu was necessary.

See Page 11

DP calls for rapid implementation of Gear

(49) BD 4/9/97

Linda Ensor

CAPE TOWN — The Democratic Party (DP) yesterday threw its weight behind government's growth, employment and redistribution strategy (Gear), but called for it to be more rapidly and boldly implemented and for the privatisation of state assets to be accelerated.

Government could not shy away from difficulties in implementing the strategy such as confronting its alliance partners, the Congress of SA Trade Unions and the SA Communist Party, and getting to grips with labour market rigidities, the party's finance spokesman Ken Andrew said.

He believed privatisation was taking place too slowly and could play a crucial role in reducing government debt and cutting the budget deficit immediately to 3% and to no more than 2% by 2000. It would also contribute to the elimination of government dissaving next year.

Releasing the party's economic policy document Andrew said rapid economic reform was vital if poverty was to be alleviated, jobs created, inequalities overcome and sustained economic growth achieved — all of which was vital to protect the political gains made.

The document, Economic Liberation, Freedom, Opportunity and Entrepreneurship: SA's Path to Accelerated Growth, would be presented for adoption by the party congress in Kempton Park next week. It would then be sent to Finance Minister Trevor Manuel.

"Gear is a sound basis for fiscal policy ... However, it must be realised that the Gear strategy is a package and not a smorgasbord from which one can select only those items which are politically palatable. Tough and sometimes unpopular decisions will have to be made," the document said.

To break out of the low growth trap, privatisation with the involvement of foreign investors, had to be speeded up.

The founding belief of the document was that the required economic growth rate of about 6% was only possible if conditions were made attractive for foreign investors. This would mean lifting foreign exchange restrictions, easing rigidities in the labour market and addressing crime and political uncertainty.

Drawing from international experience, the policy document emphasised that there was a strong, direct correlation between economic freedom and economic growth.

Among the DP's proposals were:

- A radical reduction of personal income tax rates, phased in over five years, as well as the abolition of the secondary tax on companies, marketable securities tax, donations tax, estate duty and other low yielding taxes and a percentage point increase in VAT;
- Far-reaching labour market reforms to enhance productivity and create jobs, allow employers to dismiss striking workers and remove the legislative provision for "sympathy" strikes;
- A reduction in government expenditure; and
- The creation of free trade zones and encouragement of small and medium-sized businesses.

NGO group proposes plan to cut state debt

CT (BR) 5/9/97

(49) (297)

CHRISTO VOLSCHENK

Cape Town — The South African National NGO Coalition, an umbrella body of non-governmental organisations, yesterday proposed the radical step that the government should not pay interest on government bonds held by the Public Investment Commissioners (PIC).

The PIC invests state pension fund money in government bonds, effectively resulting in the government "paying interest to itself", the coalition said.

The coalition suggested that the government refrain from paying interest on the government bonds owned by the state pension funds for one year, which would release R10,5 billion for RDP projects.

Kumi Naidoo, the executive director of the coalition, said the holders of the bonds (private pension funds, beneficiaries of insurance companies and shareholders) would not lose "material amounts", and in any event "the potential loss to them would be much smaller than the super capital gains made by them on the bonds over the years".

He said that there was a variety of ways the government could restructure its debt to release money for RDP projects "without disrupting the financial markets".

"Debt cancellation is only one in a range of options, including partial debt forgiveness and interest holidays," he said.

Should the government unilaterally declare an interest rate holiday on all its debt of R300 billion, about R40 billion would be saved.

If the R40 billion was then used to pay off debt, future interest payments would be R5 billion a year lower, Naidoo said.

He said he had discussed the issue with Trevor Manuel, the finance minister, last weekend, but did not get a positive reaction.

ANC ALLIANCE & ECONOMIC POLICY

Thabo deflects Gear crunch

(49) fm 6/9/97

Alliance conference fudges dispute over macro-economic policy

The tripartite alliance of the ANC, SA Communist Party and Congress of SA Trade Unions has portrayed its two-day summit on socio-economic transformation as having strengthened longstanding bonds.

Yet there is little to suggest that the parties resolved their differences on the key issue that has been plaguing them with rising vitriol in recent months — the dispute over the ANC government's "neoliberal" macro-economic strategy, Gear Indeed, they did not mention Gear by name in their closing statement — despite having discussed the need for a "common programme of action to speed up transformation "

What emerged instead was a judiciously worded fudge — doubtless designed to give the Left something to cling to

"The summit recognised that macro-economic policy needs to evolve in line with the objective needs of our transformation process, while recognising the constraints which we face," it said "To that extent, any macro-economic policy is not cast in stone "

This could be interpreted to mean anything But the critical factor, says SA Chamber of Business economist Ben van Rensburg, is how the markets interpret it.

"If it's interpreted as a shift away from discipline in fiscal and monetary policy or a slowing down of the liberalisation process, then we can expect adverse reaction to be reflected in the value of the rand and investors' willingness to commit themselves to the SA economy," he says

If, on the other hand, it's regarded as

merely "a rearrangement of priorities with little or no effect on the final outcome of policy implementation," the markets will take it in their stride.

Government previously maintained that it was not prepared to negotiate on the principles of Gear, Van Rensburg adds. If it does so now with one social partner (labour, through the alliance), the question is whether it will do so with business as well

Summit participants were generally relieved at its outcome. SACP deputy chairman Jeremy Cronin says without the alliance "there would be no transformation." There is "no illusion that government is about to renounce Gear, or that we are a macro-economic alliance "

The summit view, he says, was that "we should not be herded on to a neoliberal terrain by which everything stands or falls. The debate over Gear is open-ended but is located in the context of broader transformational policies." The role of an "activist" State is crucial.

The fact that Deputy President Thabo Mbeki will head an alliance task force to look into public-sector restructuring shows that he remains the key architect of the transformation process

The summit also debated the issue of the Reserve Bank's independence, especially ways to make the bank more "strategically aligned with our policies."

Surprisingly, transformation of the labour market did not evoke hot debate The word "flexibility" did not crop up and participants rejected the principle of an unregulated labour market or jobs at any cost. The issue of a 40-hour work week was not debated, though there was common commitment to the provision of a "social wage" and recognition that SA cannot afford a welfare state.

Alliance task forces are to "take forward" issues such as a social wage, labour market, industrial and investment strategies, and a co-ordinated employment strategy ahead of the proposed jobs summit next month

Amarnath Singh

Growing SA economy would be boon to whole region — report

(49) BD 9/9/97

Adaptation is the key for developing nations, says the World Bank. Assistant editor Bernard Simon reports

THE most dynamic developing countries in coming years will be those that attract multinational investors and adapt most easily to changes sweeping through the international economy, the World Bank concludes in its latest survey of the economic outlook for these countries.

The report, published today, generally paints an upbeat picture of developing countries' prospects. But it cautions that "the challenge for policymakers is to establish conditions that help attract more global production and realise more of its benefits ... Private-capital flows to countries maintaining a sound economic environment are likely to be copious, but niggardly otherwise".

Developing countries' growth rate is forecast to average 5,4% between 1997 and 2006, double the pace of the preceding decade and well above the 3,4% expected for the world as a whole.

However, sub-Saharan Africa is expected to lag, with regional growth averaging only 4,1%, up from 2% in the previous decade.

The region has benefited from gradual and painfully achieved (though still modest) economic reforms, as well as from greater political stability, especially in SA and Angola.

SA's growth rate over the next decade is forecast at 3%-4% a year. But this would mark an improvement on recent years. According to the bank, the growing SA economy "would be a boon to the whole region". But it notes SA "continues to face significant hurdles on labour reform and fiscal consolidation", including opposition within government to economic reform policies.

Generally, the report points to "significant risks" in the outlook for sub-Saharan Africa. It paints an especially gloomy picture of Nigeria, where the benefits of higher oil prices have been eroded by misguided government policies, including distortions caused by interest rate controls and a dual-exchange rate system, as well as slowing progress on privatisation and public sector reform.

Another laggard is the Democratic Republic of Congo (formerly Zaire), whose output has shrunk by an estimated 4% a year over the past decade. The bank concludes that greater stability following the overthrow of President Mobutu Sese Seko "would provide a fillip to regional growth".

Much of the developing world's expansion over the next decade is expected to centre on the "Big Five" — China, India, Indonesia, Brazil and Russia. These countries' share of global output could climb from 7,8% in 1992 to 16,1% in 2020. In the bank's words, they "are likely to emerge as key players in the world economy over the next quarter century". Their share of international trade could balloon from just one-quarter that of the European Union today to 50% larger by 2020.

The rapid integration in international commerce of China and India, with their vast pools of unskilled labour, could force down prices for some labour-intensive products, putting pressure on unskilled wages in other countries. However, the bank contends that the emergence of the Big Five "will generate significant welfare gains for the industrial countries and most other developing countries, resulting from broader opportunities for specialisation along lines of comparative advantage and from improved terms of trade".

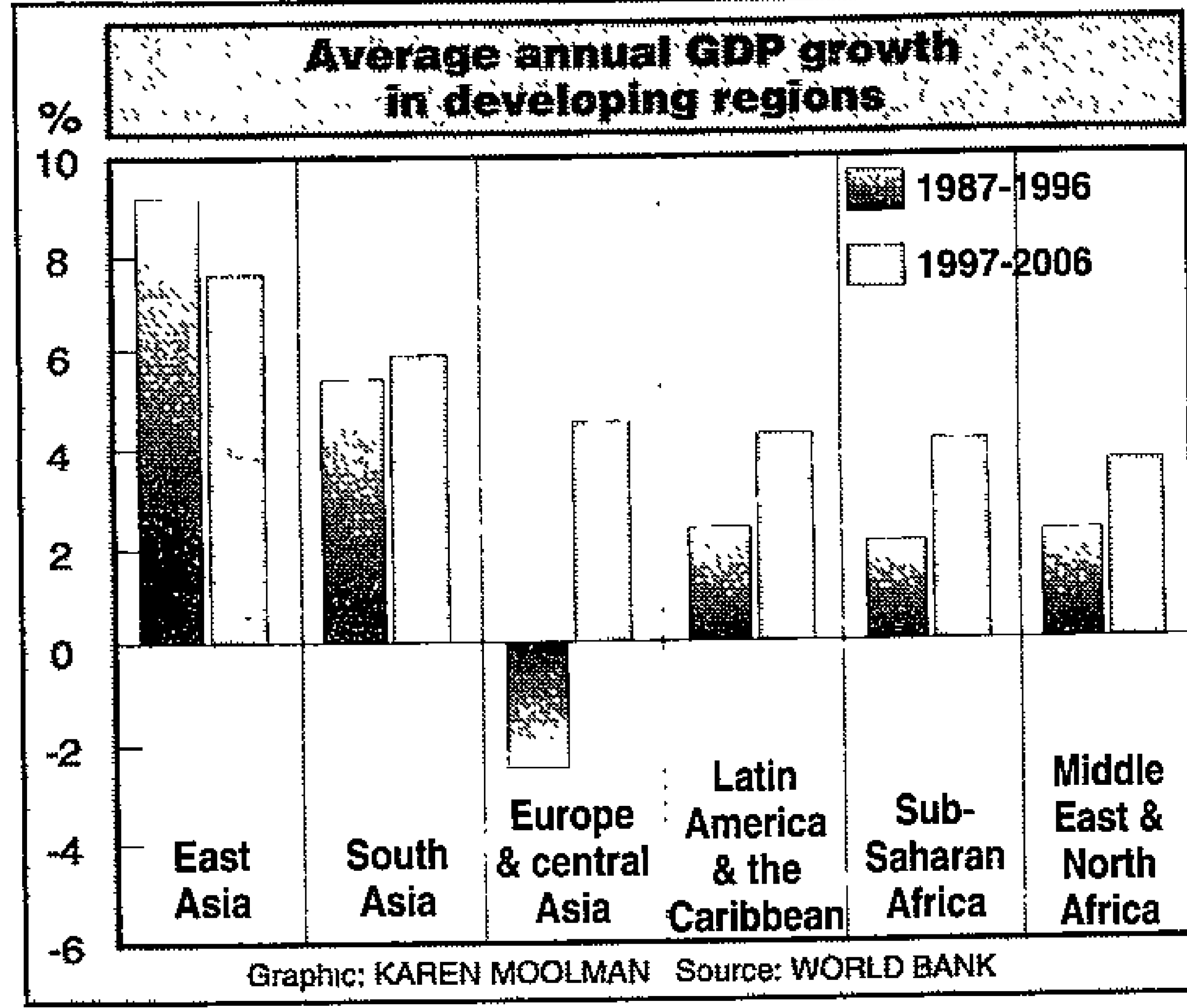
The report says multinational companies' increasingly influential role in developing economies is being fuelled by trade and regulatory liberalisation, falling transport and communications costs and the growing importance of knowledge and other intangible assets in modern production and distribution.

Perhaps the defining characteristic of multinational enterprises, the bank notes, "is their ownership of specialised intangible assets, such as knowledge how to produce cheaper or better-quality products, superior ability to innovate, and special skills in design, styling, promotion, marketing or sales-assets that create the basis for indirect or spillover benefits in host countries".

Among the conditions likely to draw multinationals are political stability, open trade and investment policies, protection of property rights, "and a predictable institutional environment without excessive red tape".

□ *Global Economic Prospects and the Developing Countries 1997, The World Bank, Washington DC.*

A mixed bag



Graphic: KAREN MOOLMAN Source: WORLD BANK

Sub-Saharan Africa forecast summary

(Annual % change or ratio)

Indicator	1987-1996	Baseline 1997-2006
Real GDP	2,0	4,1
Consumption per capita	-1,0	1,0
GDP per capita	-0,8	1,2
Population 16-65 years	3,1	3,1
Median inflation (a)	10,2	8,3
Gross domestic investment/GDP	18,2	21,1
Budget deficit/GDP	-6,7	-4,5
Export volume (b)	2,8	5,6
Current account/GDP	-2,1	-2,4
Debt/exports (c)	330,0	270,0

(a) GDP deflator
(b) Goods and nonfactor services
(c) Ratio of long-term debt outstanding and disbursed to exports of goods and nonfactor services plus net worker remittances

Real power is economic

Sowetan 17/9/97

Gear the only way to go, says Madiba

(49)

Cosatu boss not convinced strategy will work for SA

By Abdul Milazi

GOVERNMENT'S macro-economic strategy (Gear) was the only vehicle through which social transformation could be achieved.

It was therefore irresponsible for the Congress of South African Trade Unions (Cosatu) and the African National Congress (ANC) to declare that their respective positions were not negotiable.

This stern warning was issued by President Nelson Mandela at Cosatu's sixth national congress, which started at the World Trade Centre in Kempton Park yesterday.

Finance Minister Trevor Manuel declared that Gear was "non-negotiable" when he released it. Cosatu subsequently announced that its position on the Basic Conditions of Employment Bill was not negotiable.

Mandela said as with any other policy, the strategy was not cast in stone and should be measured against its goals.

However, Mandela criticised Gear's approach to servicing the national debt, saying the Government could not spend so much on the debt as it defeated the purpose of transformation.

President Nelson Mandela spoke at Cosatu's national congress in Kempton Park yesterday.

Cosatu president John Gomomo slammed Gear as a "neo-liberal document marking a real shift in conceptualisation of macro-economic policy by the ANC".

Gomomo said while Gear contained the rhetoric about job creation and economic growth, it remained an empty shell which would not deliver any benefit to the working class, particularly the unemployed and rural people.

"This assertion is now accepted by all including those who were the first to declare it non-negotiable. They now accept that while it is far easier to programme a computer to project job creation, it is far more difficult to get the private sector to end its investment strike," said Gomomo.

He said the Government was now saying that the job figures were merely estimates "which means that the real targets are accelerated tariff removals, blind adherence to budget deficit cuts, removal of exchange controls to allow money to go out of the country at a time when money is needed in South Africa."

He urged Cosatu to come up with an alternative to Gear.

Gear is promoting joblessness, says Gomomo

Cosatu national president calls for priorities of alliance to be redefined

THABO MABASO
AT THE COSATU CONGRESS

Johannesburg – Launching a new attack on the Government's economic policy, Congress of South African Trade Unions' (Cosatu) national president John Gomomo has called for a redefinition of the priorities in the alliance between the labour federation, the African National Congress (ANC) and the South African Communist Party.

Addressing Cosatu's sixth national congress in Johannesburg yesterday, Mr Gomomo slammed the ANC-backed Growth, Employment and Redistribution (Gear) strategy which, he said, promoted joblessness.

"Social spending has been severely cut except for correctional services, housing and police. Even in housing, we would have more to spend were it not for this monster called Gear," Mr Gomomo said.

"Left unchallenged it can only mean more poverty and the increase of the gap between the rich and poor. More importantly it will mean that the Government is curtailed from addressing the legacy left by apartheid," he added.

Gear was unveiled by the Government last year and envisages the creation of a million jobs and a 6% economic growth rate by the year 2000. Cornerstones of the strategy are strict fiscal and monetary policy.

'We would have more to spend if it were not for this monster called Gear'

Since the strategy was published by Government tensions have deepened within the alliance between the ANC and Cosatu.

The labour federation has embarked on a series of strikes in the past few months aimed at voicing its disapproval with Gear and legislation which, it says, is inspired by the strategy.

But, Mr Gomomo said, the mass action must not be interpreted as a vote of no-confidence in the ANC.

"It is not a form of opposition to the Government and the ANC, or a challenge to the ANC as some would want the public to believe, but a way to indicate support for progressive policies being introduced by the Government, raise concerns on policies that we believe will retard the process of transformation and to tilt the balance of power in the direction of the liberation movement," he said.

President Nelson Mandela, who spoke after Mr Gomomo, said although he did not agree with the Cosatu leader on his views on Gear, it however was important for the Government to listen to criticism coming from its allies.

"If our allies are unhappy about Gear, we as Government must stand and take note.

"Like any policy our macro-economic strategy is not cast in stone. Its usefulness must be measured against its goals," Mr Mandela said.

SA economy still underperforming, says the IMF

(49) BD 18/9/97

Simon Barber

WASHINGTON — Sticking to its May projection that SA's gross domestic product growth will fall to 2,2% this year, the International Monetary Fund (IMF) punctuates the country's growth prospects with a question mark in its latest World Economic Outlook, released as the IMF and World Bank annual meetings get under way in Hong Kong.

"SA's growth has not yet responded to the authorities policy reforms, and activity is expected to slow somewhat in 1997," the fund notes. "However, with continued reform efforts and the returns on investors confidence, the outlook has begun to improve."

SA and Nigeria, the continent's two largest economies, are seen as significantly underperforming sub-Saharan Africa's predicted overall average growth rate of 4,1% this year. If those two countries were not included, that average would rise to between 5% and 5,5%, despite declines in the continent's terms of trade.

"In SA, sustained reform and stabilisation along the lines of the authorities' announced strategy is needed to enhance growth prospects, while in Nigeria major structural reforms continue to be needed for the economy to begin approaching its productive potential," the report said.

Ethiopia, Ghana, Malawi and Uganda get pats on the back because "significant progress has been made in increasing the role of the private sector and improving macroeconomic discipline".

Sapa-AFP reports Botswana was enjoying growth as a result of reforms, economic discipline and improved weather.

In many CFA franc countries "fiscal reforms have strengthened the recovery process" which began with the 1994 devaluation of their currency. Growth in Cote d'Ivoire was forecast at 6,1% from 6,8% last year.

Africa remains the global poor relation — its economies "fragile", "vulnerable to external shocks" with savings and investment rates "well behind those in … successful developing countries".

However, the report noted that "there are also a significant number of relatively successful economies that illustrate the potential for reversing the decline in living standards during much of the past quarter century".

See Pages 7 and 15

Solidarity in opposition to Gear

Cosatu's battle with government over economic policy reached a head this week. Compromise seems unlikely, writes **Sechaba ka'Nkosi**

The Congress of South African Trade Unions' sixth national congress in Kempton Park this week exposed deep-rooted mistrust between the labour federation and the government on the growth, employment and redistribution (Gear) strategy The meeting saw Cosatu affiliates uniting firmly behind the federation's total opposition to the macro-economic policy.

Even affiliates that had earlier called for a more open approach towards Gear suddenly switched from possible compromise to outright rejection In fact, the dominant view came from influential affiliates that advocate a meeting — possibly next year — to map out an alternative economic model to advance Cosatu's stated commitment to socialism

President Nelson Mandela twice tried to get Cosatu to give Gear a chance, but was openly snubbed by angry delegates who saw the strategy as an ideological shift by the African National Congress from its left-wing orientations to the right. In fact Cosatu president John Gomomo labelled the strategy as "the reverse gear of our society"

Mandela under fire: The government's macro-economic strategy was this week openly snubbed by angry delegates at Cosatu's congress. PHOTOGRAPHS: DANNY HOFFMAN

The South African Railways and Harbour Workers' Union (Sarhwu) suddenly withdrew a proposal calling for engagement with the government because Gear could not be rejected as a whole The proposal had noted that while there were areas of disagreement on the strategy, "we need to take cognisance of the fact that the climate for foreign investment must be conducive In order that South Africa is not also rejected by the international community that played a pivotal role in our struggle, Cosatu should isolate problematic elements of Gear to contest them in the [proposed alliance] summit"

However, according to Sarhwu general secretary Derrick Simoko, it was withdrawn "because we did not want to open a debate on the matter, and our membership rejected it"

Simoko could not explain, however, how a proposal adopted by Sarhwu as a resolution in its own congress could suddenly be rejected by the union, except to say that the resolution was adopted in 1995, a year before the government announced its economic reform strategy However, the proposal that was supposed to be tabled at the Cosatu meeting stated its reference to Gear very clearly.

The withdrawal of Sarhwu's proposal came a day after the congress openly shunned Mandela's call for consensus on the macro-economic strategy In what appeared to be a reconciliatory message to his allies, Mandela stood before 2 300 delegates to admit to some of the concerns raised by Cosatu on the strategy He conceded that there had not been enough consultation between the ANC, Cosatu and the South African Communist Party before the adoption of the strategy Even the ANC, said Mandela, only learnt of Gear when it was almost complete

But Mandela pointed to narrow interests among alliance partners as a possible reason for the misunderstanding on Gear He said individual positions are assumed as definite and therefore a must for others to accept While it was natural for partners not to agree on all matters, this must be accompanied by a readiness to discuss disagreements and a shared commitment to finding solutions

"It is, therefore, not in keeping with the character of our alliance when Cosatu declares that positions it holds that differ from those of the ANC or government are non negotiable By the same token, it is wrong for the ANC to present its positions as non negotiable, even while exercising its broader responsibilities in government Our starting point must be the need to ensure that we produce the resources to achieve the goals of reconstruction and development, to use them to the greatest effect to improve the lives of our people, especially the poor; and to adopt policies which promote the achievement of those goals," said Mandela

'Government is curtailed from addressing the legacy left by apartheid' — John Gomomo

Mandela urged the delegates to give Gear a chance since it had managed to turn the economy around He said it was wrong for Cosatu to blame Minister of Finance Trevor Manuel for Gear Praising him as "one of the most brilliant young men this country has produced", Mandela told the delegates that Gear was actually a collective effort of the entire Cabinet He even reiterated the government's latest stance that the strategy was not cast in stone, and if ANC allies are not happy about it, then the unhappiness needed to be addressed

"Its usefulness must be measured against its goals Its appropriateness must be judged in the light of prevailing conditions For the same reasons, any proposed elaboration or modification must find justification in changes in objective conditions and not merely in a desire or agreement, or in a sectoral drive to satisfy narrow self-interest

"And while our measuring rod must always be improvement in the lives of the poor, democracy dictates that any such decisions must be with the involvement in all major sectors of our society including labour and business," argued Mandela

It was soon after this plea that delegates and their leaders sent a clear message to Mandela that as far as Cosatu was concerned, Gear remained non negotiable Just a few seconds after he had finished his speech, the delegates reaffirmed their rejection in songs and slogans and pledged their commitment to the Reconstruction and Development Programme

In fact Cosatu deputy president Connie September summed up Cosatu's attitude towards Gear "We we won't change our opposition to Gear," she told the congress

Gomomo said while Cosatu is committed and should remain in the alliance, Gear represented a real shift in the conceptualisation of macro economic policy by the ANC Gomomo described the policy as an empty shell that would not deliver any benefit to the working classes, particularly the rural and the unemployed

"Left unchallenged, it can only mean more poverty and the increase of the gap between the rich and the poor More importantly," he warned, "it will mean that the government is curtailed from addressing the legacy left by apartheid"

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announces an
increase in interest rates
from 15 September 1997

MINIMUM BALANCE	90-DAY NOTICE Annual	90-DAY NOTICE Monthly	INSTANT ACCESS Annual	INSTANT ACCESS Monthly
£250,000	7.75%	7.50%	7.15%	6.90%
£100,000	7.75%	7.50%	7.00%	6.75%
£50,000	7.50%	7.25%	6.75%	6.50%
£25,000	7.50%	7.25%	6.50%	6.25%
£10,000	7.25%	7.00%	6.25%	6.00%
£5,000	7.00%	6.75%	6.25%	6.00%
£2,500	6.00%	5.75%	6.00%	5.75%
£1,000	5.00%	4.75%	3.00%	2.75%
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Policy reforms boost economic growth

Sowetan 19/9/97

(49)

By Isaac Moledi

POLICY reforms and a broadly favourable international economic environment could allow developing countries' economies to grow by five to six percent a year between now and 2020, says a World Bank report.

This development, says the report, entitled *Global Economic Prospects and the Developing Countries 1997*, will increase these countries' share of world output from around one-sixth to about a third over the same period.

The rapid growth will have far-reaching effects, with substantial benefits for most regions.

The report, which provides an annual assessment of global economic prospects of developing countries, projects an increase in the growth rate of global output.

The improvement is likely to be notable for Sub-Saharan Africa especially, which grew at about four percent in 1995 and 1996, and for the developing countries of Europe and Central Asia, which are emerging from a painful transition process.

Although there is a recognition that some developing regions are better positioned to do well than others, the report says the outlook for developing countries in general looks much more favourable over the next 10 years.

Developing countries will provide an even more important market for industrial country exports, the share going to these nations being expected to rise from 25 to 40 percent by 2020

"About 50 percent of every dollar's worth of Organisation for Economic Cooperation and Development (OECD) export growth during this period will come from developing countries. (This) will provide the fastest growing markets for all major industrial sectors, ranging from agriculture to a variety of manufacturing and services," says the report.

Unprecedented boost

The next 25 years will see an unprecedented boost in the prominence of developing countries in the world economy, and five of those countries projected to fundamentally change the way the world does business are Brazil, China, India, Indonesia and Russia – the "Big Five".

"The growing importance of developing economies will be reflected in, and driven by, the emergence of the "Big Five" which now account for half of the world's labour force but only eight to 10 percent of its output and trade."

Given continued policy reforms and the strengthening of an open world trade and investment regime, these figures could double by 2 020, with substantial repercussions for global resource allocation, production, trade and pricing

Although at present the "Big Five" share of the world trade is barely a third of the European Union, the report estimates that by 2020 it could surge to 50 percent higher than that of the EU share.

"The potential rewards of this expansion will be very large, both in terms of the growth of important export markets and as a source of imports. These changes in the international pattern of specialisation will have an important impact on both industrial and developing countries."

The reports notes that the international economic environment for developing countries remains favourable, characterised by broadly stable world macro-economic conditions, expanding flows of private capital to developing countries and expected world trade growth at a solid six to seven percent a year.

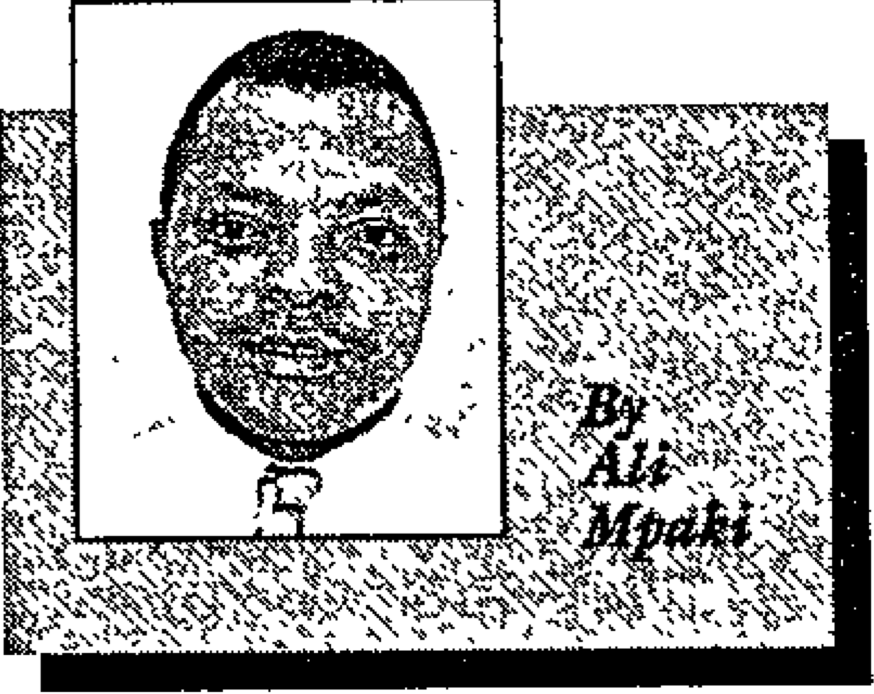
Last year, for instance, private capital flows to these countries surged to a record R1 146,6 billion with foreign direct investment exceeding R468 billion for the first time.

Current projections suggest an increase in developing country growth to 5,4 percent in 1997 to 2006, more than twice the 2,6 percent rate of the past decade

'Asiyifuni i Gear!' – Cosatu

CP 21/9/97 (49)

IN ITS sixth national congress, Cosatu has once again pledged to support the ANC in the 1999 elections – but has unequivocally come out against the government's Gear macro-economic policy and is planning to actively campaign against it.


By Ali Mpaki

THE PASSION with which they chanted "Asiyifuni i Gear" (we reject Gear) was enough to convince even the hardest of cynics that Cosatu would not budge on its rejection of the government's macro-economic framework.

Not even President Nelson Mandela's speech at the beginning of this four-day conference that "Gear was a good policy that (will) lift the economy out of the morass it had been dragged into by apartheid" could sway them.

"We reject Gear as unsuitable for South Africa's socio-economic transformation and call on the ANC government to adopt a developmental macro-economic framework, based on the principles of the RDP," South Africa's largest trade union federation declared.

Observers had thought Mandela's speech would set the tone for a Cosatu compromise on Gear.

This hope was accentuated by Mandela's remark that he would like to congratulate Cosatu's secretary general, Sam Shilowa, "on his reasoning and willingness to compromise".

If anything, Cosatu's 2 000 delegates at this conference noted the "unacceptable" neo-liberal policies and principles of Gear, the effects of which were already being felt by the working class people.

Vociferous in their rejection of this economic framework were affiliates like Samwu, who charged that "you cannot reject Gear and not say the ANC should abandon it".

To this end, Cosatu resolved to embark on a campaign to publicly resist Gear, incorporating like-minded institutions to pressure the government to adopt a developmental macro-economic framework as enshrined in the RDP.

The Gear elements which Cosatu rejects include: the subsidy cuts, privatisation, labour market flexibility, and reducing the role of the State in the economy.

What seemed to incense the Cosatu delegates was that, while Gear is not cast in stone, it was unilaterally imposed. Even Mandela confessed the "ANC knew about it (Gear) long after it was drafted".

It is interesting that, while there are tactical differences between the ANC and Cosatu, delegates would not push for an end to the alliance, saying it was a strategic alliance that needed to be nurtured.

Delegates heard that what needs to be done is to deploy the Cosatu leadership in all the structures of the ANC, so as to influence policy and give a socialist direction.

The congress also resolved to give their unwavering support to the ANC's election bid in 1999.

It was a delegate from the National Union of Mineworkers who said that if Cosatu was to play a socialist vanguard role, it cannot do that outside of the alliance.

The conference also noted that capitalism is becoming more global in its operations and, in the name of globilisation, it (capitalism) was crushing any thought of socialism.

Increasingly, the conference noted, investment was being shifted to countries where no unions are allowed.

While urging for a serious review of current separate and uncoordinated struggles, and a need to develop new tactics in this new period, Cosatu intends to campaign for coordinated international action to draw attention to the negative consequences of certain aspects of globisation.

Said Shilowa: "This should provide the basis for uniting workers globally in what are currently separately-fought struggles."

Cosatu's projects will include:

- ☐ Mass action with other solidarity forces to put pressure on the "undemocratic regimes" in Swaziland and Nigeria;
- ☐ To commemorate the 30th anniversary of the murder of Che Guevara;
- ☐ To participate in the second globilisation conference which is to be hosted in Cuba;
- ☐ And to organise mass activities during the visit of Indonesian dictator Suharto to South Africa, in order to raise the issues of the independence of East Timor and continuing repression in Indonesia.

The position of women within Cosatu dominated the proceedings on the third day of the congress.

While women make up about 40 percent of Cosatu's two million membership, only one woman – Connie September – is in the federation's executive committee.

Some affiliates argued for a quota system whereby the process of women being affirmed into leadership positions could be monitored.

Surprisingly, this motion was rejected, but the congress resolved to actively build up women's leadership within the federation.

September was elected into the position of first vice-president and Peter Malipe of Fawu was elected second vice-president.

Cosatu president, John Gomomo, secretary general Sam Shilowa and assistant general secretary Zwelibanzi Vavi were all re-elected unopposed.

The federation resolved to convene a special central committee within the next six months to concretise its anti-Gear campaigns and to develop an alternative macro-economic strategy to underpin its transformation objectives.

NP hits out at Cosatu's stance on Gear

Reneé Grawitzky

IN THE aftermath of the Congress of SA Trade Unions' (Cosatu's) sixth national congress, the National Party (NP) hit out at the federation's stance on government's macroeconomic strategy and said this would be the African National Congress's (ANC's) greatest single test since assuming power in 1994.

The NP said the message from the congress was clear and Cosatu's increasingly aggressive and outspoken stance against the growth, employment and redistribution strategy (Gear) and also its "advocacy of an orthodox hardline socialist agenda", revealed a deep ideological divide in the ANC/Cosatu/SA Communist Party (SACP) alliance.

The ANC would have to make a clear choice between the interests of SA as a whole on the one hand, or the effort to keep its already shaky tripartite alliance intact, the NP said.

Serious uncertainty had been created about the future of Gear and the NP called on Deputy President Thabo Mbeki to respond to the challenge which Cosatu and the SACP had posed.

Sapa reports that Cosatu general secretary Sam Shilowa said the organisation's stance on Gear went beyond simply rejecting the policy by proposing a way forward. In the absence of debate on socioeconomic issues, congress endorsed a broad commitment to reject Gear and called on government to adopt a developmental macroeconomic framework, based on the principles of the reconstruction and development programme.

Shilowa told a media briefing that the success of the congress had to be measured against what it had set out to achieve, including building a strong federation and leadership capacity and setting up viable union structures.

Shilowa, assistant general secretary Zwelinzima Vavi and president John Gomomo were re-elected unopposed. First vice-president became a contest between former encumbent George Nkadimeng and Connie September, former second vice-president. September was voted into his position.

Food and Allied Workers' Union president Peter Malepe was appointed second vice-president after National Education Health and Allied Workers' Union president Vusi Nhlapo, withdrew from the race on Thursday.

In line with a congress resolution, Cosatu's constitution has been amended to ensure that elected national office bearers will become full-time officials.

Delegates reaffirmed their commitment to socialism and the alliance but pointed out that Cosatu would support government when it adopted progressive policies and "oppose it when it advances policies against the interest of workers".

Delegates endorsed a range of proposals including the development of a clear transformation programme for the alliance; resources to ensure it's effective functioning; and the development of an election platform. The congress noted Cosatu's commitment to the alliance had to be coupled with a "vigorous defence of the federation's political independence".

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BD 22/9/97 (49)

Manuel lobbies IMF to relieve regional debt

ET (BR) 23/9/99 (49)

Christo Volschenk
ECONOMICS EDITOR

Hong Kong — South Africa wanted the International Monetary Fund (IMF) and the World Bank to write off a portion of Zambia and Malawi's debt on the grounds that it inhibited growth and development in the region, Trevor Manuel, the finance minister, said yesterday.

He told the annual general meetings of the IMF and the World Bank the debt repayment commitments of these countries were keeping them from investing in human and fixed capital to enhance the growth potential of their economies.

South Africa will benefit indirectly from more sustainable debt levels in neighbouring countries when more money becomes available for poverty reduction, development and growth-enhancing investment.

The Anglophone group of African countries, of which South Africa is a member, would push for looser eligibility criteria in the IMF Interim Committee, Manuel said.

***DEBT MANAGER** Michel Camdessus, MD of the IMF* PHOTO JOHN WOODROOF

At the moment Mozambique, with a debt-to-export ratio of 988 percent, is the only country in southern Africa in line for relief under the debt forgiveness initiative of the IMF and World Bank.

Michel Camdessus, the IMF's managing director, said earlier this week Guyana, Mozambique and Ivory Coast would be considered for debt relief "in the next few months".

Manuel said South Africa would urge the institutions to be more flexible in their criteria for eligibility to the initiative, to allow for Malawi and Zambia to be included.

With debt-to-export ratios of 318 percent and about 300 percent respectively, Zambia and Malawi are far less burdened than Mozambique, but both countries have had to enter into debt rescheduling agreements in the past.

Malawi came out of its rescheduling agreement in the late 1980s, while Zambia currently has one hanging over its head.

Camdessus said three countries had already "done enough to deserve debt relief". Uganda would get relief totalling $338 million, while Bolivia would get $448 million and Burkina Faso $110 million to bring their debt down to sustainable levels.

He said Guyana, Mozambique and Ivory Coast would be considered this year, while Ethiopia, Guinea Bissau and Mauritania would be reviewed next year.

□ **International Business, Page 22**

Two cheers for Pretoria, says IMF

CT(PR) 23/9/97 (49)

RICH MKHONDO

Washington, DC — South Africa had made steady economic progress, but investor confidence would be bolstered by the announcement of a medium-term structural reform package that would address high unemployment and low growth, the International Monetary Fund (IMF) said in its annual report.

"South Africa has made steady progress, successfully weathering the economic squalls that accompanied its political transition," the report said.

"Among its successes were a reduction in the 12-month rate of consumer price inflation (to 5,5 percent in April 1996 from 11 percent in April 1995), a 1,5 percentage point of GDP increase in real net investment," the report said.

IMF directors commended South African authorities for pursuing prudent policies which included reducing the fiscal deficit in 1995-1996, tightening monetary policy in response to the emergence of inflationary pressures in late 1994, liberalising trade and capital controls and enacting new legislation on labour relations.

> 'SA has weathered the squalls that accompanied its political transition'

The directors "noted that these actions had been crucial in improving market confidence, but the directors underscored that a further tightening of monetary policy was key to restoring financial stability and to contain inflation.

"At the same time the directors recognised that the authorities faced competing demands to respond to the population's urgent social needs. In this regard, they welcomed the priority that the authorities attached to boosting growth and employment."

The IMF said the recent depreciation of the rand was appropriate, but further action was needed to contain the inflationary impulse that had already resulted from the depreciation and to restore confidence in the foreign exchange markets. — Washington bureau

Govt policy on Gear 'might need to shift'

Reneé Grawitzky

(47) BD 29/9/97

GOVERNMENT's growth, employment and redistribution strategy (Gear) could not be cast in stone as many aspects of the policy were beyond government's control, Karl von Holdt co-ordinator of the recently released September Commission, said last week.

Von Holdt said irrespective of the African National Congress (ANC) recent stance that Gear was now not cast in stone, government had no control over a number of aspects such as interest rates, undisclosed spending in the provinces and privatisation.

It was unlikely the ANC would abandon the policy but "we could see a lot of erosion and shifts under the guise of Gear". Implementation, he said, would have to be achieved through negotiation.

Addressing a Sociology of Work Unit workshop at Wits University on the September Commission and the Congress of SA Trade Unions (Cosatu) congress, Von Holdt said the commission's socioeconomic vision was aimed at introducing a radical programme of redistribution to overcome poverty, address other social needs and deepen democracy.

The commission argued, he said, that the process of deepening democracy opened up the space for a movement to socialism. Unfortunately, Von Holdt said, the congress did not discuss the commission report in any real depth and the socioeconomic debate was referred to a central committee meeting.

The congress, he said, accepted the view that the federation's national structures lacked capacity to drive all external and internal relationships and under such circumstances it would be impossible for it to be proactive. Hence, the adoption of proposals to strengthen the organisation's centre but at the same time attempt to facilitate rebuilding of local structures by establishment of local office bearers to drive activities at a local level.

The commission's one area of defeat was the resolution not to accept a quota system for recruitment of women into leadership positions in the federation. Von Holdt said this issue had been lost in a disgraceful way, as male delegates put up their women delegates to argue against quotas.

Intense debate at the workshop focused on union investment companies. Von Holdt said there was a strong sense of real dissatisfaction with, and concern about, union investment companies and its effect on union culture and leadership.

Billions missing from state coffers

Sowetan 6/8/97 (49)

By Pamela Dube and Abdul Milazi

MORE than R3 billion of taxpayers' money has gone missing in unauthorised expenditure and undocumented spending by governments of the former homelands for the financial year ending March 1995.

This was revealed in a special audit report sanctioned by the Parliamentary Joint Standing Committee on Public Spending last year, and released in North West, Northern Province and the Eastern Cape yesterday.

The audit was carried out in the former Transkei, Bophuthatswana, Venda and Ciskei (TBVC) by the Auditor General's office and was coordinated by audit company Price Waterhouse.

The AG found there was no proper and effective financial management in the TBVC states, and "there is a high risk that serious irregularities might have gone undetected".

The major hurdle faced by the auditors in conducting a thorough investigation was the unavailability of supporting documentation – where expenditure was recorded – and records that have gone missing.

In the former Bophuthatswana, the AG uncovered more than R2 billion in unauthorised expenditures and missing tax records.

The AG told the North West Legislature that it was impossible to verify whether tax payments of at least R7,8 million recorded on taxpayers' files was deposited in the state bank accounts, since documents were missing. This amount, and another R600 million, could not be traced in the Inland Revenue accounts for the 1992/93 financial year.

The investigation also found that from 1993 to 1995, more than R800 million was reflected on the Inland Revenue account bank statement, but could not be accounted for in its cash book.

Still in the same period, about R200 million recorded against the taxpayers' files could not be traced in the revenue account system.

Other tax payments of about R200 million were not accounted for against the taxpayers' accounts, while supporting documents for a R10 million VAT refund to a company were missing.

The former Bophuthatswana salary bank account as at March 31, 1995, reflected an unexplained shortfall of R991 million, the AG said.

Foreign assets valued at R164 million could not be found in the former homeland government's records. It was discovered that R5,2 million debited against the paymaster general account was paid as professional fees to an off-shore bank account held by a former government minister.

In Venda, the AG uncovered unauthorised expenditure of R107 million. The AG said due to the unavailability of financial statements, it was not possible to comment on the extent of unauthorised expenditure.

The AG recommended the Northern Province government investigate the possibility of recovering missing funds of more than R52 million in its various departments.

Lack of supporting documents made it "difficult" investigating the former Transkei and Ciskei.

Audit of homelands shows billions of rands unaccounted for

BD 8/8/97 (49)

Wyndham Hartley

CAPE TOWN — A R15m investigation to resolve the finances of the former homelands has found billions of rands unaccounted for and hundreds of millions unauthorised, but a final audit opinion is still impossible due to missing financial records.

Auditor-general Henri Kluever yesterday tabled reports in Northern Province, North West and Eastern Cape legislatures on outstanding financial records for the last years of the Transkei, Ciskei, Bophuthatswana and Venda homelands and the first nine months of the new dispensation up to the takeover of the new provincial administrations.

He said that "to all intents and purposes there was no proper, effective financial management in place. Because of this there is a high risk that serious irregularities might have gone undetected." He said he could not express an opinion on how reasonable the accounts were because of insufficient evidence or documentation.

The audit investigation, requested by Parliament's public accounts committee, was still in progress and when complete would have cost the taxpayer close to R20m.

Kluever said there was some doubt about further audit attempts to trace the money spent in the homelands. He said audit evidence was simply not there and "there is the distinct possibility that it is throwing good money after bad". He said he had done what was possible through audit.

He cautioned, for example, that in the case of the R2,3bn in "unauthorised expenditure" found in former Transkei that the lack of audit evidence meant that it was not possible to say whether the money had been well spent or not. The lack of records and documentation was so bad that the audit effort into expenditure between 1988 and 1992 was simply abandoned.

The reports tabled yesterday have raised the possibility that corruption and irregularities hidden by the lack of documentation would remain hidden unless costly dedicated commissions like the Heath and White commissions investigated them.

In former Bophuthatswana, taxpayers were apparently paying their taxes into a void with the payments simply disappearing after being recorded to their accounts but not being reflected in the inland revenue cashbook or being transferred to the main revenue account. This amounted to about R750m over 1993/94 and 1994/95.

In the report on the former Venda tabled in Northern Province, Kluever said the tale of no audit trail to follow continued with unauthorised expenditure of R107m having to be qualified due to the unreliability of the financial statements.

A former cabinet minister of the old Bophuthatswana government was under investigation for depositing R5,2m into a French bank account over which only he had control, an auditor-general's report has found. The audit has also found that when the salary account of former Bophuthatswana was done on March 31 1995 there was an "unexplained difference of R991m". The finance department had apparently made some adjustments which had improved this figure.

Of the expenditure items, R285m is without supporting documents. Three former Bophuthatswana departments — transport, foreign affairs and police — had no documents. The best performing department was state affairs and civil aviation, with 32% missing.

'Irregularities' cost R4,9m

BD 6/8/97 (89)

CAPE TOWN — Financial irregularities totalling more than R4,9m had occurred in at least nine of the 570 job creation projects approved by the former National Economic Forum (NEF), Labour Minister Tito Mboweni said in Parliament yesterday.

An audit of the Mamelodi labour-intensive road construction project in Gauteng disclosed that R1,37m was unaccounted for or had been incorrectly applied, he said in a written reply to a question from the National Party's Cyril George.

The Development Bank of Southern Africa had reported the matter to the police and was attempting to recover the money.

Other irregularities detailed by Mboweni included:

- The Ngxaraxa road project in the Eastern Cape was terminated by the development bank in June 1996. Its financial records had disappeared with the bookkeepers, and proof of expenditure of R25 000 could not be found;
- In Northern Province, the auditor appointed by the Mafefe Employment Creation Committee was suspected of fraud involving a portion of the R599 432 spent on the Mafefe Stream project. The accused had absconded with the financial records and the extent of the possible fraud was being probed; and
- An amount of R125 000 could not be accounted for by the Mapumulo roads project. A development bank probe had shown the chairman of the Mapumulo development committee might have absconded with some of the funds. The committee had failed to institute any legal action against the chairman, in spite of several requests.

No response had been received to letters of demand for the repayment of the amount, and the development bank would refer the matter to the National Economic Development and Labour Council for a ruling on whether to proceed with legal action, he said.

Meanwhile, it is reported the Madlebe roads and gardens projects in KwaZulu-Natal has been suspended. Charges of alleged fraud were laid by the Madlebe Tribal Authority against some members. It had also requested an audit to determine the nature and extent of suspected fraud, which was not expected to exceed R2,7m. — Sapa.

TRANSFORMATION *Monetary plans to be guided by growth and market*

CT (BR) 12/8/97

ANC spells out economic plans

(49)

Brendan Boyle

Johannesburg — The ANC yesterday spelled out plans for economic transformation, including a greater integration of monetary policy into the government's development programme.

"Monetary policy will be guided as much by the imperatives of the country's economic growth and development as by the dynamics of the market," the party said in a strategy document for ratification at its 50th national conference in December.

The document, drafted by a broad-based ANC committee and already ratified by the party's top structures, will form the basis of ANC policy into the new millennium.

Policy making by the South African Reserve Bank (SARB), the central bank, would have to be more transparent, said Mac Maharaj, the cabinet minister and ANC National Working Committee member.

He said the last white government had sought in negotiations on the transformation from apartheid to democracy to create "pockets of power" to protect white privilege.

"In regard to the (Reserve) Bank and the role of the instruments controlling monetary and fiscal policy, the regime sought to separate this with a Chinese wall.

"We said there is a legitimate point of separation so that there is focused attention, but there is also a legitimate point of interdependence between your broad economic policy and how you manage your monetary and fiscal policy," he said

Within the parameters of the constitution, he said, the government was going to say monetary policy needed to be brought within the major imperatives of the need for economic growth and development and the restructuring of the economy.

The post-apartheid constitution implemented in February guarantees the independence of the Reserve Bank from government or other external influence and gives it sole control over monetary policy.

Economists have predicted

TRANSPARENCY *ANC's Mac Maharaj sets tone of policy*

since mid-year that Chris Stals, the SARB governor, soon would lower the Bank's key interest rate to 16 percent from the 17 percent level set last November.

Stals has insisted, however, it was too early to ease the strict monetary policy that has brought inflation down to a year-on-year level of 8,8 percent and started a decline in the rates of growth in money supply and private credit extension.

He has been accused by the 1,9 million-member Congress of South African Trade Unions of keeping real interest rates high and stifling growth.

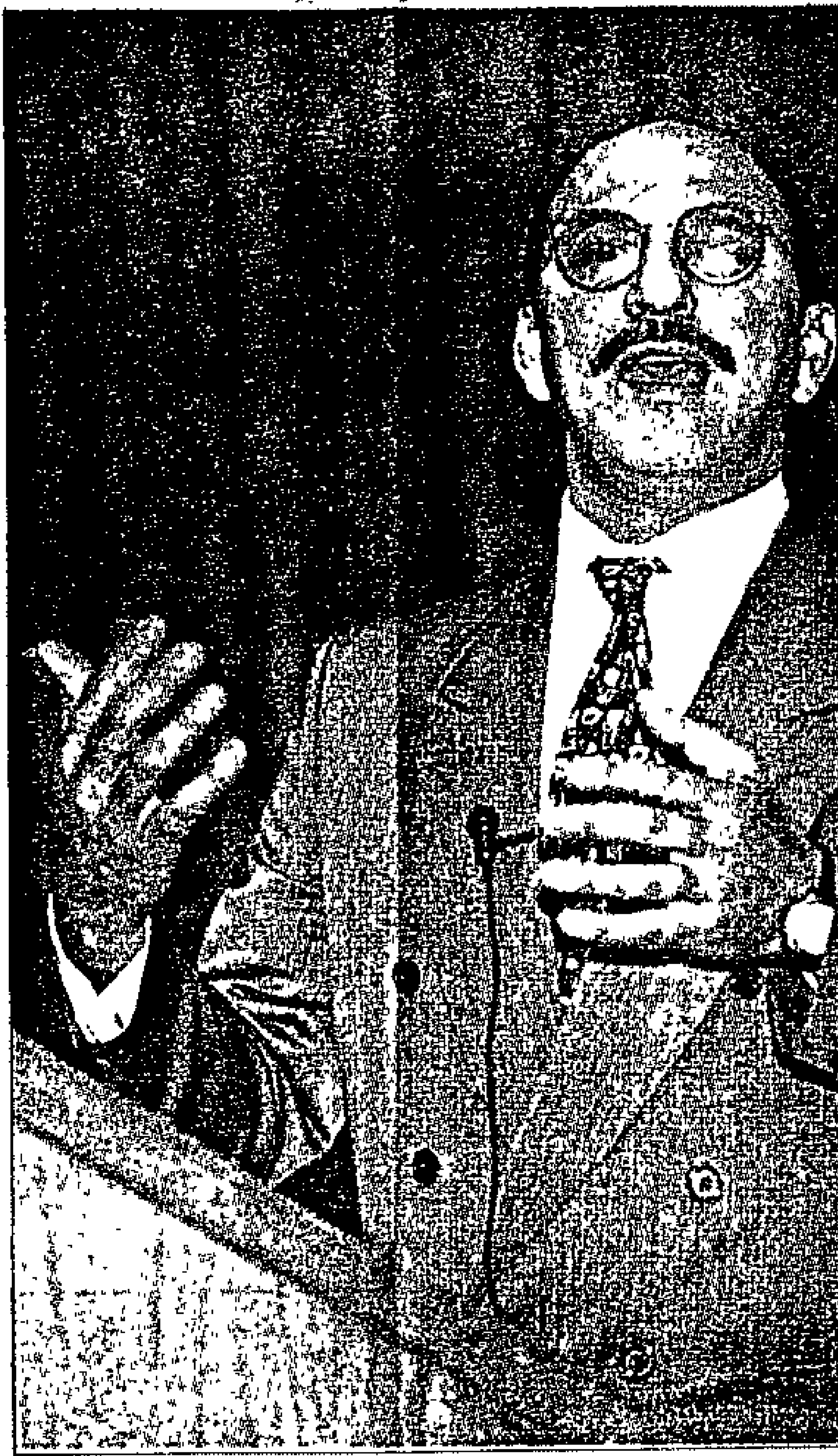
Stals said at the weekend after a Business Report article he was willing to broaden his consultations on interest rate policy, which currently was discussed in a subcommittee comprising the governor and at least two of his three deputies.

"I don't have a serious problem (with that) and, because of the accusations that I am a power on my own, maybe it would be better to have a broader committee," he said.

The ANC strategy document said the pursuit of growth and development would be the guiding principle of economic policy.

"We need to increase the wealth base of the country by producing more goods and services in the same measure as we improve the quality of life of especially the poor and ... effect the redistribution of wealth and income," it said.

The document calls for investment in infrastructure, manufacturing, agriculture, eco-tourism and housing. — Reuter



STRONG WORDS *Trevor Manuel, the finance minister, who says the expenditure framework will strengthen political decision-making in the Budget process and bring policy priorities in line with spending* PHOTOS JOHN WOODROOF

Gear will 'eventually' result in jobs

CT (BR) 12/8/97 (49)

DUMA GQUBULE

Johannesburg — The government's growth, employment and redistribution (Gear) strategy would eventually result in job creation, Maria Ramos, the director-general of finance, said yesterday.

Speaking at the launch of the government's three-year expenditure framework, Ramos said Gear had created a stable macroeconomic environment in which jobs could be created.

"You cannot throw money at the problem of job creation. Jobs can only be created in a stable economic environment. We cannot abdicate our commitment to fiscal discipline," she said.

International experience had shown that short-term expansionary fiscal programmes created few long-term benefits. "Our macroeconomic policies are credible because of Gear. They will boost savings, investment and, therefore, growth. The job numbers will improve in the medium term."

South Africa's economy shed 71 000 jobs last year and 42 000 during the first quarter of this year, the Central Statistical Service reported. Gear projected 126 000 jobs would be created last year and 252 000 this year.

Ramos said Gear, in its projections, had expected a period of economic consolidation this year, but the government was on track to achieve the 2,5 percent growth target on which the Budget's assumptions were made. "There will be stronger growth during the second half of the year," she said.

Trevor Manuel, the finance minister, said the medium-term expenditure framework would ensure the government delivered reconstruction and development within the context of a sound and stable macroeconomic framework.

"This expenditure framework is an anchor around which a series of microeconomic policies which impact on social transformation can be developed," he said.

Manuel said the expenditure framework, which would be presented together with next year's Budget, would strengthen political decision-making in the Budget process. "It will bring policy priorities in line with expenditure. It is about putting programmes in front of government and letting cabinet decide which ones it wants."

Andre Roux, the deputy director-general of finance, said the process of drawing up next year's Budget had started in March when the department of state expenditure had asked national departments to prepare three-year plans.

The provinces and national departments had received indicative allocations. A consultative process would eventually result in final allocations which would be hard Budget constraints for 1998 to 2001, he said.

SA loses out in economic balancing act

(49) CT 14/8/97

DONWALD PRESSLY
POLITICAL STAFF

LAST weekend I went to "check out the grassroots" as my old school friend — who now specialises in identifying with the downtrodden — puts it.

In advance of this week's critical deadline for reaching agreement on legislation that is supposed to uplift, in Labour Minister, Mr Tito Mboweni's words, "the poorest of the poor", I shed my middle-class comforts and mingled with not only the expected black and coloured squatters — with which I am fairly familiar after pottering about my father's mission station in the Northern Cape in my youth — but also the first white (English-speaking) squatters I've seen in the Western Cape.

I had been primed earlier at a lunchtime meeting of the Cape Town Press Club by the same friend to ask Mboweni why the government did not consider imposing a minimum wage in the Basic Conditions of Employment Bill. I could see why. Standing in front of about a dozen shacks in Redhill (between Simon's town and Kommetjie), my friend asked why working people were unable to earn enough to keep the wolves from the shack.

"Just what is this government doing?" A black shack-dweller bemoans the community's fate. "They (the government) want to *skop* (kick) us out and replace us with animals," he says. (The Redhill area, apparently, is being included in the Cape Point nature reserve). The only sign of upliftment since 1994 is an RDP water tank.

South Africa appears to be losing the battle against the spread of squatter communities and previously protected whites are now joining the throng — at least in the Noordhoek area.

Mboweni says the bill does not provide for a minimum wage because the government believed that wage setting "in the main" should be the function of collective bargaining.

He was quick to point out that those sectors that do not fall under the negotiating mechanism of the National Economic, Development and Labour Council (Nedlac) would fall under a new agency, an Employment Conditions Commission, which would make recommendations and "set guiding principles" for non-organised workers. "Those wage rates will differ from situation to situation ... you will not have the same rate for domestic and light industrial workers for instance."

> *The minister drew attention to the differing world views of workers and business. One saw declining profits, the other saw business digging in its heels.*

There are, however, serious doubts about whether the labour department has the policing mechanisms to ensure the implementation of agreed-to wage levels.

Without being pious, sentiments about competitiveness in the international market appeal to people wearing ties (the minister himself is an MA Economics graduate of East Anglia).

While the government may well be trying to balance the demands of business and labour, one gets the impression that the government classes are missing the economic boat. Even Karl Marx would have admitted that it is the middle class that will lead us out of the economic cul-de-sac.

South Africa lacks an economic vision which marshals both the rich and poor in a joint venture to improve the country's lot.

The minister may be right that we can't afford minimum wages and even a 40-hour week as demanded by the trade unions at Nedlac (rather than the 45-hour week proposed in the bill). "We can't afford to price ourselves out of the market in a globalised economy." It could have been Tony Leon speaking to the press club. But something more has to be done.

Just what does this bill do? It does have good points. It provides obligatory leave for part-time workers — a day for every 17 working days. Under the existing legislation,workers could work for years without receiving any leave. It increases payment for overtime from time and a third to time and a half. Workers must be given Sunday off unless otherwise agreed. If they work regularly on a Sunday, they must be paid a premium of time and a half and if they work occasionally on the Sabbath, they must be paid double time. Annual leave has been increased from two weeks to three. Sick leave remains at three weeks in a three-year cycle but workers will be able to get their full sick leave quota after six months of employment instead of one year. Maternity leave has been improved from 12 weeks to four months. Women who have still-born children will be entitled to six weeks' leave. Women will no longer be obliged to take one month of their leave before their babies are born.

In addition, the bill provides "family responsibility leave" which will be of particular advantage to men. It gives workers three days paid leave a year to attend to the birth or illness of their children or the death of an immediate family member.

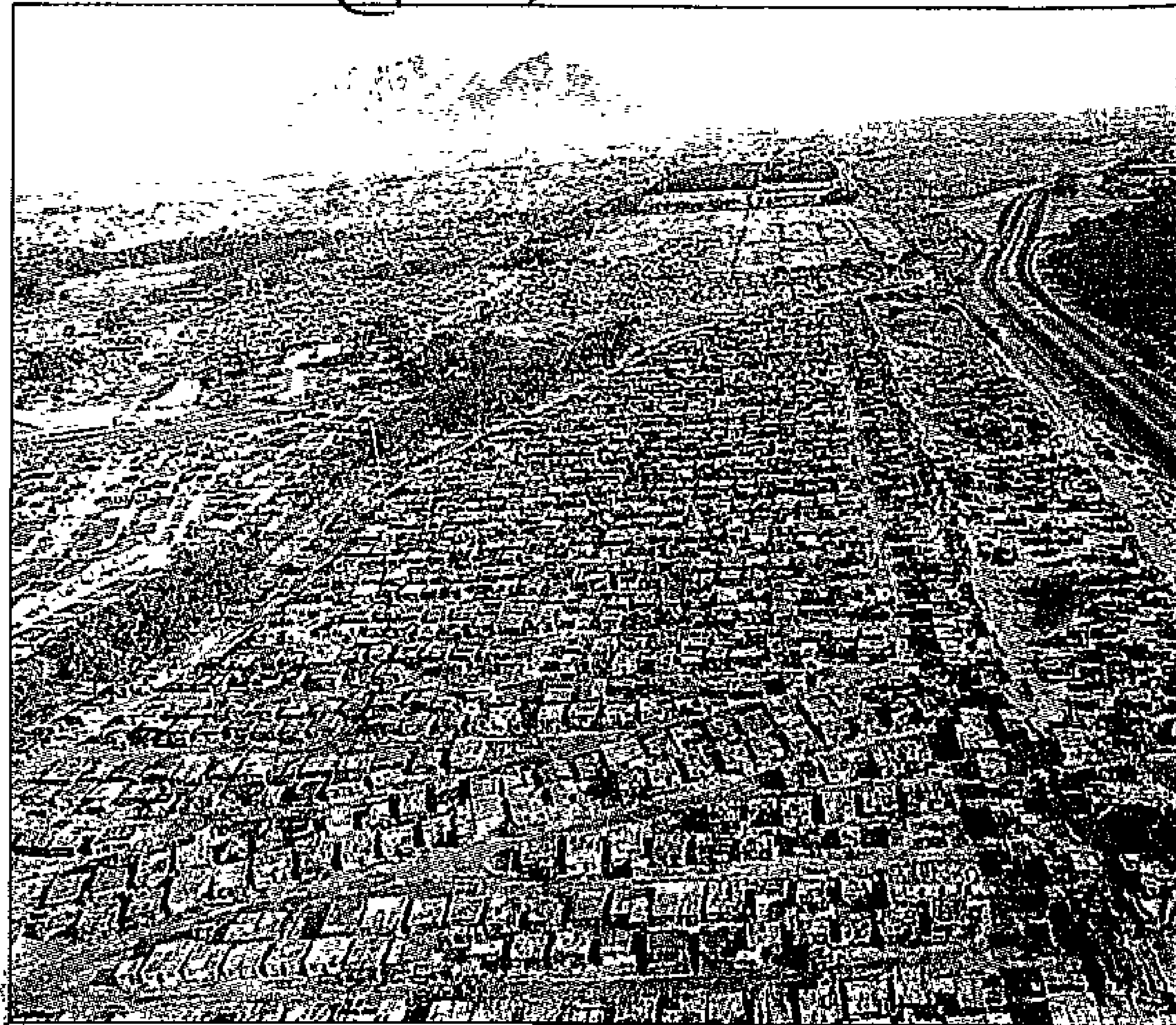
The working week has become the sticking point between business (with government) and the unions.

The government believes that it is not appropriate to simply pass a law reducing working hours to 40 unless it is negotiated with employers. Mboweni said it may lead to industrial conflict and appeared sympathetic with a businesswoman at the press club who said she would have to lay off two of her 15-member team if it was introduced.

The minister drew attention to the differing world views of workers and business. One saw declining profits, the other saw business digging in its heels. He was confident that "sufficient consensus" would be reached ultimately.

Even if Nedlac forges agreement on the bill by the deadline set for the end of this week — so it can be accepted in revised form by the cabinet on September 3 — it fails as a visionary document. It does not create a partnership for labour in the ownership of the productive processes. The Malaysian example of ensuring worker participation in the shareholding of companies is absent — indeed, it is something which South Africa has not even begun exploring in any depth. The businesswoman at the press club may find that worker participation in both ownership and management may make the length of the working week irrelevant, with workers prepared to put in that extra bit if they feel they are getting some advantage from it.

Until this sort of thing happens, both white and black squatters will share with business a feeling that South Africa is not reaching effectively for Mr Thabo Mbeki's much vaunted "African renaissance".



PUTTING DOWN ROOTS: South Africa appears to be losing the battle against the spread of squatter camps.This photograph, taken a few years ago, shows shacks mushrooming along the N2 in Cape Town.

Stals accused of undermining Gear with rate policy

S DAY, Friday, August 15 1997 3

BD 15/8/97 (49)

A CO-AUTHOR of SA's macroeconomic strategy for post-apartheid economic growth has accused Reserve Bank governor Chris Stals of undermining the government's flagship recovery plan.

Iraj Abedian, an associate professor of economics at the University of Cape Town, said Stals had kept the Bank's key interest rate at 17% for too long.

"Stals has not been growth friendly or even patriotic to the SA economy. His idiosyncratic obsession with inflation is damaging the economy," he said.

Abedian co-ordinated a team that helped the finance ministry draft the growth, employment and redistribution strategy (Gear), published last June.

The strategy imposes a mix of fiscal discipline, deficit reduction, export promotion and labour restraint to boost growth to 6% a year by the end of the century and significantly reverse the decline in employment.

Stals hiked the Bank's key interest rate to 17% in November last year, pushing the prime rate charged by commercial banks to 20,25%.

Citing inflation that tested 10% year-on-year in April before dropping back to the present level of 8,8%, Stals has so far declined to bow to pressure to cut the rate.

However, he said last month that the falling inflation rate, as well as a decline in the rate of money supply growth to 12,79% in June and a slight drop in the stubbornly high rate of growth in personal-credit extension at 16,39%, augured well for a cut this year.

"Stals is paranoid about inflation, but should not be allowed to hold the economy hostage to his paranoia," Abedian said. "He has undermined the credibility of Gear. He is flying in the face of every economic analyst in the country."

He said monetary policy should be set by a board of governors chaired by Stals and including independent economists.

SA's economy contracted by an annualised 0,8% quarter-on-quarter in the first quarter of this year and economists are divided on whether to expect a second quarter of negative growth when the figure is announced later this month. Most economists define a recession as two consecutive quarters of negative growth.

Finance director-general Maria Ramos told a conference in Johannesburg earlier this week that government had revised this year's growth estimate down from 2,9% to 2,2%.

ING Barings economist Nick Barnardt echoed Abedian's concern that Stals was stifling growth. "We are sacrificing a bit more growth than is necessary. Inflation of 7%-8% is low enough and that is already in the bag.

"The question is, do you loosen up by lowering the interest rate or by letting the rand depreciate, which will boost export earnings," he said.

Barnardt said his view was that SA should lift remaining exchange controls within the next six months and let the rand, which traded at 4,66 to the dollar on Wednesday, find its own level. — Reuter.

Alternative Gear should focus more on helping the poor

A recent debate involving major political role players and which focused on the tripartite alliance and government's economic policy is analysed by **Andrew Prior**

(49) BD 19/8/97

A DEBATE on the topic of an alternative growth, employment and redistribution (Gear) strategy was held recently by the Goedgedacht Forum for Social Reflection, an organisation based on the German concept of "social academies".

Present at the debate were church ministers, members of Parliament, trade union representatives, academics and representatives of community-based organisations.

The clash of views highlighted the growing tensions between the unions and the African National Congress (ANC) — the major partners in the political alliance.

The private nature of the Goedgedacht debates, where published material is not attributed to any person or party, creates an opportunity for frank and open discussion not normally associated with public forums.

The differences emerged around the answer to the question: Is the SA government serious about eliminating poverty and redistributing wealth?

On the one hand, the ANC argued that its Gear policy was the only feasible approach to the country's economic problems and would result in growth, expanding employment and elimination of poverty.

On the other hand, labour federation Cosatu saw the emergence of a neo-liberalism in ANC policies, indicating that the ANC had become the party of the SA nonracial middle-class. Participants left with the impression that if these differences were not resolved they were likely to end up parting ways. Perhaps not before the next election, but certainly afterwards.

Both the ANC and Cosatu agree government successfully scrapped racist legislation, gave millions of citizens a new hope and vision through the Reconstruction and Development (RDP) programme, and allowed the country to hold its head high in the community of nations.

On the negative side, political liberation has not brought economic empowerment to those most drastically affected during the apartheid era; the RDP has been virtually abandoned; poverty is widespread and growing; massive job creation has not occurred; educational and social services remain in a sorry state as far as the vast majority of the population is concerned; and widespread corruption and increasingly violent crime has become a major threat to the fabric of society. The unorganised unemployed, marginalised squatters and the traditional rural population has grown more impoverished.

On this difference hangs the current tension between Cosatu and the ANC. What has gone wrong? Nothing, say some in the ANC: running a country demands more than a wish list and following Robin Hood policies, and what the ANC hoped to achieve was never attainable in four years in any case.

Others within the ANC say government has realised that the heady socialist rhetoric of opposition has been tempered by the harsh realities of political power; poverty is not eliminated by redistribution, seizing the assets of white South Africans or socialist policies of nationalisation.

Globalisation of the world's economies has removed the ANC's room to manoeuvre, they say. Far from improving the lot of the poor, redistributing wealth would aggravate the problems of poverty by encouraging the flight of skilled people and discouraging further investment.

In a few years the ANC has changed its economic policy from nationalisation of basic industries and the financial sector to a mixed economy and to privatisation of the public sector. The RDP, conceived as an attempt to realise the ideals of the Freedom Charter, was shelved in favour of Gear.

This was not a political decision. Increasing dependence on foreign investment and export-led growth made it impossible for the party to revert to socialist policies which were discredited by the collapse of Marxist states. Defiance of world economic trends is now immediately penalised by investment withdrawal, currency weakness, more costly loans and capital outflow.

The ANC is not ashamed to admit Gear is in line with neo-liberal economic policies: if government spends less and invests more, and encourages domestic and international investors to invest more, then this will stimulate economic growth, create employment and reduce poverty Invariably this will mean less money for social services, health and education. We need to take the bitter medicine now in the interests of long-term health, ANC leaders say.

The Cosatu critics argue that bitter medicine does not guarantee a healthy patient. Do we have the time to embark upon policies which will cut expenditure in welfare, education and health and so affect the poor and marginalised the most? Why have policies which make the already impoverished even poorer? Leaving them out of the consultative process the poor are told to wait, to trust the new elite and to wait for trickle-down benefits.

Are they left out because they are disorganised, have less political leverage than trade unions or party pressure groups?

Those who, like Cosatu, propose an alternate to Gear, argue both from the view of social justice and political experience. The rural and urban poor could seriously undermine future political stability. If their lot continues to deteriorate and more persuasive populist parties emerge then the ANC's grasp on political power could be seriously eroded in future elections.

Not only are the poor most vulnerable to a new economic direction but they also have enormous capacity to assist or disrupt its process. An alternative Gear requires not merely that the poor should be party to policies which will affect them deeply but because they hold more power than either they or the government realises.

An alternate Gear is concerned both with the method of the exercise as well as its content. Furthermore, Gear claims to be a strategy for redistribution on the strength that output and employment will rise, and on the grounds government spending will be more efficient and directed towards the poor.

It claims only wasteful consumption spending will be cut. Anyone concerned with the poor should measure performance against this promise. Any shift away from redistribution priorities should be strongly criticised.

For example, the alternate Gear proponents should question whether the recent cuts in child support, health or education, should be regarded as wasteful consumption expenditure. It should contrast the amounts spent on the military and family welfare.

Gear tries to capture the moral high ground by claiming to be a strategy aimed at the alleviation of poverty. Supporters of the alternate Gear could do well to keep reminding the government of this — and shaming it to deliver on the promise.

A rethink on the priorities of Gear, both in its application and delivery, could very well be a first step at defusing tensions between the ANC and Cosatu

Andrew Prior is the coordinator of the Goedgedacht Forum for Social Reflection. He is a former head of the political studies department at the University of Cape Town.

Govt economic reforms 'courageous'

Belinda Beresford BD 20/8/97 (49)

THE SA government had made courageous decisions on the economy, resulting in a pragmatic economic programme viewed favourably by the World Bank, the organisation's representative to SA, Judith Edstrom, said yesterday.

She said SA was in effect implementing a World Bank economic reform programme without having to borrow from the international organisation.

Investors looking for emerging markets were examining SA carefully, but international investors needed "steady, calm signals" and could be deterred by even small negative signals, Edstrom said.

As a middle-income country, with per capita income around $3 000 a year, SA was not entitled to concessionary loans from the World Bank.

Although there had been discussion on whether SA should receive interest-free loans in the light of its turbulent history, such a concession would have sent the wrong message to the investment community, since concessionary loans were reserved for those countries which were not considered creditworthy.

Edstrom said the World Bank had been asked to consider lending to SA in rands to allow the country to avoid currency risk. However, this would mean the institution would have to make at least part of its borrowings in the local markets. To date the bank had raised money through offshore Eurorand issues.

Edstrom was confident about SA's economic future, although she acknowledged that the 1999 elections could prove a challenge to economic stability.

She said there were a number of countries where fiscal discipline had suffered in election years and this was possibly one reason for the finance department's firm stance on the economy.

Edstrom said a "very frustrating" aspect in SA was the low domestic savings rate, which was at least partly due to new consumers being given access to credit for the first time. One of the byproducts was a high interest rate regime, which had a dampening effect on investment.

She said SA's economy was also being negatively affected by high labour rates. However it was "unfair for labour to take the rap for protectionist policies", which also affected SA's global competitiveness.

Edstrom, who is to speak at the Business Woman of the Year awards last night, said there was room for more recognition of female accomplishments and abilities across all ethnic groups in SA. She compared some of the cultural dynamics of SA to those in an inner city in the US.

Deciduous Fruit Board makes business plan for own demise

BD 20/8/97

LENDING *South Africa's World Bank representative cites the success of relationship with Pretoria*

A relationship of interdependence

CT (BR) 25/8/97

South Africa's ANC government has established policies that are in many ways less interventionist that those of the previous government — in terms of market-based land reform, credit policies, fiscal policies and, increasingly, exchange control

Judith Edstrom, the World Bank's resident South African representative, in characterising the country's transformation in its vision of the state as "quite remarkable", says that just as an effective state is not necessarily defined as more state or less state, "so policies cannot fit neatly into categories of pro-business or pro-labour"

She acknowledges that the World Bank is clearly viewed as being in the pro-business camp.

"Indeed, experience has demonstrated the essential role played by private investment and private enterprise, and the need to provide a considerable amount of freedom to the entrepreneur to make decisions for the allocation of resources."

While recognising the argument that foreign investment in South Africa should be based on compensating for past injustices, Edstrom points out that "foreign investors make their decisions on the basis of financial return not on social justice".

Edstrom, a World Bank executive for 18 years and an Africa specialist, sees the waters as being further muddied by South Africa's "active" labour force, with those represented by the labour movement constituting a relatively small proportion of the total labour force

"Pro-labour policies may not be pro-employment; in fact, they often are not inflexible labour policies, whether through wages or other conditions of employment, have been shown to inhibit use of labour and employment growth"

JOHN SPIRA

In an oblique reference to South Africa's labour problems, she points to Latin American studies that have shown that where laws have been enacted to subsidise maternity leave, they have encouraged employers to hire men rather than women.

"This is not to advocate against maternity benefits, but that they be in keeping with norms and standards of the industry or profession, with due regard to practices worldwide for the same industry."

Yet Edstrom believes labour in South Africa often takes the rap for the system's inflexibility. She accepts that polarisation between employers and employees was accentuated by the political role of trade unions in moving South Africa toward democracy.

"Nevertheless, many of the protectionist policies practised by South Africa, as well as the willingness to extend labour legislation to small firms, have been in the interest of big business, not the emerging entrepreneur regardless of his or her race."

Edstrom, the keynote speaker at last week's Businesswoman of the Year banquet, stresses that in today's global society "we need to recognise that innovation is the responsibility of management and productivity is the responsibility of both employer and employee".

She maintains on-the-job training to raise productivity is an important and necessary tool, more especially in South Africa where low productivity levels among some workers is the result of legislated disadvantages in the provision of education.

"In addition, attitudes among employers and employees towards one another need to shed some of the inherited baggage of the past — to recognise the importance of new approaches to working together that characterise today's dynamic enterprises

"These include flatter management structures, participation of employees in team solutions, open communication and trust."

Of prime importance is the need not to think of mutually exclusive roles of dependency or independence, but of interdependence, where both parties stand to gain

She cites the success of the World Bank in its relationship with its counterparts in the South African government as the fruits of the absence of a dependency relationship, "which has perhaps characterised our relationship with very poor countries elsewhere".

Such countries, she says, are willing to agree to policy reforms in which they do not really believe in order to access World Bank finance

Edstrom quotes Maria Ramos, South Africa's director-general of finance, as follows "Governments are responsible for relationships with external agencies

"We (in South Africa) have taken control of our own destiny We have engaged with the World Bank from a position of equivalence — there is a true partnership in relationships between South Africa and the World Bank."

The World Bank is, in effect, a co-operative bank Formed after the second world war to help finance the reconstruction of Europe, it turned its attention to work in developing countries in the late 1950s

It now has a membership of 180 countries, all represented by a permanently sitting board of about 20 directors, and with a staff of several thousand

The World Bank raises finance on capital markets and it lends funds to developing countries In the past year it has lent about $20 billion

HAND IN HAND *Judith Edstrom, the World Bank's resident representative*

Nafcoc seeks clarity on Gear

27/8/97 Sowetan (49)

By Maxwell Pirikisi

THE National Federated Chamber of Commerce and Industry (Nafcoc) has extended an urgent plea to Finance Minister Trevor Manuel to re-examine and strengthen the detail of the Growth Employment and Redistribution strategy to accommodate the needs of emerging business.

Nafcoc president Joe Hlongwane told his organisation's 33rd convention in the Eastern Cape that the small business sector was the springboard of economic growth and job creation, and therefore Gear needed to "more specifically provide guidelines for the manner in which its main objectives, which are related to small business, should take place".

Said Hlongwane: "Government, in Gear, should develop a sense of focus and priorities which specifically stimulate the expansion of SMMEs to the extent that job targets and growth targets will be met."

He also called on Manuel to reconsider his decision to omit protection of SMMEs from legislation on Basic Conditions of Employment.

"We are concerned because if they are promulgated, it will be virtually impossible to reverse the stranglehold trade unions will have on fragile new small enterprises," he said.

Hlongwane said in the coming year Nafcoc would seek, among other things, the financing of entrepreneurial activity, training and education of its members, the creation of job creation ventures and the need to shift the emphasis of business endeavour from consumption enterprises to production activities such as manufacturing, agriculture and growth sectors such as tourism and construction.

Investigation rejects claims of regional protectionism

BD 27/8/97 (49)

CAPE TOWN — Mauritius and Zimbabwe, and not SA, were the most highly protected economies in southern Africa, a parliamentary committee heard yesterday.

Mfundo Nkuhlu, the Africa trade relations director of the trade and industry department, told the committee the department had undertaken an investigation into regional tariffs given charges by its neighbours that SA was a protected economy and by industry that it was cutting tariffs too quickly.

He was briefing the committee on preparations for negotiations later this year on the introduction of a free trade area in the Southern African Development Community, which have been marked by allegations by other states that SA was too protectionist.

"What it boils down to is that SA has one of the lowest tariff dispensations in the region," he said. "It debunks much of the myth that has constituted part of the public debate. We would probably concede that we carry relatively higher duties in some segments, particularly in the textiles, clothing and apparent as well as footwear sectors."

He said SA's tariffs for agricultural products averaged 8%, mining equipment 1,4%, manufacturing 17%, consumption goods 28%, intermediary goods 6,4% and capital goods 5%.

Tariffs in SA averaged 16,5% compared with 13,5% in Zambia and 16,7% in Angola. Other countries in the community had higher average rates, with Mauritius and Zimbabwe the most protected followed by Tanzania.

SA had just more than 8 000 tariff lines, of which 40% carried no tariffs at all while only 23% carried tariffs higher than 30%.

Nkuhlu said SA was finalising its offer to other states in the community under which it would reduce tariffs to zero, except in sensitive cases which were important to revenue collection or vulnerable industries. Rules of origin would have to be detailed carefully to prevent goods made elsewhere benefiting from the free trade area.

He said tariffs with Southern African Customs Union members would be phased down over five years while those with other community states over eight years. — Reuter.

RESERVE BANK GOVERNOR'S ADDRESS

Govt spending rises above targets set out in Gear

BD 27/8/97 (49)

Bernard Simon

GOVERNMENT spending has risen strongly over the past 18 months to the point where it is well above targets set by the growth, employment and redistribution strategy (Gear)

According to the Reserve Bank's latest annual report, government consumption spending climbed to 21,5% of gross domestic product (GDP) in the first half of this year, compared to Gear's 1997 target of 19,5%, and an average of 15% between 1960 and last year.

Reserve bank governor Chris Stals said in his address to shareholders yesterday bank credit extended to local authorities ballooned by "no less than" R2,7bn in the six months to June 30.

The bank remains confident the growth of government spending "will not be maintained at the high levels of the past 18 months" over the rest of the current fiscal year, and the Gear targets will thus be attained.

It said that "government is also succeeding in repositioning expenditure objectives in order to meet the most urgent basic needs of society without having to resort to imprudent increases in overall public expenditures".

However, the International Monetary Fund (IMF) appeared to take a less sanguine view in the latest report on its annual consultations with SA. The IMF welcomed SA's "firm determination" to achieve a budget deficit equal to 4% of GDP in the 1997/98 fiscal year. But it "encouraged the early elaboration of the measures needed" to meet this target.

Several IMF directors expressed misgivings that the recent public service pay awards "would constrain the fiscal consolidation process, and place undue pressures on nonwage spending". The directors "encouraged the authorities to make use of whatever flexibility that was available in implementing this agreement and to take action to streamline the public service".

According to the Reserve Bank, the spurt in government spending stemmed mainly from more generous social services.

The growth in payroll costs slowed as a result of smaller salary hikes and the popularity of early retirement packages among senior public servants.

Public authorities' fixed investment grew an annualised 4% in real terms in the first half of this year, little changed from last year. The bank forecasts an acceleration next year as spending gathers pace for infrastructure required to expand social services, and encourage regional and industrial development.

Let's Gear up economy without constraints

ARG 28/8/97 (49)

MOUNTING CRITICISM OF THE GOVERNMENT'S CONTROVERSIAL GROWTH, EMPLOYMENT AND REDISTRIBUTION (GEAR) STRATEGY FOR ITS FAILURE TO CREATE JOBS IS MISPLACED, SAYS UNIVERSITY OF CAPE TOWN ECONOMICS PROFESSOR IRAJ ABEDIAN, WHO CO-ORDINATED THE GEAR TECHNICAL TEAM. THE ROUTE CHOSEN BY THE GOVERNMENT IS THE ONLY POSSIBLE ROUTE FOR THE ECONOMY, HE TOLD BUSINESS EDITOR ALIDE DASNOIS

Nearly 18 months down the line, is the Government's Gear plan for the economy a failure?

Trumpeted in June 1996 as the way to boost employment creation in the economy from 130 000 jobs a year to 400 000 a year by the year 2000, the plan is based on tight management of the state budget, a stable exchange rate for the rand, the restructuring of the public service, the opening up of South Africa's economy through the dismantling of tariff barriers, export promotion and a more flexible labour market

The plan has come under fire from the labour movement, with the Congress of South African Trade Unions (Cosatu) complaining that it is not the way to create jobs

Official statistics so far seem to bear this out Central Statistical Service figures show, for instance, that the formal sector of the economy outside agriculture shed 42 000 jobs in the first quarter of this year, putting paid to hopes that the Gear target of 250 000 new jobs this year will be reached.

So is the Gear strategy failing?

Minister of Finance Trevor Manuel thinks not

The statistics, he says, putting the tips of his fingers together and looking pensively into the distance in the way he does when tackling a tricky subject, are not reliable on this point.

It is not possible, he asks, that 10 out of 25 South Africans of working age are unemployed, as the official statistics would have us believe? Whatever the correct figure is, it's much lower than that, claims Mr Manuel

Professor Abedian agrees with the minister

The economy, he says, has been growing and creating jobs

This is clear from revenue collection figures, which show increases which cannot be explained only by the greater efficiency of the tax collection service

In fact, he says, barring a brief surge in 1979-82 when a gold bonanza set growth rates jumping, this is the first time that the economy has been growing consistently without a fiscal stimulus.

Economic growth has now topped 2% a year for the last 16 months in spite of fiscal contraction and a hostile monetary policy

The official statistics, says Professor Abedian, are not capturing this growth

The workplace is changing fast, he says, with more and more work being sub-contracted by big groups to smaller enterprises, especially in industries like clothing or services.

But statistics, still collected in the old "factory gate" manner, do not reflect these changes.

And the problem is not unique to South Africa, Professor Abedian says – even the United States and the United Nations have trouble capturing employment statistics.

Still, even if the numbers are inaccurate, surely the trend can't be wrong? And doesn't this reflect a failure of the Gear strategy?

"Well, not really. The problem is rather one of high expectations.

"Too much was expected of the Gear plan, which is really only a macro-economic framework designed to set the general direction of the economy "

And as to the content of the plan, he says, the Government really had little choice.

"For South Africa the medium – and long-term – future is in exports. We have no choice. Otherwise our balance of payments problems will constrain our growth potential and our ability to cope with poverty.

"Any alternative is wishful thinking," says Professor Abedian.

But, he points out, there is inevitably a cost in moving from an economy surrounded by high protective barriers to one open to the world.

"There is a price

"Some factories, which were inappropriately propped up by the previous government, will close. Some entrepreneurs will crash There will be some loss of jobs.

"At the same time, exporting industries will thrive and employees in these industries will have real job security.

"But there is a sequencing problem, because job losses come first, job gains take longer "

This "reorientation", he says, is as inevitable a part of the break from the past as the restructuring of schools and universities or the health system.

"We can't cry foul Job loss is an unavoidable price to pay if we are serious about reconstruction and reorientation," says Professor Abedian.

He hits out at the "competing moralities" of critics of the government who profess allegiance to the goal of regional development while complaining when South African companies relocate to lower-wage economies on the sub-continent.

"There has been job creation – but in Malawi, for instance. We must not complain about this if we are genuine about poverty alleviation in the region We should rejoice in changes which generate jobs."

Even low-wage jobs?

Yes, says Professor Abedian. Downward pressure on wages through regional integration is inevitable, he says.

"We have seen it in Europe and in the North American Free Trade Area – it's unrealistic to hope that higher wages in South Africa will, through regional integration, pull up wages in Malawi or Zambia.

"We can dictate some minimum employment conditions, but we can't expect to jack up wages."

If anyone is to blame for the slow pace of job creation, he says, it's business rather than the Government.

"Jobs aren't created by the Government.

"The state can't create jobs until it has got rid of the dead wood and the economy is out of the doldrums

"But business is not doing enough to support Gear. "

And, he says, restrictive monetary policy and high interest rates are not helping either.

"Some job losses are inevitable because of transformation. But monetary policy is too restricting, exacting job losses unnecessarily.

"Interest rates have been too high for too long and monetary policy is out of synch with Gear.

"This is a policy failure which could have been avoided.

"It's one thing to pay the price of transformation – it's another to pay more than you should."

JACK LESTRADE

Paying too high a price: jobs are being lost unnecessarily, says economist Iraj Abedian

BD 28/8/97

Saldanha 'will not harm Iscor plant'

Wyndham Hartley

CAPE TOWN — The massive Saldanha steel project under construction in the Western Cape would not entail the "running down" of Iscor's operations in Vanderbijlpark, African National Congress MP Ben Turok told Parliament's trade and industry committee.

Turok, who heads the trade and industry policy group in the committee, was asked by concerned businessmen in the Western Cape to investigate whether there was a link between the Saldanha steel project and activity in Vanderbijlpark. He was also asked to look at the environmental impact and the economic benefits of the project.

He told the committee in a written report that a visit to the plant had shown it was a "massive undertaking" twice the size of any other development under way in SA. He said it was very high technology and was designed specifically to produce hot rolled coil for the export market. Eventually the plant would employ more than 5 000 people.

Emerging businesses in the area were being used by the steel project as subcontractors, and some were already supplying painting, security and other services at the site.

Turok reported that the environmental concerns were "considerable" and depended on the effectiveness of the monitoring group established "and the maintenance of public vigilance". He said the steel project claimed that all the requirements of the Steyn commission — which investigated the environmental effects — were being met.

He noted that the arrival of job-seekers had led to the "establishment of highly undesirable squatter camps".

He advised that this was the responsibility of the local council and the Western Cape provincial government, which should develop a strategy to deal with the "in-migration".

Astounding R287m spent on commissions — Leon

BD 28/8/97 (49)

Linda Ensor

CAPE TOWN — An "astounding" estimated amount of R287m had been spent on seven commissions in the three years from 1995 to the current fiscal year, Democratic Party (DP) leader Tony Leon said in Parliament yesterday.

He called on government to draw up publicly acceptable guidelines for remuneration packages, subject to Parliament's scrutiny. The R287m covered the human rights, gender, youth and truth commissions, the Independent Broadcasting Authority, the Volkstaat Council and the Pan-SA Language Board.

Leon noted Deputy Finance Minister Gill Marcus had estimated that this financial year R200m or more would be spent on commissions. Leon, describing the salaries earned by comission chairmen as "obscene", expressed concern that so much was spent on commissions at a time when government was trying to cut public spending.

"Since so many commissions seem to have done so little, one cannot but wonder whether many were solely established with the purpose of dispensing patronage within the African National Congress (ANC).

"Statutory bodies must cut back on unnecessary expenditure. Publicly funded bodies need to accept that they must perform their tasks with fewer frills than the private sector can afford, especially in a developing country with limited resources."

Responding, Finance Minister Trevor Manuel noted that all these commissions had been established recently and were sailing in "unchartered waters". With experience they would redefine their mandates and redefine their own performance areas. In any event, evaluating a commission's worth was a political judgment.

While Manuel said the DP supported the establishment of the commissions in terms of the constitution, Leon said the party had never endorsed the salary packages.

Leon noted that while the chairman of the Human Rights Commission earned more than R400 000 a year (about R33 000 a month) — almost as much as a cabinet minister and linked to the pay of a Supreme Court judge-president — the organisation's management was characterised by chaos and paralysis.

Leon queried the justification of having a gender commission to deal with what were essentially human rights issues, and stated that the youth commission, with its R10m annual budget and R30 000-a-month chairman, had not come up with a single youth development project.

Bill to establish new science advisory body tabled

CAPE TOWN — Draft legislation to establish a "national council on innovation" to advise government on science and technology was tabled in Parliament yesterday.

The National Council on Innovation Bill seeks to establish a successor to the defunct Scientific Advisory Council, which was dissolved in June 1994.

The new council will consist of a chairman and 16 to 20 members appointed by the science and technology minister.

The director-general of science and technology and an officer of the trade and industry department will also serve on the council.

A memorandum to the bill says the proposed national council on innovation will be responsible for giving informed advice to government on the development and implementation of science and technology policy, and on the stimulation of innovation. — Sapa.

Land tenure bill approved with tough changes

BD 28/8/97

Wyndham Hartley

CAPE TOWN — Land Affairs Minister Derek Hanekom's controversial Extension of Security of Tenure Bill has been approved by the land affairs committee with tough amendments from the African National Congress (ANC) and will be debated in the National Assembly later today.

The committee debated into the night on Tuesday as it battled to complete its work so that the bill could be printed in time for submission to the house.

Committee chairman Phatekile Holomisa (ANC) said yesterday that the bill would be ready on time. He said that the work of the committee had been made more difficult as National Party members had been absent to hear FW de Klerk's announcement that he would be retiring.

Among the controversial amendments approved by the committee yesterday was a clause including rights such as grazing and use of the land for crop production in the definition of "suitable alternative accommodation". Both farmer and tenant will have an obligation to seek suitable accommodation in cases of "no-fault" eviction.

Holomisa said considerable effort was given during Tuesday afternoon to find a compromise with the SA Agricultural Union. This had proved to be impossible and the amendments were approved in the form submitted by the ANC.

Another controversial amendment lowers the tenancy period which will give workers almost absolute rights of continued residence. The original bill set the period at 20 years' residence and 60 years of age, while the approved bill sets a 10-year period.

The bill also gave the Land Claims Court automatic review of magistrate's court decisions on the new law. This amendment flowed from complaints by the National Land Committee that magistrates had in the past been biased in favour of farmers because many of them were either farmers or friends or relatives of a farmer.

New measures to control state expenditure

(49)

JOVIAL RANTAO ARG 28/8/97
ARGUS CORRESPONDENT

Cape Town – The Government has announced new measures to curb over-expenditure in provincial and national Government departments, and accounting officers who fail to control their departments' expenditure will face criminal prosecution.

The new measures and the emphasis on fiscal discipline were outlined to provincial premiers and MECs at an Inter-governmental Forum (IGF) in Parliament this week.

Ministers and MECs, as political heads of Government departments were also warned to monitor the expenditure levels.

Provincial Affairs and Constitutional Development Minister Mohammed Valli Moosa said that Government departments which overspent would be in violation of the law because it was a constitutional requirement that departments should keep within their budgetary limits.

The Government decision contains dire implications for departments which have already spent over their budget limits.

The Western Cape government, which indicated earlier this year that it would budget for a deficit, could face legal action.

Mr Moosa would not disclose the penalties that would be faced by accounting officers who would have failed to keep within the budget constraints.

"The law will take its course. If you overspent then you're violating the law," he said.

The early warning system established by Finance Minister Trevor Manuel to monitor and report on spending patterns would be used to examine potential overspending by departments.

"The IGF noted that budget over expenditure is not sustained by legislation and political heads and accounting officers will be held responsible. No bail out for provinces will be provided.

"Interest rates on overdraft will be borne by provinces," Mr Moosa said.

'Some part' of Gear are delayed

CT (BR) 29/8/97 (49)

Matt Getz

Johannesburg — Parts of the government's growth, employment and redistribution plan (Gear) would take longer to implement than originally expected, Maria Ramos, the finance department director-general, said yesterday.

"All in all we are on target on the delivery front," she said. But the housing, infrastructure and employment platforms of the plan would take longer to achieve, in part because of the state's limitations and in part because of the slow process by which the economy restructured, she said.

"The delivery of infrastructure expansion will take a lot of time because the government doesn't have those skills. We did not inherit a government with management skills," Ramos said.

She said the government was trying to overcome the problem through private-public partnerships like the Maputo Corridor, but both the public and private sector had a steep learning curve to climb.

"Job creation hasn't met Gear's targets," she said. Part of that could be attributed to the labour market, which was determined by the economy's structure. However, one of Gear's chief long-term objectives was to achieve wide-scale structural reforms in the economy.

Ramos was optimistic that the government's policies would bear fruit. "We are poised to benefit from job creation down the line. It was never going to happen in year one (Gear is 14 months old) and maybe not in year two. We will do it in the medium term.

"I have said it before and will say it again: there are no quick and easy solutions."

She blamed the slow delivery in housing on inflated expectations. "Delivery is much slower than we anticipated because we underestimated the time from planning to delivery."

She said 123 000 houses had been built by last November while 193 000 are expected to be built this year.

Ramos was adamant the government would continue with the policies set out in Gear, despite the delays. It would not employ short-term solutions like throwing more money after the problems or encouraging looser monetary policy.

"The solution does not lie in spending more money. The government rolls over R6 billion every year so money is not the problem. The strategy we are committed to will give us the best chance of success in the future," she said.

'Whites have economic power'

BD 3/7/97 (49)

Patrick Wadula

THERE remained an extreme concentration of economic power in the hands of a "racially defined" minority in SA, New Africa Investment chairman Nthato Motlana said yesterday.

Motlana told the Chamber of Business SA-Switzerland seminar on "Opportunity Switzerland" that the highest levels of wealth disparity in the world could be found in SA.

He said it was both a political and economic imperative to address these inequalities.

Motlana said the economy needed to be transformed to draw on its strengths. "The economy, for all its shortcomings is uniquely placed to be a point for growth and development on the African continent."

However, for the potential of the SA economy to be fully realised, several changes were needed. Meeting development and economic needs was a necessity.

Motlana said there was a need for black SA to participate in the economy as owners, professionals, managers and employees. Capital should be mobilised to enable disadvantaged communities to take up a significant equity stakes in the economy.

He said the development of human resources needed to assume "top priority". The country had to focus much of its attention and energy on economic empowerment.

Social and economic report

CT(PM) 4/7/97 (49)

Nedlac believes the more its constituencies are informed by on-going analyses of trends in the rapidly changing society and economic environment that is South Africa, the more successful the negotiations that take place within the council are likely to be, says Lael Bethlehem, the co-ordinator of research and policy development at Nedlac.

With this in mind Nedlac has produced a social and economic report which aims to provide an overview of key social and economic developments in the country in a way that is accessible to Nedlac's constituencies and the public in general.

"Nedlac has a responsibility to the public, because a lot of information passes through the council on issues like the economy, government spending and the kind of delivery that is being achieved. So the report is a way of giving the public access to that information," explains Bethlehem.

The report is divided into two sections. The first covers basic economic literacy with statistics on growth, employment and equity that give a clear and accessible picture of what is happening in the economy in terms of economic growth, investment and trade.

"The figures in the report highlight some interesting issues. For example, according to official statistics the relationship between employment and growth in manufacturing has changed. In the last couple of years, even when manufacturing has been growing its output, the number of jobs in manufacturing have been declining.

There is also interesting information from the Central Statistical Service's October Household Survey of 1995, the most recent comprehensive national survey besides the census, says Bethlehem.

"So we get a picture of the kinds of employment people are engaged in, the amount of unemployment, the size of the informal sector."

According to the report, "there is little doubt that mass unemployment is one of the major causes of poverty in South Africa" but, it says, the income of the employed must also be taken into account in a discussion of poverty.

"There is a critical link between the jobs people do at different occupational levels and the average wage they receive. More than two in every five Africans (42 percent) and an equivalent proportion of coloureds (43 percent) earn gross monthly incomes of under R1 000 from employment. An additional 21 percent of both racial groups earn incomes in the range of R1 500 to R2 499. By contrast, only 11 percent of Indians and as few as 4 percent of whites fall into the lowest band, while 39 percent of Indians and over 46 percent of whites earn gross monthly incomes of R4 000 or more. People that fall within the lowest income bands tend to be employed in jobs which require low levels of skills.

The report also notes disparities in earnings by gender. Although this is evident to some extent among all race groups, it is clearest among whites where a much larger proportion of men fall into the higher income categories.

According to Bethlehem, the equity side of the report looks at the distribution of resources and people's access to things like running water, schools, electricity, toilets and doctors.

The second part of the report provides new information and research on government spending, welfare, housing, municipal infrastructure and human resource development.

"This part of the report gives the public a wealth of information on: how government spends taxpayers' money; how much housing has been delivered and what proportion it is of the target; what infrastructure the state aims to provide every citizen and what access to infrastructure people actually have; and how much human resource development is taking place in the country," says Bethlehem.

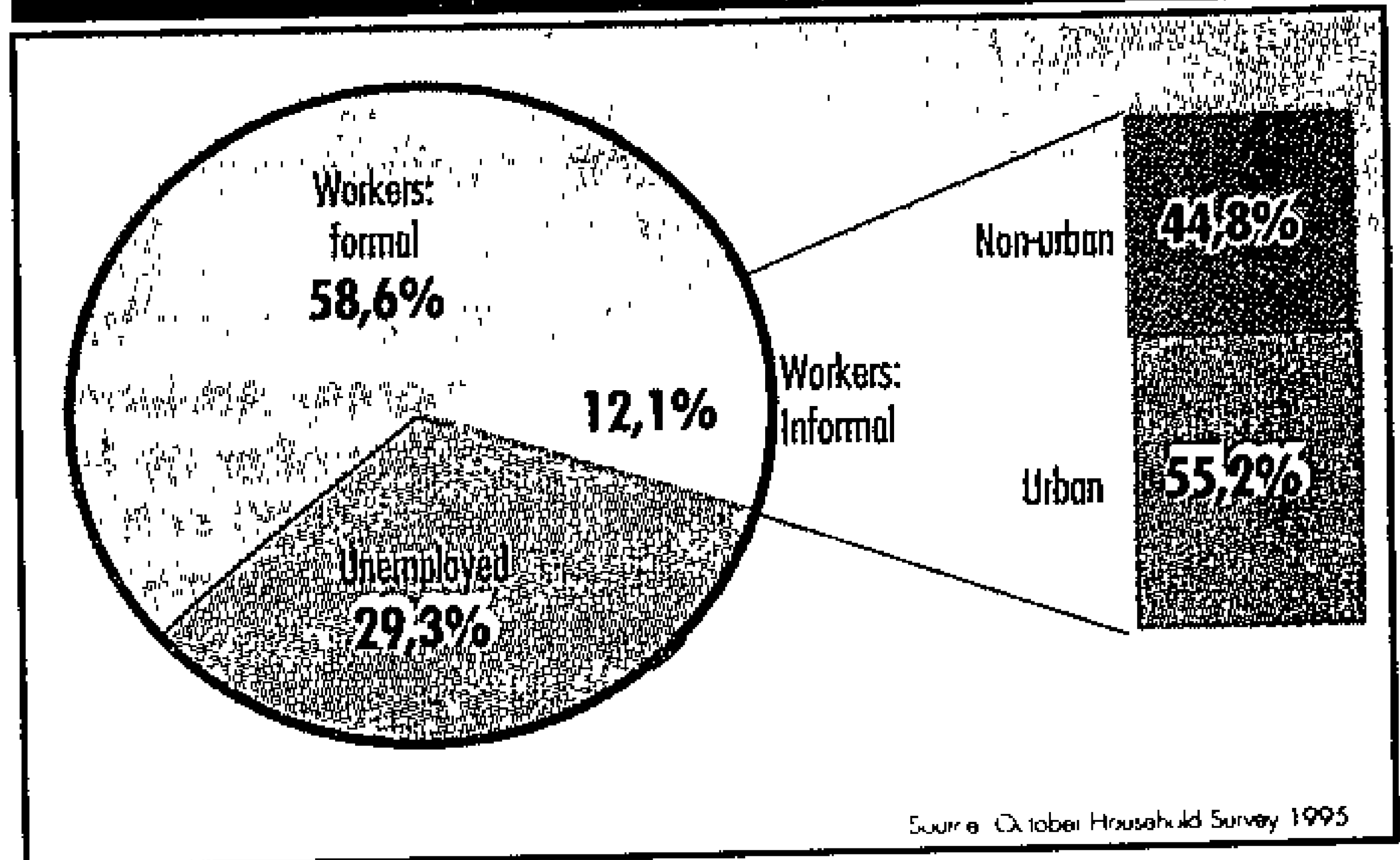
It shows some interesting trends, such as the amount of money the government has payed on debt interest over the last six years, a figure which has increased by 7,8 percent a year.

It also shows a decline in defence spending, while spending on police, prisons, education, health and welfare has increased.

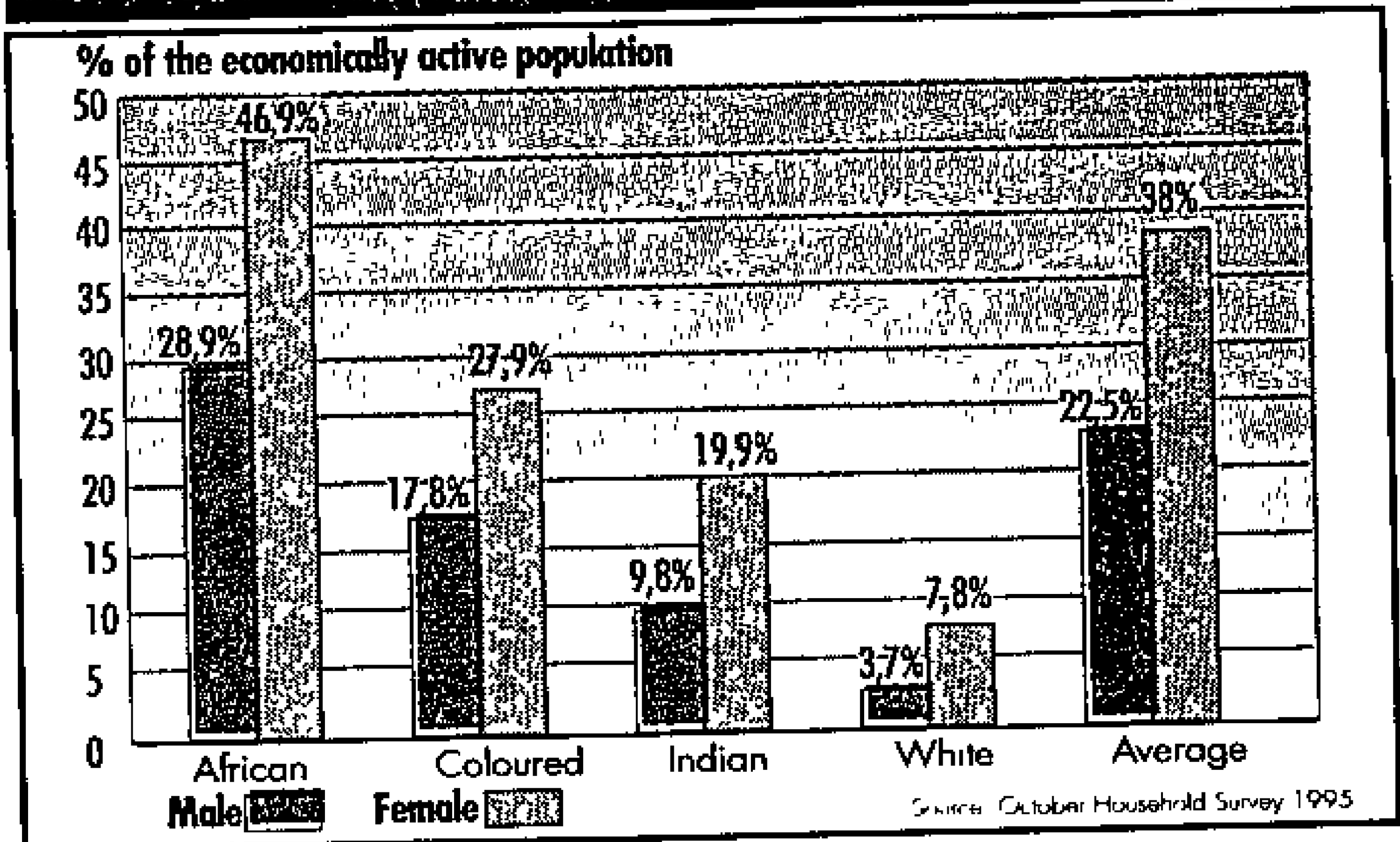
The report, concludes Bethlehem, also "outlines the challenges for the country and Nedlac's partners, because our society — along with Brazil — is the most unequal society in the world in terms of distribution of income and access to resources".

Nedlac is offering, as a free service, to give presentations of the report. For more information telephone 482-2511.

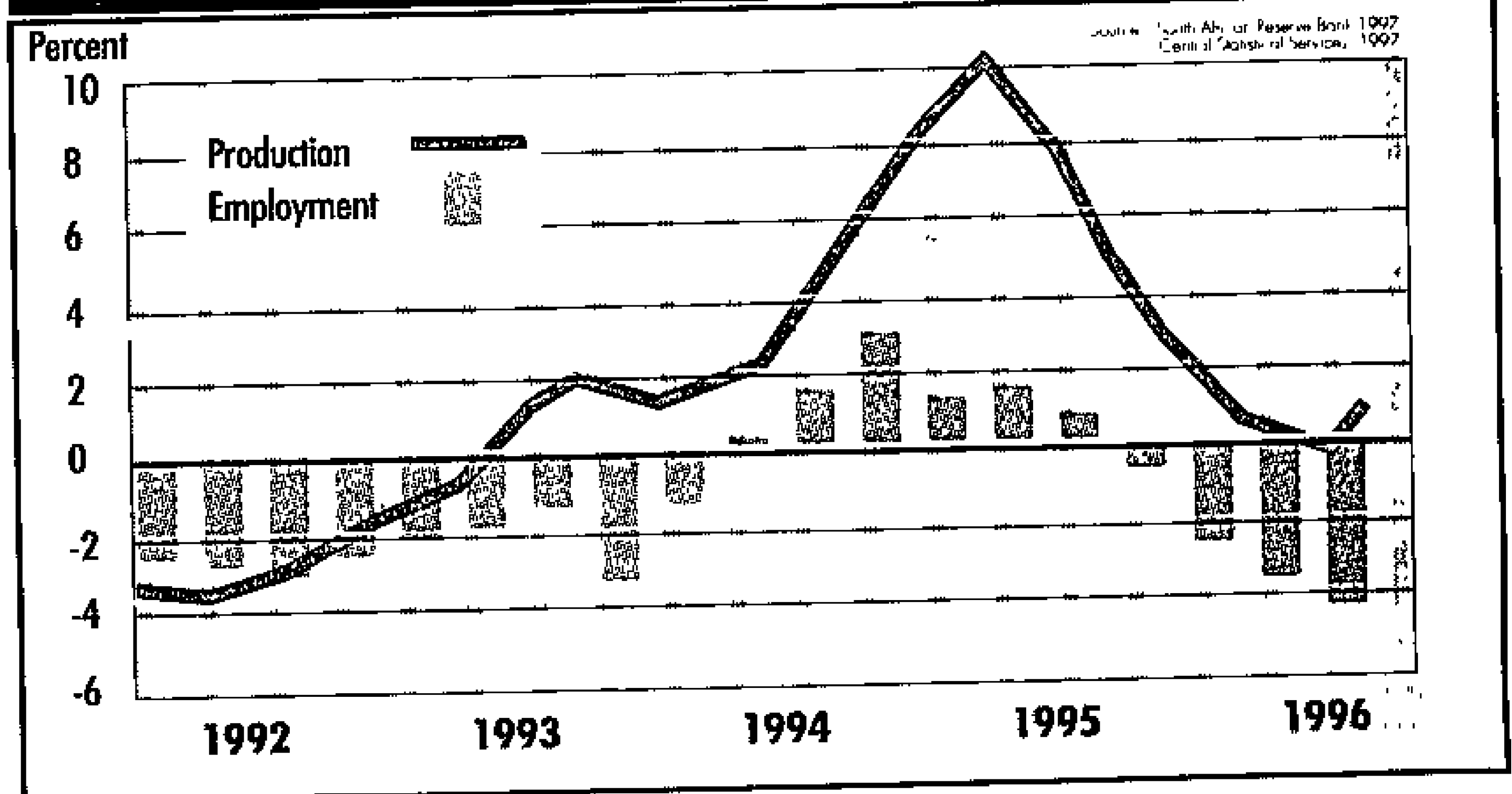
Economically active population in South Africa



Unemployment rates by race and gender



Annual growth of manufacturing production and employment



A flood of growth . . .

(49)

ST 6/7/97

South Africa's economy has undergone a major change since 1994 but, as RAY HARTLEY and CAROL PATON write, this has not led to the creation of new jobs

SINCE 1994 South Africa's economy has grown steadily, inflation has receded, the deficit has been brought under control and investment on the Johannesburg Stock Exchange and in new business has increased impressively

If Finance Minister Trevor Manuel was the captain of a ship, he would be tempted to turn on the autopilot and take a few hours off playing mini-golf on the foredeck.

But the soothing flicker of green lights in the economic control room has been disrupted by the flash of a red globe above the employment meter

Latest statistics show that far from creating jobs, the government's economic policies are causing longer unemployment queues as business opts for better machines and fewer workers

The danger light has flashed brighter since the Reserve Bank warned in its quarterly bulletin recently that the government's labour-market policies could be the source of the problem

Along with economists and more than a few bureaucrats in the Finance Ministry, the Bank is concerned that new labour legislation will increase the cost of labour by shortening the working week and making overtime more expensive.

Wary of taking on expensive new workers, the argument goes, investors would rather spend their money on new machines that can cut down on the number of people on the payroll.

The effect has been felt most starkly by South Africa's youth, who have left school to find themselves with a greatly reduced chance of getting a job

According to the Central Statistical Service, over two million people under the age of 30 are unemployed — half the national total of 4,2 million unemployed

Of those who are unemployed, four million are black South Africans, the people that are, according to conventional wisdom, supposed to benefit economically from the new South Africa.

Following the Reserve Bank's warning flash, all eyes have focused on Labour Minister Tito Mboweni, the architect of the government's labour-market policy and the man blamed for the job-creation failure

Putting a sophisticated spin on such criticism is Hans Smith, the chairman of Business South Africa. Mboweni, he says, deserves full credit for his labour-market regime, but he is "running ahead of Gear" — a reference to the government's growth, employment and redistribution programme

Smith argues that the time is not right for the generous labour market that Mboweni wants to create South Africa's first priority should be creating the kind of economy that can sustain such a labour market in the future.

"The best thing that can happen is that his colleagues send him on 18 months' leave."

The argument for more flexible labour markets — essentially a case for giving more people jobs at lower wages — has been bolstered by the performance of the US economy. It has grown, created jobs and, in a critical break with past trends, it has done so while narrowing the pay gap between rich and poor.

At the recent annual G-7 summit of the world's top economies, US President Bill Clinton was able to boast the lowest unemployment rate outside Japan — evidence that the more regulated European economies, such as those of France and Germany, do not have the right jobs recipe

The influential Economist magazine says part of the US success story has been its flexible labour market. "Awkward trade unions have not been tolerated, and even Democrats have seldom contemplated social mollycoddling of the sort that has inflated labour costs in Europe "

So is South Africa's jobless growth all Mboweni's fault?

Blame for the high cost of labour can be laid at the government's door, but it is not the only policy it has pursued that has led to a decline in the job market

The job contraction since 1994 also coincides with the lifting of much of South Africa's protective trade tariffs — a move undertaken by Manuel when he was trade and industry minister.

Exposed for the first time to serious international competition, South African companies had to shed their fat and seek a more competitive profile The quickest way of cutting down on expenditure was shedding jobs.

Smith, who also heads the steel giant Iscor, talks about how his company and others who enjoyed protection were "thrown to the wolves" by Manuel.

But he is grateful it has taken the pain, he says Iscor is now able to expand its capacity with a new, competitive mind-set, creating new jobs in the process

Trade and Industry Minister Alec Erwin points out that, under apartheid, local industry endured three decades of decaying plant and machinery that ended abruptly in 1994 when the country re-entered the global village

The average age of the machines and tools in local factories was 12 years in 1994 Forced to compete with low-wage economies as tariffs fell, factories renewed their machinery

Now the average age of machinery is eight years. New machines mean fewer workers, and the retooling has stifled job creation in the past three years.

But Erwin believes the economy has passed this post-apartheid phase and is entering one of "greenfields investment" building new plants on fresh ground, not upgrading existing ones.

Expansion should mean more jobs. Erwin says a rise in more automated and efficient medium-sized clothing firms, growth in infrastructural projects such as road building and more "beneficiation" — the processing of South African raw materials on home soil — is in the offing

There can be no denying that a huge adjustment in the economy is under way. Sectors that once absorbed many jobs, like mining and agriculture, have taken on fewer and fewer new workers.

Subject to volatile international metals exchanges, gold mining has become ever marginal as the gold price has weakened.

But while the steady closure of marginal mines has made headlines, the employment calamity in agriculture appears to have passed by almost unnoticed

Juliana Rwelamira, a senior researcher at the Land and Agricultural Policy Centre, says agriculture soaked up 29 percent of the economically active population in the 60s but now accounts for a mere 10 percent

Although some of the tariffs that have protected local produce from competition have gone, the main reason is labour market, she says

"The more restrictive labour laws have become, more farmers have opted mechanisation. They get by w the bare minimum of worker

A minimum wage and st limits on the hours of emp ment have taken their toll

Although Rwelamira supp a minimum framework of l governing conditions of emp ment, she has a simple solut "The market forces should be to themselves. We should be couraging commercial farn not to mechanise too fast "

But Erwin is confident that restructuring of the econ will lead to rapid job creatio

■ TO PAGE 13

CASE STUDY/ ISCOR

Steeling itself for the many challenges that lie in its path

SINCE the advent of democracy in April 1994, South Africa's giant steel company Iscor has shed 16 000 jobs — some 30 percent of its workforce

Iscor boss Hans Smith, who doubles as the head of Business South Africa says his company had little choice but to shed jobs as the new government slashed decades of tariff protection to open the country to global investment and markets

From the 25 to 30 percent tariff barrier, which protected South African steel from the icy winds of international competition in earlier days, Iscor found itself with a five percent comfort zone

Smith questions the extent of the tariff protection cut, saying that Finance Minister Trevor Manuel — then trade and industry minister — could have settled for a more moderate reduction to 10 percent protection and still have been within international guidelines.

"Why did we have to go all the way down while our competitors in Brazil have been more flexible?" he asks from his office, a stone's throw from a massive Iscor plant outside Pretoria.

Faced with having to cut costs drastically, Iscor bosses found themselves drawn more and more to their wage bill — some 30 percent of overall costs — as a way out of the crisis

But Smith is far from negative In fact, he goes so far as to say "We must give Manuel credit for throwing us to the wolves It was good medicine "

By improving efficiency, Iscor has become leaner and meaner, he says This has enabled it to proceed with its new ambitious Saldahna Steel project which could make up the 16 000 lost jobs and more "We've taken the pain and now we're going to get more competitive," he says

His main concerns now lie with the slowness with which government is implementing its growth, employment and redistribution (Gear) strategy and the need to attract more investment.

In just over three years since April 1994, foreign shares in Iscor have grown from zero to 30 percent, but this has not created jobs. "Portfolio investment in shares is one thing Fixed direct investment is another thing," he says

CONTEMPLATING THE FUTURE: Iscor boss Hans Smith says the company's prospects look good Picture: JULANI VAN DER WESTHUIZEN

CASE STUDY/ HAGGIE RAND

Knowing the ropes doesn't guarantee employment

AFTER 75 years, steel rope manufacturer Haggie Rand is one of South Africa's traditional manufacturers

But over the past five years, while Haggie has continued to profit and reinvest, it has reduced its headcount by 2 500 people — a reduction of more than a quarter.

Managing director Chris Murray says the problem of jobless growth can be summed up in a word technology

"It's an inexorable trend. Whenever we put in new technology we tend to push down the need for labour "

The steel rope — made by splitting steel bars into strands and twining these into varying thicknesses — is used for heavy-duty purposes from lift shafts to mining cables. One of the machines introduced recently, a double-twist buncher, replaced nine workers with one and produces almost four times as many metres of steel strands in a day

Simon Letoala, a certified wire drawer who operates one of the new machines, says· "My job has been extended because I now also do the job that was done by a supervisor.

"In the past I had to wait for the pervisor to finish somewhere else s could come and check the wire but I check it myself and go on with work "

Letoala now also earns a better sal "I have more hope that I will adva than I had before," he says.

Many of the old Haggie workers illiterate and innumerate and opera the new machines requires basic nur acy The best operators are the c that keep their jobs, says Murray. are trying to provide some kind of reer pathing," he adds

Murray says in addition to qui machines, overhead conveyor t have replaced the small army of for drivers who used to ferry mat around

He says the labour market also ıı ences decisions on whether to em more people Because of the difficul hiring and firing, like many other n ufacturers, Haggie makes frequent of casual labour employing betwee and 30 people at any one time to n surges in demand

In conflict with tight state spending

Human rights in economic fight

CT(BR) 15/7/97 (49)

NCABA HLOPHE

Johannesburg — The Human Rights Commission (HRC)'s drive to enforce socioeconomic rights could be on a collision course with the government's commitment to fiscal discipline in its growth, employment and redistribution (Gear) strategy, the South African Institute of Race Relations said in its latest newsletter.

Terence Corrigan, a researcher at the institute, said the commission would have to walk a tightrope and balance its fight for socioeconomic rights with economic realities in the country.

Socioeconomic rights, as spelled out in the constitution, would include access to housing, education, healthcare, food, water and social security.

"It is not clear to what extent these rights will be enforceable," Corrigan said, adding that the HRC was considering fighting and declaring the new child maintenance system unconstitutional.

"No decision had yet been taken, but if the HRC were to challenge Welfare Minister Geraldine Fraser-Moleketi's plans, this would put it in direct opposition to Gear. If such a challenge were to succeed, it could unravel progress made by Trevor Manuel, the finance minister, in reducing the budget deficit and imposing fiscal discipline," said Corrigan.

Barney Pityana, the chairman of the HRC, said socioeconomic rights were "justiciable" and the commission was lobbying the government to ratify the UN Covenant on Economic, Social and Cultural Rights.

These rights would require the government to undertake measures with budgetary and economic implications such as minimum wage legislation and the implementation of free tertiary education.

At a recent conference on the bill of rights, participants recommended that the HRC challenge the government's economic and social policies and proposed the appointment of an ombudsman to enforce socioeconomic rights.

"But there was little evidence that the commission had either the resources or the expertise to produce workable alternatives to current policy," Corrigan said.

The latest borrowing from the World Bank should ring no alarm bells

BD 4/6/97

(49)

The weekend approval of a World Bank loan to SA is a welcome development for the country, argues Shaka JK Mphele

AS A result of sustained economic crisis throughout Africa, the majority of the continent's nations have turned to the International Monetary Fund and the World Bank for balance of payments assistance, alleviating forex reserves levels.

In consequence, countries have had their economic policies shaped by the conditions of these two Washington-based suprafinancial institutions. Since 1980, no fewer than 26 nations have entered into policy-based lending programmes of the IMF or World Bank; this includes 25 of the 29 low-income, sub-Saharan nations.

To some people, SA Finance Minister Trevor Manuel's recent announcement of the World Bank's first loan to SA in 30 years indicates the beginning of the country's "addiction" to the World Bank for its peripheral vision of future economic policy formulation. And this is not the case.

Between the economic growth years of 1951 and 1967, the World Bank made 10 loans to SA, totalling nearly $222m, to upgrade power and transport infrastructures. Shortly after that, due to severe domestic political turmoil, the World Bank disqualified SA's membership until 1985. In 1993, SA experienced a shortfall in export earnings and an unexpected increase in cereal imports; as a result, a drawing of R2 890m was made under the IMF's compensatory and contingency financing facility. Prior to this, SA took a financial obligation of SDR795m in 1982. This loan was repaid in eight quarterly instalments, of which the last payment was made on November 7, 1987.

The 1993 borrowing, though, brought unnecessary popular criticism. Little did the critics know that this loan imposed limited cost on SA, since its interest rate was low. Moreover, the IMF's loan criteria depend on a country's level of indebtedness. For SA, the sum of this IMF loan represented only 5% of total foreign debt, which was significantly modest for a country's foreign liabilities.

Similarly, the latest borrowing from the World Bank should not ring alarm bells because its purpose is to assist SA's industrial competitiveness, and help emerging entrepreneurs to penetrate the mainstream economy. This loan comprises three department of trade and industry on-budget industrial promotion (supply side) programmes for which Cabinet approval has been obtained.

The programmes include:

- The competitiveness fund, which will provide cost-sharing grants to assist individual enterprises to buy outside support services related to technology and productivity enhancement;
- The sector partnership fund, which will provide cost-sharing grants to qualifying groups of firms and business organisations in SA to improve competitiveness and productivity of the manufacturing sector; and
- The short-term export finance scheme, which will provide access for small, medium and microenterprises to short term credit to finance pre- and post-shipment costs of exports.

The purpose of the loan is clearly in tandem with the Gear strategy of diversifying the economy, redistributing income and creating jobs. Based on the favourable financial terms and conditions of the loan, the $46m will be taken up as a fixed-rate, single-currency loan which will be repayable over 12 years.

Manuel's acumen in bringing the World Bank in to assist SMMEs should be applauded, because "corporate SA" has failed to do so. Interestingly, a negative irony is that the CEOs of some companies that are doing well openly confess to lacking confidence in the country's future. This lack of positive direction is reflected in the media and rubs off on SMMEs, which at this point should be comfortably cradled by these conglomerates. Instead they have cynically enjoyed selling themselves short by subscribing to the "zero-rand" notion. It is for this reason, then, that financial gnomes in Zurich have continued to make profits out of our currency.

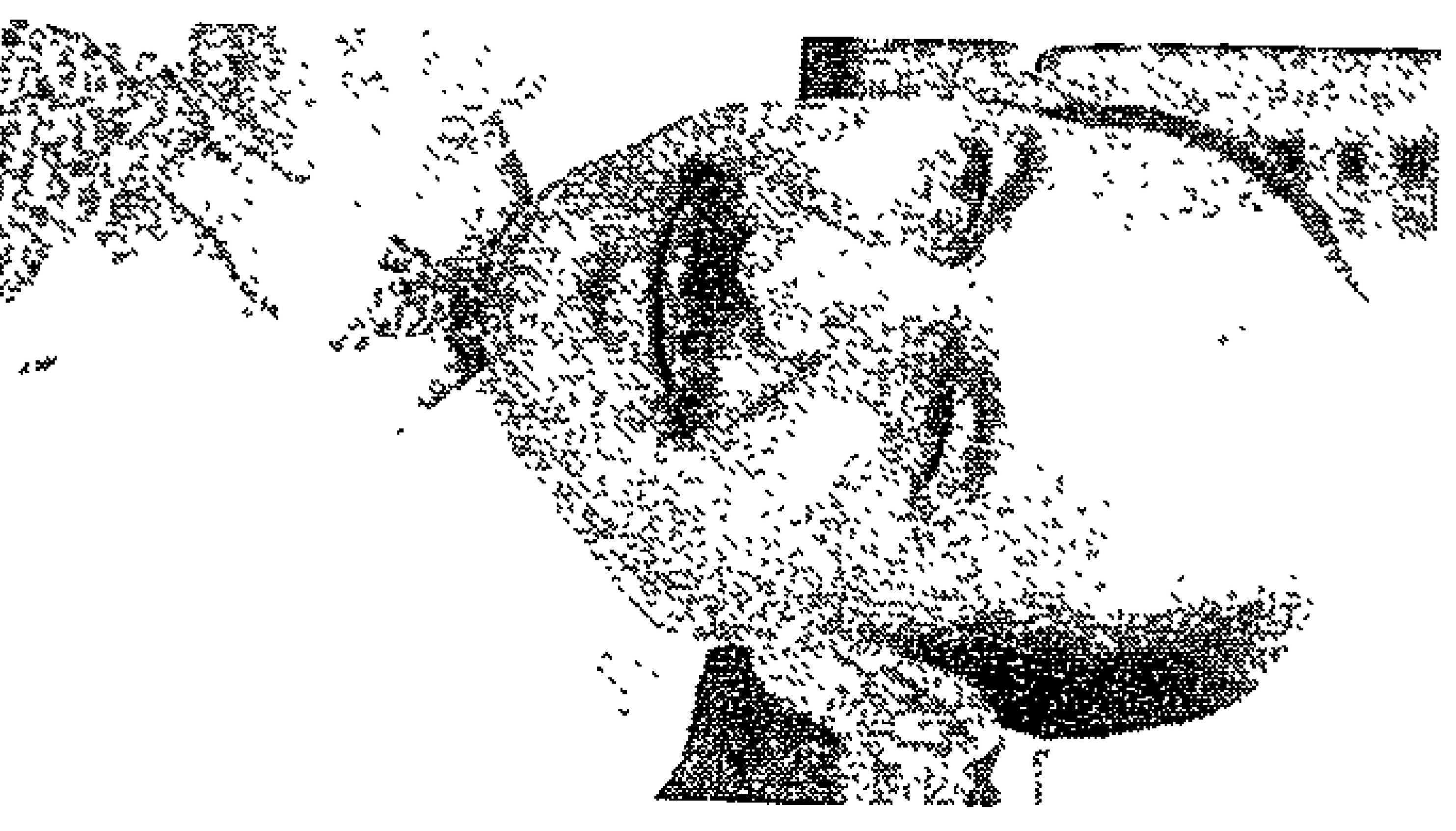
Indeed, contrary to the 1996 UBS intent, the depreciation of the rand brought a near economic and financial panic to the new republic, where government also negligently issued contradictory edicts on prices, banks collided on loan rates and labour discontent rose. Last year's 13% weighted average depreciation of the rand and the recent borrowing have been a long awaited salvation for local entrepreneurs, SA's major trading partners, the World Bank, and the IMF.

In private, the World Bank and the IMF have been nagging the finance ministry and the Reserve Bank to devalue the rand. All efforts to boost economic growth would be in vain, they argue, without a devaluation. In public, however, the two Washington institutions stepped delicately around the subject without treading on any toes. In spite of this, endless published reports continued to show that the rand was in danger of being attacked, and its exchange rate was high for export entrepreneurs to earn profits. Yet, on announcing the macroeconomic strategy (Gear), government merely mentioned that there was a need to "alleviate the pressure on monetary policy" and "economically empower SMMEs".

One reason for the prolonged silence in Washington was to avoid sending foreign investors scurrying to take their capital out of the illiquid JSE. A less noble one was to avoid offending President Nelson Mandela. Within the SA government there were "deadwood" cynics and a milieu of new meritocrats who believed that multilateral bodies should keep their noses out of the rainbow nation's affairs.

Ironically, this very same crowd had acquired the taste for first-class air tickets and five-star hotel accommodations when invited to Washington that an overvalued rand enabled them to enjoy — at the expense of uninvited small businessmen and women.

Shaka JK Mphele is a trade specialist at the California office of trade and investment in Johannesburg.



MANUEL

Gear under threat

(49) M+G(BM) 13-19/6/97

Amid all Cosatu's and business's bluster lies a danger that the central tenet of Gear – job creation – will be ignored, writes **Madeleine Wackernagel**

BUSINESS has until Monday to respond to the Congress of South African Trade Unions (Cosatu), which threatened continued mass action unless business accedes to its demands over the Basic Conditions of Employment Bill. But business, predictably, is taking as tough a line as the labour movement.

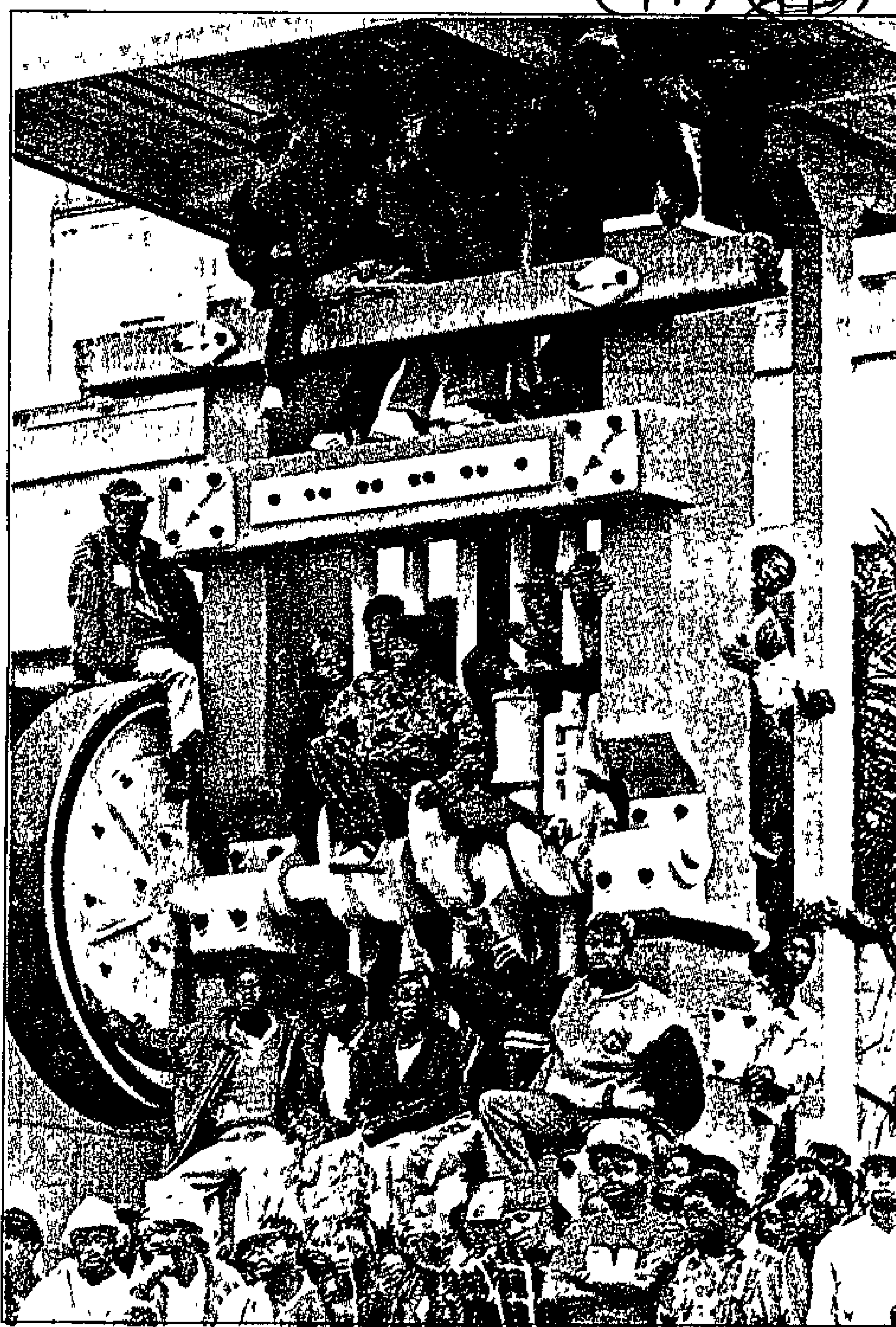
The next step should be another meeting of the National Economic Development and Labour Council (Nedlac) But until the parties have something new to discuss there is little point, says Nedlac executive director Jayendra Naidoo. So, if the deadlock continues, it will be up to the Minister of Labour, Tito Mboweni, to find a way out of the impasse.

The Bill calls for a 45-hour working week, while Cosatu is pressing for 40-hours. Business argues that the additional costs will prohibit job creation.

"The arguments are all academic in a fragmented labour market such as ours," says one labour analyst. "The private sector is not necessarily the biggest employer and besides, many big businesses already have instituted better conditions than are set out by the new Bill. The biggest problem is that it will inhibit job creation in the informal sector."

Says another: "This is just so much hot air. The real question is to what degree the concerns of the unemployed are taken into account in all this bickering."

Amid all the bluster and posturing lies a danger that the centrepiece of government economic policy, the growth, employment and redistribution (Gear) strategy, is under threat. As it is, there is little to celebrate on the first anniversary of Gear's unveiling. So far, growth has been unremarkable, employment has actually fallen and the income gap is widening.



Deadlock over labour policy: Cosatu and business are taking a tough line on conditions of employment PHOTOGRAPH SIDDIQUE DAVIDS

So is the gap between the government and its alliance partners. Says Cosatu representative Nowetu Mpati: "Gear is not moving ahead because we weren't consulted. It amounts to a business document, which is why it is not being implemented. We are as concerned as everybody else about job creation, but not on these terms.

'We want more and better jobs — not just jobs'

"Everybody calls on Cosatu and the labour movement to compromise but what about government and labour? Of course we want more jobs but the negotiating process is about give and take — and so far only Cosatu has done the giving. In the past 18 months of negotiations, just one party has done the compromising — us."

But says Jeremy Cronin of the South African Communist Party: "It is important that this new Bill goes through as quickly as possible so that we can get on with the real issues. The longer it is delayed, the greater the opportunity for big business to find a way round it.

"We've become bogged down in arguing about Gear and blaming it for all the country's ills. We need to get back to the bigger picture and focus more on industrial policy than on macro-economic issues alone."

For once business was talking the same language. The need for a co-ordinated approach, involving government, business and labour, is paramount in the battle to create employment opportunities, says one economist. "Redressing the balance of past capital-intensive production won't happen by itself. The government must come up with a comprehensive industrial policy, encompassing trade regimes, regulatory frameworks, education and training, as well as tariffs, export zones and tax incentives "

This view is echoed by a Labour Department source. "If job creation is ever going to get off the ground, the government must be pro-active. You can't leave it up to the market

"Policy must be directed towards labour-intensive production, whether in agriculture or tourism, but it won't happen just like that. The departments must work together at devising an employment strategy, which in turn should work with the new Bill We want more and better jobs — not just jobs."

Such a comprehensive policy would also have to address small-business promotion, singled out by Gear for its employment potential. So far, policy has been ad-hoc.

Says Phillip Tekane of the National African Federated Chambers of Commerce: "The government is trying, the spirit is there, but there's a long way to go. Take Khula, for example. It was set up by the Department of Trade and Industry to provide financing for small businesses, but instead, funding is channelled through the banks, which apply very strict criteria to small-business applicants

"We have to find unconventional ways to encourage entrepreneurship and more legislation will only deter people from starting up their own businesses "

Frustrations are growing but so is awareness. If Gear is to succeed, the Presidential Job Summit scheduled for October will have to be more than just another opportunity for the parties concerned to indulge in rhetoric and self-interest.

Numsa examines Government policy

Sowetan 13/6/97 (49)

Union says labour is opposed to the current macro-economic policy

By Abdul Milazi

THE Government's macro-economic policy is to come under scrutiny when the National Union of Metalworkers of South Africa (Numsa) holds its national policy conference next Wednesday

Numsa acting general secretary Mbuyi Ngwenda said the union's economic strategy evolved around socialism and was geared towards directing government programmes towards meeting the economic and social needs of workers and the poor.

"The national policy conference will focus on the fiscal policy, monetary policy, trade and industry policy, labour market policy and job creation," said Ngwenda.

Labour accepted that the economy needed drastic restructuring to meet the pressure of international integration and the backlog of demand from its population.

"Labour further understands that this process will not be without pain for members, but the pain must be distributed equally to other sections of society," said Ngwenda.

Prepared to negotiate

He said labour was opposed to the current macro-economic policy and was prepared to negotiate with government on two principal aspects, which were agreed upon by Numsa's national executive council in July last year.

One of the two proposals is for government to put strategies in place that protect and restructure the existing formal sector industries, while laying a foundation for new areas of employment.

The other is to establish a social welfare base that will improve the standard of living of those at the bottom of the income scale, while ensuring basic social security for those who are affected by restructuring in the various industries

"If we are genuinely concerned for a broader constituency than formal sector workers, then we must simultaneously argue for employment growth through interventionist industry and trade policy and a safety net of universal welfare," said Ngwenda.

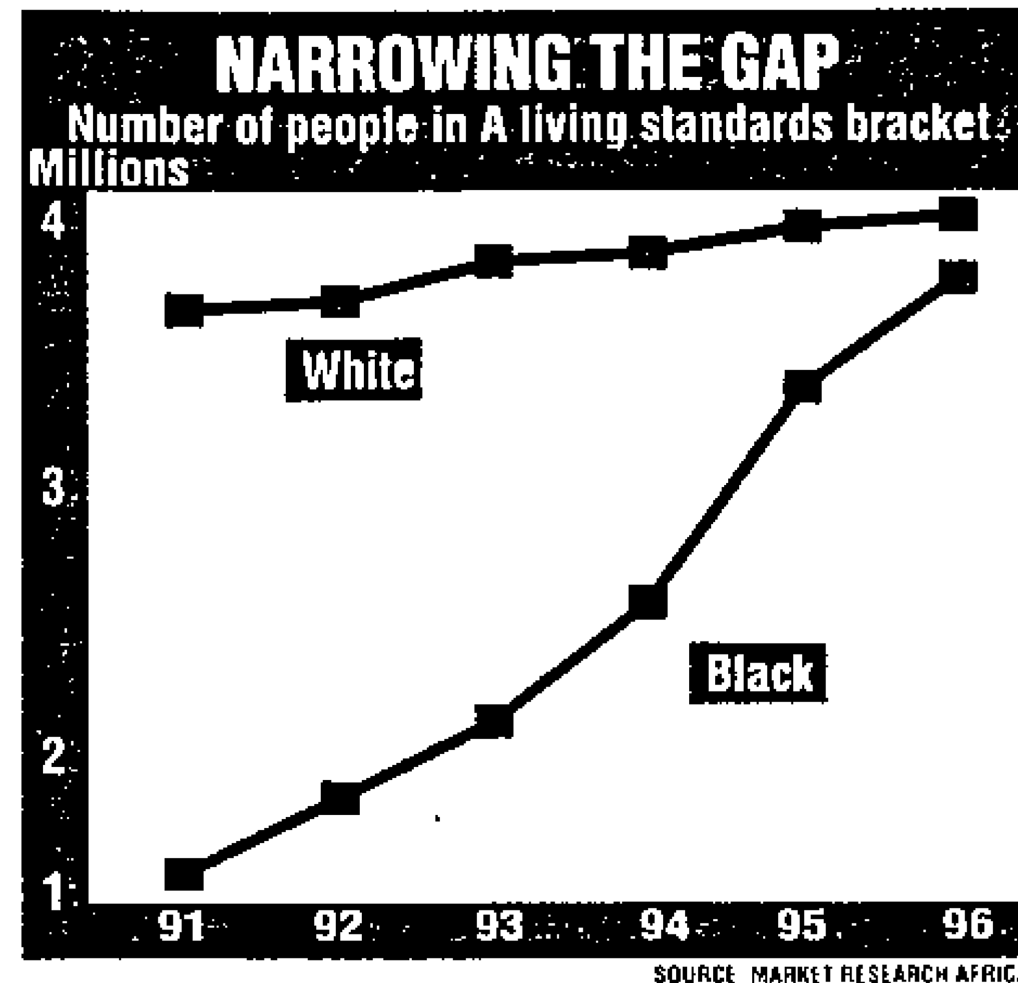
LIVING STANDARDS

FM 13/6/97

Suddenly whites don't own all the goodies

(49)

Latest research shows fast-growing black middle class is catching up with its white neighbours



SA's social hierarchy is changing radically as the emergent black middle class starts to displace its white counterpart

The number of black families owning houses, cars and M-Net decoders has soared Between 1995 and 1996, 12% more black consumers entered the A living standards bracket, bringing their total to 3,8m and within striking distance of the 4m whites enjoying similar lifestyles

This is according to Market Research Africa's latest living standards measure (LSM) survey It recognises eight levels, the top three of which make up the A bracket

But the study shows that black entrepreneurs made no inroads into the millionaire class last year And white individuals still account for more than 81% of the category

About 80% of the people on the top LSM level earn more than R4 000/month and own cars, 10% of which are either BMWs or Mercedes-Benzes They also constitute half the M-Net and satellite television audience and employ most of the domestic workers in the market

But the real movement has taken place in the second and third levels from the top

People in the second group earn an average monthly income of about R4 200 They tend to spend money on home improvements such as swimming pools, security services and garden walling. Most households own a car

They also use a broad range of financial products and own a significant number of home appliances

In 1996 there were almost 13% more blacks and 9% fewer whites in this group

Members of the third group often fall into a fairly low income category, averaging incomes of about R2 000/month But about half of households own a car, and ownership of kitchen appliances, television sets and audio equipment is high Use of ATM cards, savings accounts and insurance is high and has grown significantly

This LSM level also saw significant change over the year — 3% more blacks, but 8% fewer whites

This suggests black consumers are overtaking their white counterparts There was only small growth (0,1%) in white membership of the top LSM group, but sizeable falls in the two levels below The implication is that white consumers are falling into the lower LSM groups rather than upgrading their lifestyles

It's uncertain whether black living standards will continue to rise at this rate The economic upswing that started in mid-1993 is slowing while the consumer credit boom that fuelled much of the improvement in living standards is also reaching a ceiling

Some also argue that affirmative action in the civil service catapulted many people into the middle class — a one-off stimulus

Only an estimated 4,2% of blacks earn more than R4 000/month It indicates affluent blacks are still a tiny minority And economists are arguing that as some people's living standards improve, the poor are getting even poorer But it also shows that even a small percentage improvement in black wealth constitutes a great deal of buying power

The LSM index is based on factors such as the utilities households have access to, where they shop, the financial services they use, car ownership, type of housing and household appliances The results are ranked by group from one (subsistence) to eight (including top income brackets) The A living standards bracket covers LSM groups six to eight

Adrienne Roberts

Its authors caution against making quick judgments based on expectations for the rand or the RDP

One year on, Gear is still a thorn to labour, a rose to business

(49) CT(BR) 17/6/97

Duma Gqubule

Johannesburg — One year after the government announced its Growth, Employment and Redistribution (Gear) strategy to dis believing financial markets and hostile labour unions, the question is whether it will go the same way as the Reconstruction and Development Programme (RDP) to be reincarnated in a new form acceptable to all parties

Any discussion about the document must take into account the financial crisis that was taking place while Gear's 15 authors – all male, with not a single African — were drafting the document early last year

"Everything was hostile," recalls Brian Kahn, a University of Cape Town (UCT) economist who helped draft the Gear document "Business and labour had put their economic policy documents on the table Government had nothing to show, and the the markets were impatiently waiting for direction Meanwhile, the rand was collapsing There was no credibility to any government policy"

Iraj Abedian, a UCT economist who co-ordinated the drafting of the document, says "Every month of consultations and continued uncertainty would have cost the economy hundreds of millions of rands — a perfect recipe to send the rand into a tail spin"

But a member of the technical team, who does not want to be named, does not think the economy was in real trouble "A perceived crisis would have provided the ideal background for urgent consultations between government and labour," he says "There would not have been a Cosatu stayaway on June 2."

The document that was eventually drafted had three elements The first, described as the heart of Gear, was a commitment to macroeconomic balance a lower budget deficit and rate of inflation This required a prudent fiscal policy and relatively high interest rates to contain inflation

The second element was to get the economy on to a 6 percent growth path by the year 2000, driven by improved performances from fixed investment and non-gold exports Higher levels of investment would flow from the improved confidence of local and foreign investors (based on tax incentives for investment and government action on the deficit) [illegible] should not be seen as a set of annual targets We just wanted to see if we could achieve 6 percent growth given the key assumptions about the deficit and monetary policy'

Another economist says it is more instructive to look at the intermediate targets for investments and exports that will eventually get the economy to 6 percent growth On this measure, Gear has made some progress

Gear's authors are unanimous in their view that the document improved investor confidence in the economy "The business response was favourable In other countries, it takes years for such policies to have credibility," Kahn says.

This year, government has done more to improve investor confidence, delivering a credible Budget with a timetable for the partial relaxation of exchange controls, completing the Telkom privatisation, and appointing Meyer Kahn to lead the fight against crime

"Improving business confidence is the most important aspect of Gear in the medium term," says Van den Bergh

Exports, the other engine for growth, are above Gear expectations. But Abedian is worried about the recent strength of the rand which, ironically, is partly the result of improved confidence in the economy

"(The Reserve Bank) must stop intervening in the foreign exchange market — throwing precious reserves at the currency when it is bound to lose the battle anyway," he says. "We assumed a gradual depreciation during the first three years (of Gear) to give industry a window of opportunity to improve its competitiveness. The recent currency appreciation undermines this policy"

Van den Bergh adds: "The Reserve Bank could announce a further relaxation of exchange controls to reduce the froth on top of the currency. We should be aiming for a 10 percent lower exchange rate

"One engine of growth could stop firing and result in a lower than expected growth rate Exporters must expect the currency to be favourable before they can invest in new capacity"

Another dark cloud on the horizon is government's inability to get labour on to the Gear platform 'Labour has the power to undermine the whole strategy [illegible]

An economist adds "The RDP was not an economic programme, but a wish list of objectives It set ambitious targets for delivering things like housing, water, electricity and land reform It did not say how this would happen Gear ensures there are sufficient resources to finance the RDP With or without Gear, we still have to achieve these targets"

"The problem," Van den Bergh adds, "is that we assumed that the redistribution policies of various government departments would continue, with or without Gear. We didn't emphasise this aspect and could have written more about it. The result is that it was the message directed at business that was heard"

An economist says the thing people understand least about Gear is that it is "just a macroeconomic framework, not a detailed plan It does not rule out anything specific in terms of redistribution Neither does it prescribe market-orientated policies for every government department.

"People blame Gear for everything The truth is that Gear will not make a huge difference to real policy debates around issues like housing, health and land reform, where there is a redistribution of resources going on"

The trick in negotiating a social contract between government, business and labour would be to get labour to accept that macroeconomic balance and fiscal prudence are "motherhood principles", Donaldson says

"These concepts, which used to be the hallmark of conservative policies, have been embraced by left-wing governments throughout the world."

Abedian says: "The deficit is not the real issue Increasing it would not help anyone for a long time, because a Latin American-style inflationary spiral would follow

"The real challenge of delivery is not to spend more, but to get better value for money. You cannot assume there is a shortage of money when funds are being rolled over."

Van den Berg adds "The concerns of labour could be addressed without upsetting the framework or throwing the essence of Gear out of the window

"The RDP is perceived to be off the table. Maybe there could be something new on the table which is responsible, but still addresses the concerns of the left.

"The fact we are prudent does not mean there are no choices that can be made."

CONFIDENCE BOOSTER *Finance minister Trevor Manuel's 1997 Budget, with a timetable for relaxing exchange controls, has helped raise investor enthusiasm* PHOTO JOHN WOOD

prudent fiscal policy and relatively high interest rates to contain inflation.

The second element was to get the economy on to a 6 percent growth path by the year 2000, driven by improved performances from fixed investment and non-gold exports. Higher levels of investment would flow from the improved confidence of local and foreign investors (based on tax incentives for investment and government action on the deficit, crime, privatisation and exchange controls) and higher public-sector investment spending.

The third element was redistribution through job creation — from economic growth, government programmes and labour market reforms — and the Budget, which would increase access to social services by changing priorities and improving efficiency. Higher rates of growth would increase funds available for social spending.

A year later, Gear has not achieved its growth and employment targets. But Andre Roux, the deputy director-general of finance who co-ordinated the Gear project, points out that an economic consolidation had been expected for this year. "And there is a time lag between employment growth and an increase in fixed investment," he says.

Servaas van den Bergh, a University of Stellenbosch economist who helped draft the document, says the targets were only introduced to test the Gear model, to see if one policy would work against another. "Gear ing for a 10 percent lower exchange rate.

"One engine of growth could stop firing and result in a lower than expected growth rate. Exporters must expect the currency to be favourable before they can invest in new capacity."

Another dark cloud on the horizon is government's inability to get labour on to the Gear platform. "Labour has the power to undermine the whole strategy," one economist says.

There are two reasons why labour has not accepted Gear. The first has to do with process — the way government announced the strategy, without extensive consultations, and then said it was "not negotiable".

But, as Van den Bergh points out, there is a limit to consultation: "You cannot consult business and labour about things like a currency depreciation. The businessmen would go back to their offices and take speculative positions against the currency."

The second reason has to do with Gear's content. While the RDP addressed the concerns of the ANC's constituency, Gear appears to do the opposite — and address the concerns of a business constituency. Some people on the left even say Gear was a reversal of the RDP — "a ghost of the RDP", as one trade unionist says.

But Andrew Donaldson, a chief director at the department of finance who was on the Gear technical team, says: "We were creating the macroeconomic conditions to ensure the success of the RDP."

THE NEGOTIATOR *Deputy president Thabo Mbeki could help bring labour on to the Gear platform* PHOTO TJ LEMON

Cosatu dismissive of Gear, supports RDP

Nomavenda Mathiane

BD 19/6/97 (49)

ONE year after the unveiling of the growth, employment and redistribution (Gear) strategy, workers found the promised jobs not having materialised, Congress of SA Trade Union (Cosatu) president John Gomomo said yesterday.

Opening the Chemical Workers' Union's congress in Johannesburg, Gomomo said Cosatu did not support Gear because it could never address the needs of the people, and that there had not been enough consultation between labour and government when this strategy was formulated.

He said the only way to stop poverty was through reconstruction and development programme (RDP) policies of which Cosatu was co-author.

Gomomo said that unlike the business community, which dismissed the programme as a wish list, the masses voted for the African National Congress (ANC) on an RDP ticket and not Gear. He was cynical about the coming October job meeting, saying that business and government was trying to co-opt Cosatu to help them implement Gear.

Gomomo called on workers to support Health Minister Nkosazana Zuma, whom he described as one of the ministers who had stuck to reconstruction and development ideals.

Delivering the "state of the nation" address at congress, communist MP Blade Nzimande said it was important to analyse issues from a working-class standpoint as most South Africans were working-class and landless people.

He highlighted progress made by government on drafting a constitution which enshrined basic democratic rights; free medical health care; clean drinking water; and economic improvements.

He then dealt with the dangers facing SA as it struggled to secure democracy, and attacked the creation of a nonracial capitalist order which would try to win over sectors of the community traditionally part of the liberation movements. He said this would not work because 30% of the black community would be co-opted while 70% remained as it was before.

Touching on KwaZulu-Natal, he said the ANC, being in the centre, could not have an alliance with a party (the Inkatha Freedom Party) that was a "rural organisation in KwaZulu-Natal".

☐ ECONOMY

CT (BR) 19/6/97 (49)

Numsa to seek ways to transform critical areas

Proposals on transforming critical areas of the economy would be the aim of the upcoming national policy conference of National Union of Metalworkers of South Africa (Numsa), Mbuyiselo Ngwenda (pictured), the acting general secretary, said yesterday.

Ngwenda said important among these were Numsa's position on monetary and fiscal policy, the restructuring of state assets, the labour market, policy on industry, tariffs and competition, and foreign investment and capital mobility. "The conference is holding critical debates around the national monetary policy, including the need to restructure and democratise the Reserve Bank and exchange control as it affects the local economy."

Privatisation of state assets would also be discussed. Ngwenda said water, electricity, health, education and housing should not be privatised. But he said from areas where assets were a burden to the state, it should consider "strategic withdrawal". — *Frank Nxumalo, Johannesburg*

Why the SACP won't jive to Gear

MtG(ROM)20-26/6/97 (49)

More active policy and less macro-economic theology is the only way to get South Africa on to a growth path, argues the SACP's **Jeremy Cronin**

A friend in the finance ministry of a West African state once described a visit from the International Monetary Fund (IMF). Meeting with the ministry, the IMF official hauled out his lap-top and proceeded to interrogate. Growth rate? Budget deficit? Percentage budget spent on education and health? Inflation? The official tapped in the replies, pressed Ctrl-F2 and then dictated what the country's new macro-economic targets should be.

Welcome to the age of macro-economic theology!

This past week marked the first anniversary of government's macro-economic strategy, growth, employment and redistribution (Gear). But the story of Gear goes back more than a year.

The African National Congress (ANC)-alliance, for obvious reasons, found itself in the first years of this decade without very much by way of elaborated economic policy. Upon its legal return to South Africa, the ANC set up a Department of Economic Policy. The ANC also helped facilitate the launch of a non governmental organisation (NGO), the Macro Economic Research Group (Merg).

Elsewhere in the alliance there were other economic-policy oriented NGOs — notably those associated with the Congress of South African Trade Unions (Cosatu). But Merg was the only place where any real macro-economic capacity was located. The other collectives tended to be swamped by conference circuit demands or driven by the sectoral concerns of Cosatu affiliates and other mass democratic formations.

In December 1993, Merg unveiled an extensive policy document, Making Democracy Work. It focused on macro-economic policy and was considerably different in orientation to the subsequent Gear. The Merg document had some influence upon the original Reconstruction and Development Programme (RDP), but it was an influence that was watered down by other, implicit, macro-economic assumptions.

With time, the Merg perspective was more or less displaced, at least in government circles. Why? One explanation for its marginalisation was that Merg had tended to rely on outstanding but distant British-based academics. They were not around to defend their perspectives in the cut and thrust of local politics.

The Merg document was not necessarily omniscient, but it got lost, and not as a result of a broad-ranging debate within the ANC alliance on macro economics. It is precisely the absence of such a debate that is currently one major factor bedevilling Gear within the alliance.

The original RDP document was weak on macro-economic policy.

Immediately after April 1994, those who were less than happy with an ANC led government and its RDP focused on its fuzzy macro-economics. "The RDP is all very well", we were told, "but where is the arithmetic?"

An RDP Green Paper (which disappeared as quickly as it arrived in 1994) was the first unambiguous attempt by economists, then based at the Development Bank of Southern Africa, to encase the RDP within a neo-liberal macro-economic straitjacket. The RDP White Paper was less crude but, compared with the base document, reflected a shift to a more export-led growth and trickle-down development approach.

Job creation. SACP supporters rally for better employment conditions as well as more jobs PHOTOGRAPH: [illegible]

But it still tried to hold on to the key social and developmental objectives of the RDP. The subsequent National Growth and Development Strategy had a similar character. Both documents sparked little enthusiasm. Many of us were worried that they watered down the RDP. Big business circles felt that a clear neo-liberal macro-economic commitment was being encumbered by the simultaneous reiteration of RDP objectives.

Against this background, a technical team was assembled in December 1995 to prepare Gear. Between mid January and mid February the rand lost more than 20% in value against a basket of foreign currencies. Those who wanted a "clear" (that is, their own) macro economic policy to be anointed as official used the rand's decline to intensify pressure.

So it was that one year ago, Gear came to be unveiled. It was declared "non-negotiable" by Finance Minister Trevor Manuel and his director general. Both its content and the tough "non-negotiability" stand pleased business circles.

The main features of Gear are well enough known and require little elaboration. They include a core commitment to drastic budget deficit reduction. The actual percentage budget deficit (a projected 4% for this year) is not high by international standards. However, interest on the deficit, given our extremely high interest rates, places a terrible burden on government resources. Are there alternatives to Gear's stringent budget cutting? Macro-economists aligned to the National Institute for Economic Policy (the successor to Merg) argue for a more relaxed attitude to the deficit, believing that stringency will kill the goose.

Others have said we should simply renounce this "apartheid" debt. That seems attractive, but it is a debt owed largely to domestic pension funds. Renunciation has implications that cannot be ignored. What about focusing more on interest rates, and less on the Budget itself? This is, partly, what Gear recommends, but given Reserve Bank Governor Chris Stals's sado-monetarist grip on interest rates, early prospects of relief look dim.

Gear's content and the tough "non-negotiability" stand pleased business circles

Another major plank of Gear is the restructuring of state assets.

On this score, Gear is ambiguous. It commits itself to the government/unions National Framework Agreement of February 1996 (with its prioritisation of service delivery and job creation) on the one hand. On the other, there is a great deal of rhetorical enthusiasm for privatisation.

On financial policies, Gear repeats a fairly conventional monetarist list of priorities. It is strong on trade liberalisation with some ameliorating if vague commitments to retraining workers. The final chapter, the most ambiguous of all, is devoted to a national social accord that seems to involve a wage and price restraint trade off.

It would be unfair to draw easy conclusions after just one year of Gear. But there are indicators that cannot be ignored.

On the deficit, this year's Budget is on track for the envisaged 4% target, although last year's budgeted 5,1% was not met (it was 5,6%). Growth was projected to be 2,9% this year. It is now likely to be less than 2,5%, with agriculture being blamed. While mere quantitative growth should not be over-fetishised, the centrality of growth to Gear should make this slowing down worrisome for its proponents.

But it is job creation that is of greatest concern. Gear projected a modest 1,3% increase in jobs over the past year. The figure appears to be a 1,3% loss.

Those of us who are not fans should not, however, assume that partial failures will lead, automatically, to a progressive revision of Gear. Business is already arguing that we have not yet applied enough austerity.

So how do we go forward?

In the SACP we are arguing that we need to proceed on three fronts. In the first place, it is important to buttress those features that are positive — like the commitment to a three-fold increase in parastatal investment.

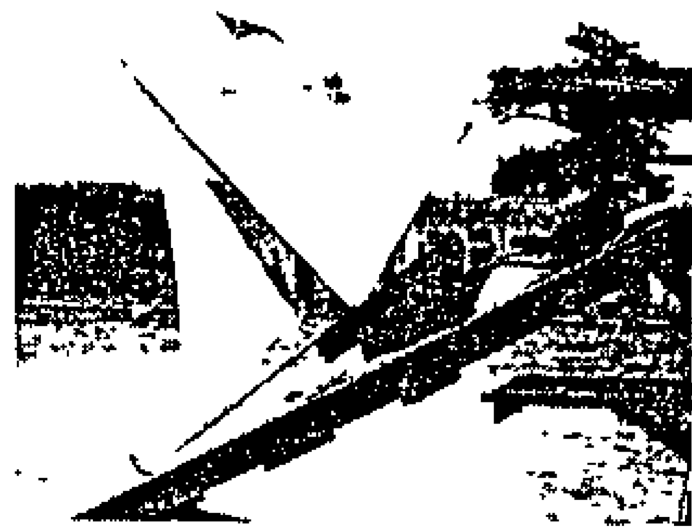
But we cannot just jive within the constraints of Gear, a thorough-going review of macro-economic policy is required.

Above all, however, we need to move out of Gear, out of an over-absorption in macro-economic theology, to other critical but neglected areas of economic policy. In particular, a great deal more attention must be paid to a coherent industrial policy.

Macro-economic policy needs to be subservient to this.

There is not a single example this century of a Third World society breaking out of under-development by simply sending market friendly macro-economic signals into the ether. A coherent, public-sector led industrial strategy that draws in, and does not crowd out, private sector investment is the way in which to move out of Gear and into real growth and development.

Jeremy Cronin is deputy general secretary of the South African Communist Party



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GWINB7A

Source: "Planned Savings" October 1995

Newly elected Numsa leaders at a press briefing on Friday, from left to right, were second vice-president Charles Bezuidenhout, first vice-president Vincent Mabuyakhulu, president Mtutuzeli Tom, deputy secretary general Peter Dantjie, general-secretary Mbuyi Ngwenda and treasurer Omor Girie. Picture: ROBERT BOTHA

Numsa attacks 'anti-RDP' Gear

BD 23/6/97 (49)

Nomavenda Mathiane

GOVERNMENT's growth, employment and redistribution strategy (Gear) has come under fresh attack from labour allies, with the influential National Union of Metalworkers of SA (Numsa) calling it "unfriendly and anti-RDP" (reconstruction and development programme).

At its national policy conference which ended in Johannesburg on Friday, Congress of SA Trade Unions (Cosatu) affiliate Numsa said the strategy — introduced last year by Finance Minister Trevor Manuel without negotiation — was against the interest of the "working class, poor and downtrodden".

The Numsa criticism follows similar condemnation by Cosatu officials.

Numsa members met to draw up submissions for the Cosatu congress in September, as well as to elect a new leadership for the union.

Numsa's newly elected secretary general, Mbuyi Mngwenda, said the conference was held at a time when a neoliberal agenda was determining the economic agenda of all nation states and the International Monetary Fund/World Bank-sponsored macroeconomic policies were having a negative impact on social spending.

The conference declared that government should develop an industry policy that will regulate the market instead of retreating and letting the economy be ruled by market forces.

The new Numsa leadership is president Mtutuzeli Tom, general secretary Mbuyi Ngwenda, treasurer Omor Girie and Vincent Mabuyakhulu, elected first vice-president.

Siege economy a step closer to liberation

The announcement of a relaxation in exchange controls should be followed soon by further steps to loosen investment constraints, writes economics editor Greta Steyn

BD 26/6/97 (49)

THE easing of exchange controls next week is likely to be a nonevent — but that will be no accident. Government and the Reserve Bank have done their best to engineer something of a damp squib that will pave the way for further steps to take place soon. In that sense, it will not be a nonevent at all, but a milestone on the way to opening up SA's siege economy.

Probably the most important aspect of the strategy has been the build-up in the Bank's foreign exchange reserves, which have risen from about R10,3bn at the end of December to R21,8bn at the end of May.

The easing of controls has been timed to take place after the inflow of R5,6bn from selling part of Telkom. Also helping to swell the Bank's war chest by about R4bn will be the proceeds from government's Yankee and Samurai bonds, issued this month.

With these inflows secured, the Bank has taken further steps to send an unambiguous message to the markets that it has ammunition. It has made it clear it will not hesitate to fire in case of an attack on the rand.

The Bank has set up a three-year $1,5bn revolving credit facility which will provide it with dollar liquidity if needed. The credit forms part of a total of R18bn in foreign credit lines available to the Bank.

The Bank's move is a change in tack from last year's extreme reluctance to draw on foreign credit lines to protect the rand. Bank governor Chris Stals kept pointing out that even the Bank of England had been powerless against the markets when sterling fell out of the European exchange rate mechanism in 1992.

But two things have changed this year that justify the Bank's decision to be more aggressive about the rand's value.

Firstly, foreign investors have been impressed by moves to implement the growth, employment and redistribution strategy (Gear). The partial privatisation of Telkom and the tight budget were two important events for investors.

In short, Finance Minister Trevor Manuel and his team have succeeded in establishing credibility. Without that, waging war on currency speculators might have been a lost cause.

Secondly, long-term capital has flowed into the country, boosting the reserves. The Telkom inflows and the proceeds of the two bond issues are not subject to the vagaries of the market, the Bank and the local forex market can count on the cash.

It was SA's extremely low level of forex reserves, more than anything else, that created fertile conditions for currency speculators last year. As last year showed, even a low current account deficit can cause jitters when there is little in the forex kitty. The level of official reserves was — and remains — the key to the value of the currency and indirectly to the level of interest rates and economic growth.

No-one is really sure how much cash will leave the country after the controls on individuals are relaxed. But bankers believe that there will be no stampede to take out the R20bn which economists estimate could potentially leave. That figure is based on the assumption that there are 100 000 individuals wealthy enough to take out R200 000.

The rand's stability in the run-up to the move — largely thanks to the central bank — has helped lessen the attraction of foreign investment. The Bank believes a maximum of about R5bn will flow out, which could be offset by foreign inflows. On a net basis, the reserves are not likely to bear any serious scars.

If next week's move goes well, government should waste no time in following it with more action. Manuel likes to make out that there are minimal controls that remain. However, institutions are far from free to take foreign investment decisions as long as the cumbersome asset swap mechanism remains in place. Some small players have already hit the 10% limit on total assets invested offshore, which implies that the limit also needs to be revised.

There is still a long way to go for institutional investors. They are allowed to invest only a fraction of their actual cash flows. Almost all their foreign investments are done through asset swaps, designed to insulate the country's reserves from the easing of controls. Swaps also shield SA's asset prices against the effects of a sell-off which would ensue if there was no requirement to bring a foreign investor to the party.

Asset swaps were introduced in 1995, and it is worth looking at how they have been implemented in practice, and at what has been achieved. Swaps executed so far this year add up to an estimated R12bn, and this compares with R15bn last year.

SA portfolio investors have moved less than R28bn offshore, out of a potential of about R70bn. At that level, they will have taken out about 10% of their assets — and some will want to take more. Foreign demand for asset swaps has taken off, enabling the success of the investment mechanism.

The idea behind the swap mechanism is to ensure that everything that is moved offshore is matched by inflows into SA. But how can the Bank, which implements exchange controls, ensure that foreign investors hold on to their investments in SA, and that they do not sell out at the first sign of market weakness or greener pastures elsewhere?

The Bank holds the local institution involved in the swap responsible for ensuring the foreign investment stays in the country. If the foreign investor sells, the Bank requires the SA institution to find another foreigner to replace him, or even to liquidate some of its own foreign holdings to bring the dollars back into the country. However, the SA institution can ask for a special dispensation to keep assets offshore.

To avoid the burden of monitoring the foreign swap counterparty, SA institutions like to get formal agreements from foreign investors that they will keep their investment for a fixed period of a number of years. This is also apparently a way to ensure Bank approval, although it is not a formal prerequisite. Of course, tying a foreign investor down is much more likely to happen if there is a sweetener in the price. (An exception is bond swaps to hedge Eurobond deals, as the foreign buyers are usually investment banks that need to cover their rand exposure over the life of the Eurorand issue.)

When a deal has taken place at a discount, there are profits to be made for the foreigners through "hedging". The result of a foreign hedging transaction can be an outflow of forex reserves. The fact that a swap could lead to a forex outflow was not foreseen; "hedging" probably added to the rand's woes last year.

The foreign investor hedges through selling assets similar to those locked into the swap agreement, or through selling the currency. Some SA institutions say they do not undertake swap agreements with foreigners who want to "hedge" — which just means that the foreigner will take the hedging leg of the transaction elsewhere.

Even swaps without a hedge component can temporarily affect the rand, as transactions are settled in cash and the two legs do not have to coincide. It is obvious that asset swaps are a cumbersome, in efficient and sometimes opaqu mechanism subject to a myria rules. The fact that we still nee the safe cocoon of asset swaps is sign of how far we still have to go.

Asset swaps are one of the rea sons why SA's foreign exchang reserves have not mirrored th huge net foreign investment in th country. Net foreign purchases c bonds and equities so far this yea amount to about R24bn — alread three times the total for last year.

Net purchases of bonds hav reached the R13bn mark. By con trast, SA's foreign exchange re serves — when once-offs like th Telkom privatisation and specia credits to shore up reserves ar removed — have increased b about R4bn.

Aside from asset swaps, th other reason given why reserve have not mirrored foreign invest ment has been foreign hedging c Eurobond issues.

The Bank's Quarterly Bulleti raises a third reason — the fac that a large portion of the foreig purchases are speculative tran actions that are not settled i cash, but "carried". The Bank say net purchases of bonds wort R2,2bn in the first quarter had nc been settled at the end of the quar ter, "thereby holding the promis of further inflows".

Despite huge foreign deman for SA bonds and equities, SA' forex reserves have not experi enced a bonanza. That explain why government and the Bank ar proceeding cautiously. While ye terday's announcement containe something extra for individuals, i gave nothing new to companies o portfolio investors.

But chances are that all will g well next month, some analyst are even expecting a net inflov and a slight strengthening in th rand as foreigners warm to th reforms. Once the hurdle has beer cleared, no time must be wasteu another small step forward mus be taken soon.

A "mini" big bang would b inappropriate, for all the reason argued before. Now that the econ omy is crying out for a cut in inter est rates, the Bank cannot affor to be overly aggressive. The nex move to loosen constraints or portfolio investors and companie must follow this year. Next wee will be a milestone, but there i still a long way to go.

Who can do what and where

Corporations*

- Can transfer R30m (R50m for SADC countries) for new investment
- Can raise foreign funding on the strength of their SA balance sheets
- Can invest a percentage of their assets abroad for portfolio investments, at Reserve Bank discretion

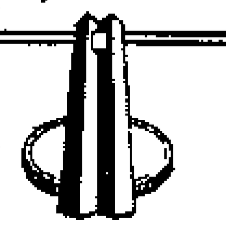
Institutions*

- Allowed in 1997 to invest abroad 3% of net inflow during 1996, with an additional 2% for purchase of stock on SADC exchanges
- Definition of institutions qualifying for asset swaps broadened to include regulated fund managers
- Unit trusts allowed to be fully invested offshore, provided parent company has a maximum of 10% of assets abroad
- Pension funds may invest 10% of assets abroad

Individuals**

- Will be able to remit R200 000 abroad
- Will be able to maintain foreign currency accounts at SA banks
- Will be able to retain foreign income in foreign currency accounts abroad
- Will be able to apply to invest in fixed property in SADC countries

* Existing measures
** New measures, effective July 1



Gear shows SA has achieved growth consensus, says Anglo

(49) BD

26/6/97

Business Day Reporter

THE growth, employment and redistribution (Gear) framework introduced by government last year showed that SA had joined a broad pragmatic consensus in achieving growth and development in the global economy of the next century, said Anglo American chairman Julian Ogilvie Thompson this week.

Commenting in his chairman's statement, Ogilvie Thompson said that Gear would demand "courage and patience" from all sectors of the SA economy as changing an economy usually involved painful adjustments before the delivery of benefits.

"This is especially so when elements of the policy package are implemented unevenly," Ogilvie Thompson said.

"Thus, failure to implement necessary labour market reforms has often resulted in initial negative employment consequences.

"Likewise, cutting government deficits through expenditure curtailment with reprioritising that spending into infrastructure investment, especially on a labour-intensive nature, has heightened the painfulness of necessary adjustments," he said.

Crime also had an effect on the creation of jobs, particularly in the tourism industry, and had led to the slow start in infrastructure development associated with public-private partnerships resulting in slower job creation, he said.

The growth of crime and government's attempts to deal with it was a combination of past national conditions and current managerial ineffectiveness.

However, Ogilvie Thompson supported the appointment of SA Breweries executive chairman Meyer Kahn, "one of SA's toughest and most experienced managers" to the post of CE of the SA Police Service.

Ogilvie Thompson said business had been critical of the proposed Basic Conditions of Employment Bill as it not only affected unit labour costs and lowered SA's global competitiveness, but it was also inappropriate to job creation.

Business SA had not been deflected from its opposition to the Bill by Cosatu's "sabre rattling" in favour of even more costly provisions, Ogilvie Thompson said.

Business SA has sought to persuade Labour Minister Tito Mboweni that his proposed meeting on job creation should precede finalisation of the legislation.

"In this way, the concerns of job creation and labour standards can best be reconciled," Ogilvie Thompson said.

Meanwhile, Anglo American had committed itself to a strategic review in which it followed a "core principle" of geographic and product diversity, he said.

Examples of this were the development of the Sadiola gold mine in Mali, the memorandum of understanding which could lead to the mining of Zambian copper orebody Konkola Deep and a R788m new capital expansion phase for Anglo American Corporation Zimbabwe.

Anglo American Industrial Corporation had also formed joint ventures with several international partners.

In its last financial year, Anglo American's headline earnings increased 23% to R5bn while its total net earnings increased 61% to R7bn.

The debate on economic systems continues unabated

The rise of the left in world politics has not created much homogeneity, writes Tim Cohen in London

BD 26/6/97 (49)

OVER the past two weeks, much of the European press has featured an agonised debate over which economic system is the best. This can only come as something of a surprise to South Africans who argue that the question has been unequivocally answered in favour of capitalism and who suggest that, in the first world, debate on the topic is now closed. It is unquestionably not

The argument is, of course, not over whether socialism or capitalism is better than the other, but about what form of capitalism is preferable, and to hear the vociferousness of the participants, this is not a matter of quibbling over degree. Rather, it appears to involve matters of high principle.

The debate was sparked by two meetings of first world countries: the European Union (EU) summit in Amsterdam, and the "summit of eight" in Denver, Colorado.

In both cases, the Anglophiles stood out although, as one might expect, UK Prime Minister Tony Blair managed to temper his triumphalism in Amsterdam more successfully than US President Bill Clinton did in Denver.

What enabled the Anglos to lord it over the others was a simple statistic: unemployment. In the UK it is the lowest in Europe and this achievement is only bettered (outside Japan) by the US.

The US has seen seven uninterrupted years of growth, with unemployment below 5% and minuscule inflation. By contrast, in Germany and France, unemployment is now at pre-Second World War levels.

The US used to envy Japan, but at this summit Clinton seemed to suggest that Japan would now do well to emulate it. One US official said it was little wonder other nations were looking to the US example in the same way the US recently looked abroad.

The US position centred on the need for economic individualism, free markets, a facilitating regulatory environment and flexible labour markets. But there was little enthusiasm for the US model in either Denver or Amsterdam, and the European press took delight in quoting European "officials", that is the leaders themselves, distancing themselves from the US system.

The main argument for the defence was that although the US appeared to be an unstoppable job-creating machine, it had not even tried to deal effectively with some of the downside effects of the system: poor health services and huge inequalities of income and wealth while other problems appeared to be endemic, like drug abuse and crime.

"How can you emulate a country which incarcerates 2% of its population?" one French official asked. Another said: "They keep telling us how successful their system is, and then they remind us not to stray too far from the hotel at night."

Interestingly, the debate arises at a time when left or left-inclined governments dominate Europe and a two-term Democrat president is in office in the US. Socialist or socialist-inclined governments head nine of the 15 EU member states and participate in four other coalition governments.

The recent victory of the socialists in France was only the latest, but probably most important, change in Europe's political map, with right-inclined governments now controlling only two EU countries — Germany and Spain.

But the idea that a pink wave is washing over Europe is largely discounted, with many commentators pointing out that differences between nominally socialist European governments are large.

To many in the UK, Blair often sounds suspiciously like Margaret Thatcher, with his focus on self-reliance and free markets.

Across the channel, the new French Prime Minister Lionel Jospin's election campaign featured exactly the kind of interventionist style of government that Blair was forced to set his face against in order to beat the Tories.

Another example is the comparison between Portugal, which is adopting strict austerity measures in order to ensure participation in monetary union, and Sweden, which has just announced it will not immediately join.

Debate on the merits of economic systems seems more relevant to left-inclined governments who see their roles more particularly as protectors of citizens. How this is to be achieved is now central to the European agenda.

In the spectrum of European governments, it would be interesting to see where the African National Congress would place itself.

With the ANC's embrace of privatisation, a very independent Reserve Bank and aggressive deficit reduction, it might even be impolitic to ask. Suffice it to say we can expect a very warm relationship to develop between Thabo Mbeki and Blair.

Gear is not magic, but it's working

M+G (BM) 27/6-3/7/97 (49)

Despite criticism of Gear, the strategy is on target and the country should tough it out, Maria Ramos tells

Madeleine Wackernagel

DIRECTOR General of Finance Maria Ramos believes Gear is right on track. "Well she would, wouldn't she," was one cynical response, but to hear her tell it, the government's growth, employment and redistribution strategy is working, albeit slowly.

"We are now at the toughest point. We've taken some of the pain but aren't seeing any glorious numbers, so we're not feeling very good about things. But we need to be patient. We've come a long way and we can't just turn around and say, ok, after a year there's still no miracle, so what else can we try?

"People are starting to take us seriously and believe in our commitment to Gear That's important — and the results are there, in greater foreign direct investment. Even portfolio investment is a sign of improving confidence in the economy."

Maria Ramos: 'People are taking us seriously'
PHOTOGRAPH: COURTESY TML

Business would like to Gear up, labour wants to Gear down, but Ramos insists the pace of implementation is right for South Africa now. "Gear is a very standard framework in other countries undergoing transition But it is also not a magical solution. Other countries might implement at a more dramatic rate but in terms of the constraints facing this country, we believe we're right on target."

More important than the numbers are the trend lines. And they show that although this year was bound to be tough, "a year of consolidation", Gear is working. "We're starting to see some job creation, despite the first-quarter fall in gross domestic product (GDP) numbers. Manufacturing is quite robust and the export sector is expanding.

"Creating a labour-intensive, export-driven economy was not going to happen overnight, but the signs are good," says Ramos.

To those critics of Gear who label it a neo-liberal, conservative growth agenda, Ramos ripostes: "Such criticism is quite misguided. It is nothing but a false promise to say we could spend our way to growth Spend freely for two or three years and you end up with a terrible hangover for the following 10 years, and little to show for it

"Of course we could have taken the easier, populist route and artificially stimulated the economy with deficit spending, but that doesn't bring long-term growth and macro-economic stability So we have to tough it out. Ours is a medium-term strategy — and the benefits don't come in year one "

Would a cut in interest rates not provide a welcome nudge to growth? "For Gear to work, we have to work together That means the government has to make sure it keeps to its Budget deficit targets, while the central bank sticks to its path That's the whole point of having an independent central bank. The Reserve Bank's policy is informed by inflation, which is still a very valid worry."

South Africa has a legacy of double-digit inflation, which hits the poorest and those on fixed incomes hardest. So it is imperative that inflation not be allowed to run rampant. "The high inflation experienced for two decades entrenched apartheid inequalities," says Ramos. And it will take more than a year in single digits to change that.

But, she says, "If we're able to hold the line on the fiscal side and pressure on inflation starts abating, then it would be reasonable to expect a drop in rates. We expect some downward move in a little while "

There is another concern: stimulating demand by dropping interest rates when the economy is already running at near to full capacity would lead to higher demand for imports and thus, a balance of payments crisis, historically another of South Africa's patterns Such a demand-led boom is unsustainable and will not have created more jobs in the long term So, timing is all important "We can't afford to artificially boost the economy without back-up from the export side A balance of payments problem would only mean having to slow down the economy again, at great cost "

Now that even the Reserve Bank has waded into the argument about South Africa's unemployment problem, one school of thought believes a more relaxed monetary policy, with the potential risk of higher inflation, would be worth the trade-off with lower unemployment.

But, says Ramos, 20 years of high inflation didn't have the desired effect on joblessness. And it's not as if we live in a zero inflation environment now either "We haven't fully dealt with inflation properly," says Ramos "It is still significant. And down the line it will be much tougher to make the necessary adjustments; it's a very short-term trade-off."

Gear's ambitious programme

Model characteristics	1996	1997	1998	1999	2000	Average
Fiscal deficit % of GDP	5,1	4,5	4,0	3,5	3,0	4,0
Real bank rate	7,0	6,0	5,0	4,5	3,7	5,2
Real non-gold export growth	9,6	7,5	6,4	5,5	5,3	6,9
Real government investment growth	2,6	2,4	2,2	2,2	2,4	2,4
Average tariff (% of imports)	10,0	9,0	9,0	8,0	8,0	8,8
Results	**1996**	**1997**	**1998**	**1999**	**2000**	**Average**
GDP growth	3,3	2,0	2,5	2,9	3,3	2,8
Inflation (CPI)	8,4	10,9	9,6	9,3	9,1	9,5
Employment growth (Non-agricultural formal)	0,9	1,0	0,8	0,9	1,3	1,0
New jobs per year (000s)	97	101	84	103	134	104
Current account deficit (% of GDP)	1,8	1,3	1,1	1,1	1,6	1,4

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Cosatu 'will not help implement Gear strategy'

Reneé Grawitzky

(44) BD 30/6/97

EMPLOYERS should go ahead on their own to the presidential job summit as the Congress of SA Trade Unions (Cosatu) would not help in implementing government's growth, employment and redistribution (Gear) strategy, federation assistant general secretary Zwelinzima Vavi said at the weekend.

Addressing delegates at the Paper, Printing, Wood and Allied Workers' Union (Ppwawu) national congress, Vavi said employers were calling for the job summit to help implement Gear. Cosatu would not cooperate in implementing Gear and therefore employers "must go ahead on their own to the summit".

He also attacked the National African Federated Chamber of Commerce (Nafcoc) for criticising the federation's demands around the Basic Conditions of Employment Bill. This reflected that capital was capital irrespective of colour.

He said Cosatu also faced serious challenges in view of the African National Congress's endorsement of Gear which was drafted by eight white males.

Cosatu faced tough times if "eight white males are allowed to draft such a fundamental policy and present it as government policy and thereafter the ANC endorses it" without changing anything, Vavi said.

The union was expected to adopt resolutions relating to the alliance, centralised bargaining, training and development, and union investments.

Union president Pasco Dyani said the union had to correct its failure to take members on board regarding investment issues. "If we fail to correct this situation we are inviting trouble from our members."

The issue of investments was a new one and the union entered the discussion mindful of the risks it was taking. It had to reconcile contradictions inherent in investments. It was problematic that "our members are not clear what is taking place".

CAPE ARGUS, FRIDAY, MAY 2, 1997

World Bank set to give SA first loan in 30 years

Manuel sure of approval

(49)

ARG 2/5/97

RICH MKHONDO
FOREIGN SERVICE

Washington – South Africa's loan from the World Bank will be approved at the end of the month, says Finance Minister Trevor Manuel.

He said yesterday: "That loan will be tabled before the executive board of the World Bank at the end of May. This will be the first loan agreement between South Africa and the World Bank in about 30 years. We are sure it will be approved.

"It is a relatively small loan to assist in global competitiveness and job creation projects," Mr Manuel said, without disclosing the amount of the loan.

He and several finance ministry officials, including Director-General Maria Ramos, attended the spring meeting of the World Bank and the International Monetary Fund.

Mr Manuel and his entourage also visited the Chicago Mercantile Exchange (CME) for a series of meetings with exchange officials in preparation for the beginning of futures and options trading on the South African rand on May 7.

Mr Manuel said the products were an indication that South Africa was being truly integrated into the world economy. The exchange would introduce rand futures and options in the CME's Growth and Emerging Markets division, at the same time as the South Africa Futures Exchange (SAFEX) introduced an inverse product.

A dollar/rand futures product was listed recently on FINEX, the financial products division of the New York Cotton Exchange, and traded in New York and Dublin.

"We see South Africa as being a part of the tapestry of the world economy," said CME chairman Jack Sandner, and Mr Manuel added: "The preparations for the introduction of rand futures contracts are a very, very exciting part of this."

He said "We will enter the 21st Century a robust, revitalised, rapidly industrialising powerhouse of the Southern African region."

Is SA geared for development?

MtG 2-8/5/97 (49)

In the fifth part of our series on economic policy, **Asghar Adelzadeh** and **Mathane Lethale** of the National Institute for Economic Policy consider whether government policies have positioned the economy towards job creation, poverty reduction and sustainable growth

THE Growth, Employment and Redistribution strategy's (Gear) success is not going to be based on whether the government meets the deficit target, or whether exchange control is removed or on whether tariff barriers come down.

Instead for most people, it's about whether these and other policies are going to lead to reductions in the unemployment rate, poverty reduction and sustainable economic growth

The government's expenditure and revenue policies are among policy instruments that can potentially play a significant role in achieving the ultimate goals of the Reconstruction and Development Programme (RDP)

But this year's Budget centres around adhering to Gear's specified fiscal policy regime — reduction of the size of the Budget deficit.

Three questions must be raised with this year's Budget.

● Will lower fiscal deficit lead to the ultimate targets of the RDP?

● How is the deficit reduction achieved in the 1997/98 Budget?

● What are some of the implications of this year's Budget?

The first question has been addressed in detail in previous articles of this series. The rest of this article therefore focuses on the last two questions.

From the 1997/98 Budget we are able to make the following observations as they relate to how the deficit reduction is achieved in this year's Budget.

At the national level.

● When one compares this year's revenue to the last, total revenue as percentage of GDP is left unchanged with no significant changes in the composition of revenue.

● In real terms, total government expenditure is expected to decline by 3,48%, from R176,070-billion in 1996/97 to R169,940-billion in 1997/98

● Real deficit reduction of 25,8% (from R30,262 to R22,541-billion) will mainly be achieved through expenditure cuts. In fact, more than 85% of deficit reduction is owing to the cuts in expenditure.

● Cuts in the overall expenditure are mainly secured through significant reductions in capital expenditures

Current expenditure is reduced by R884-million (a reduction of 0,62%), while total capital expenditure is cut by R5,62-billion (a reduction of 33,62% relative to last year's Budget) The share of current expenditure in total expenditure is to increase from 89,5% in 1996/97 to 92,8% in 1997/98.

The share of capital expenditure, on the other hand, is to decrease from 10,5% of total expenditure in 1996/97 to 7,2% in 1997/98. (See note)

● In terms of the budgets of government departments, seven out of the nine main departments have received real cuts in their budgets. The exceptions are the budgets for housing and welfare where their allocations have increased by 133% and 12%, respectively.

Some of the cuts in departmental budgets are severe. For example, budgets for health, land affairs, water affairs, agriculture, transport and education are cuts in real terms by 54,2, 17,8, 17,1, 15,2, 9,3, and 7,9 percentage points respectively. Most other departmental budgets have also been trimmed

At the provincial level, examination of the White Books, presented by each of the provinces on their planned expenditure for the financial year, shows that most will have to tighten their belts too

● Total financial allocations to nine of the provinces, where data were available, has been cut by 3% in real terms. Among the provinces, the Eastern Cape's budget has received the highest cut of 9,9% relative to last year's budget, while the Northern Province budget was cut the least by 1,6%.

Budget cuts of the other provinces fall within this range. Gauteng and the Northern Cape are the only two provinces whose budgets have increased by 4,2% and 1,4% respectively.

● Looking at the budget allocations for five of the provinces, where we have data on their current and capital expenditures for this year and last year, together their budget for capital expenditures has been cut by 14,1% while their overall current expenditure cut amounts to 1,93% relative to the 1996/97 allocations.

In the case of KwaZulu-Natal, while the budget for the current expenditure has increased by 2,55% relative to last year, the overall budget has been cut by 1,58% This is owing to more than one-third cut in the capital expenditure budget.

The situation in Gauteng is different in a sense that the increase in the overall budget for the province of 4,2% is mainly going to a corresponding increase in current expenditure of 5,17%. The figure for the current expenditure growth is higher because the budget for the capital expenditures in the province is reduced by 6,5%

● Interesting observations can also be seen in the composition of budgets for education, transportation, welfare, health, public works, agriculture, and local government

The overall budgets of the nine provinces for education, transportation, public works and local governments have been cut, while allocations for welfare, health and agriculture have increased However, all nine provinces have cut capital expenditures in all the above areas

In terms of education, the allocations for seven provinces have been reduced, save for the North-West and Gauteng. Budgets for transportation of all provinces are cut in real terms, except in the North-West and Western Cape. The health budgets of six out of the nine provinces are cut. In the case of the welfare budget, the budgets of half of the eight provinces have been reduced

Budget allocations for public works are cut for all the nine provinces in real terms. Except for a small rise in the Northern Province's budget for local government and housing, the corresponding budgets for the other eight provinces is also cut significantly

What are some of the implications of this year's Budget?

● Elsewhere in this series concern was raised that the adoption by Gear of a fixed deficit/GDP target as its primary fiscal policy instrument is likely to result in the trimming of public investments than their expansion to a desirable level.

This year's Budget validates this argument where there has been less than 1% cut in the overall current expenditure, while government's capital expenditures has been cut significantly in real terms in order to adhere to Gear's deficit/GDP ratio for this year

If the Budget is an indication, Gear's fiscal strategy that seeks to combine the achievement of a fixed deficit/GDP target ratio with an expansion of public investment levels is prone to disappointment, unless public investment levels are protected by an institutional mechanism that allows them to be planned in conformity with macroeconomic needs instead of short-term budgetary limits.

● Given the relatively larger output and employment multipliers associated with government capital expenditure, the direct and indirect effects of this year's cuts in such expenditures will be a reduction in government contribution to economic growth and employment.

This year's cuts in the main government departments' budgets also raises concern as to whether fostering redistribution through social and infrastructural investment is feasible under the current budgetary constraints and practices

This should be of major concern in the South African context where achievement of sustainable economic growth is not possible without significant improvement in income distribution

● Given that an objective of government policy is to attract higher private investment, a significant cut in government's investment expenditure goes against all cross country evidence that higher public social and infrastructural investment it leads to higher private investment.

Furthermore, since there is no sign of reduction in the interest rate (and there has been more talk of an increase in the rate), it is unclear how the current fiscal policy is expected to attract private investment, even within the Gear framework.

● Elsewhere in this series it has been argued that South Africa is not over-taxed and that a fiscal policy to promote both redistribution and growth needs to increase the progressivity of the tax structure

So far very little has been done in this direction with a result that planned total government revenue relative to GDP remains unchanged, leaving the burden of deficit-reduction policy on expenditure cuts.

The government's role is to create access to social investment for those people inadequately served in the past. The private sector cannot be expected to provide the necessary public goods essential for shared growth.

Free markets consistently fail to provide adequate levels of education, health care, housing, and physical infrastructure, causing unemployment and poverty

These results are derived from a data set where complete allocations of funds between current and capital expenditures were available

Hope for better times: The Budget will be judged on how it reduces poverty

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Sources: Money Management, October 1996. †Planned Savings, October 1996.

CAPE TIMES
★ WEDNESDAY, MAY 7, 1997

Gear, the ANC and business in SA

(49) CT 7/5/97

THE government's macro-economic strategy faces a number of critical challenges in the political and economic arenas, writes Contributing Editor **ANN BERNSTEIN**.

STEELY determination and strong leadership are needed to ensure that the government's macro-economic strategy — Gear (growth, employment and redistribution) — is consistently maintained in all government policies and actions.

Although the strategy has been declared "non-negotiable" by President Mandela and Finance Minister Trevor Manuel, the strength of the leadership required can be seen in the current battle over the Minister of Welfare's decision to cut the subsidy for individual child support in order to spread limited resources more widely throughout the total needy population.

Gear is consistent with the strong international consensus on the efficiency of the market system. Recognising the importance of the globalised world economy, it stresses the need for a market-oriented growth strategy, fiscal discipline and investor confidence.

While not discounting an active redistributive role for the state, it sees job creation through greater labour-market flexibility as the most effective and sustainable means of reducing inequality. The strategy proposes a reduction of the budget deficit from 6% to 3%, financial liberalisation, a programme of privatisation and a 6% annual growth rate projected to generate 400 000 new jobs by the year 2000. The Gear direction is the most viable strategy available to the government.

The major challenges are to develop and implement consistent public policies, build business confidence, deal with organised labour and keep firmly on track.

Gear faces critical challenges in its economic and political environment. It trades off short-term social and political costs against sustained, longer-term delivery.

Economic activity is in a period of cyclical decline, which is unfortunate for Gear's objective of attracting investment. Its success hinges on increased domestic and foreign private-sector investment. The government must create an environment conducive to investment and convince business that it will be maintained for 10 to 20 years.

Gear's hypothetical projections of 400 000 new jobs a year and a growth rate of 6% are probably over-optimistic. Such projections are not predictions; if politicians don't recognise this distinction they might over-react when the projections are not achieved. A government oscillating uncertainly (or seen to be) between Gear and greater populism will create an unattractive environment for investment.

There is a close relationship between economic and political reform. Expect a stop-go element in this process. Economic policy reforms lead to political complications which in turn lead to rethinking the economic policy. Gear has been developed by technocrats generally insensitive to political fallout as the ANC moves away from its past.

Gear is incompatible with the full realisation of many of the policy objectives set out by cabinet ministers and their departments in white papers during the past three years, at least as these were originally envisaged. Line ministries must be brought on board. Sectoral policies must be consistent with the realities of Gear; limits must be built into the programme design and ministries will have to revisit delivery mechanisms especially by exploring private-sector partnerships. Gear will also disrupt objectives previously set out by provincial governments.

Gear has been severely criticised in certain quarters as a decisive move away from the government's proclaimed commitment to the RDP. The much stronger argument is that Gear is a necessary precondition for redistribution through economic growth whereas fiscal redistribution through government spending would be bound to fail, not least because resources are severely limited. Gear is not an attack on the RDP; it is a necessary precondition for the effective implementation of RDP objectives: redistributing opportunities and access to wealth.

The government must ensure that in as many households as possible there should be people who are employed. Policies that raise the costs of employment for employers contradict the principles of Gear and will fundamentally undermine its chances of success. There is strong evidence that a steady job of almost any sort is the decisive factor that enables families to escape from poverty. This will require greater deregulation of all kinds as a matter of urgency. Nevertheless, there is also an urgent need for policies to soften the impact of unemployment over the medium term and to ensure an improvement in social services for people who most need them.

Gear must be driven by a strong champion in the central government. The deputy president's office and the Department of Finance are obvious collaborative candidates. Effective public relations is essential to building confidence. The government has not been effective in publicising its economic successes such as tariff cuts, some exchange-control liberalisation and deregulation in agriculture. South African businesspeople attempting to send positive messages to the international business community are frustrated by an unreceptive environment. Enhancing receptiveness is the task of the government. The positive symbolic and real value of well-managed events to demonstrate the government's commitment to investment-friendly policies cannot be over-estimated.

GEAR CHALLENGE: Trevor Manuel — and President Mandela — have declared the Gear strategy "non-negotiable".

Labour-market flexibility must become a reality; at the moment the momentum is in the other direction. Government and ANC spokespeople need to be far more consistent in the signals they send. The autonomy (almost autarchy) of individual cabinet ministers and senior ANC spokespeople is a problem. A key target group for Gear's success are skilled South Africans currently inclined to emigrate. The government must address crime and make international and local audiences believe that it is committed to doing so. It must recognise that it cannot do everything it wants to do simultaneously. Priorities must be set and phased in.

Gear is a very positive strategic step by the government. It makes real choices. In this regard it is different from the RDP. However, it also leaves gaps, especially in social policy. Business and the government need to set their priorities in relation to Gear. Commitment to Gear and its implications must be strengthened within the government and the ANC. Business leaders must be clear about their objectives, the way in which they will respond to Gear and what support business can and will give within a complex political and socio-economic environment.

It is significant that Gear did not emerge from Nedlac (National Economic Development and Labour Council), but comes out of strong positions adopted by key players. SA's institutional capacity is very weak. This must be confronted, especially in the government, which must develop a clear and coherent vision that is implementable and then act consistently, courageously and with determination even at the risk of unpopularity.

❑ *Ann Bernstein is executive director of the Centre for Development and Enterprise (CDE). This article is based on a newly released CDE publication, Getting into Gear: the assumptions and implications of the macro-economic strategy.*

SA's 'odious debt' dilemma

(49) M&G 9-15/5/97

Colleen Lowe Morna

IN a mood reminiscent of the apartheid divestment campaign, NGOs at home and abroad are out to persuade the new South African government to reject the R300-billion debt it inherited from its predecessors. But the campaign, which is based on precedents of new governments in other parts of the world refusing to pay back loans borrowed by former dictators on grounds that they are "odious debts", is likely to leave the government caught between a rock and a hard place.

Morally, says African National Congress MP Rob Davies, the case made by the NGOs "is unassailable". But, he adds, "I would have to be persuaded that we stand a chance of sustaining a case in an international jurisdiction"; and that such a move would not cost the country even more by pushing up the price of future borrowing.

Over the past month:

■ The Cape Town-based Alternative Information and Development Centre (AIDC), with the support of the NGO Coalition and a number of individual NGOs, made a submission to the Truth and Reconciliation Commission demanding that it organise hearings on the financing of apartheid.

Pointing out that interest payments on debt in the current budget account for R39-billion — the second highest expenditure after education — the NGOs argued that writing off apartheid debt "is the most significant and meaningful step that could be made in making reparations to all victims of apartheid, and not only the minority who were able to make representations to the TRC."

Cancel debts: Executive director of the NGO Coalition, Kumi Naidoo PHOTO MARGARET WALLER

■ Executive Director of the NGO Coalition Kumi Naidoo travelled to the United States and United Kingdom, partly to meet with former anti-apartheid groups, and seek their support in securing the cancellation of foreign debts, which account for R90-billion.

■ Letters have been written by the NGO Coalition to President Nelson Mandela and Finance Minister Trevor Manuel seeking support for the campaign, and requesting a detailed breakdown of South Africa's apartheid debt.

■ Endorsement for the campaign has been obtained from the Anglican and Catholic churches. The campaign is being linked to a global church campaign, called Jubilee 2000, which aims to secure the repudiation of all third world debts by the turn of the century.

■ The AIDC has put together — and will shortly disseminate — a booklet entitled *Challenging Apartheid's Foreign Debt*, explaining the principle of odious debt.

This principle, first employed by the US to repudiate Cuba's debt with Spain after its struggle for independence in 1923, was codified by a Russian lawyer living in France and has been invoked in a variety of cases.

Ironically, the most recent example of a government arguing the case of "odious debt" is Namibia's refusal to pay the R1,3-billion in loans borrowed by the former government there from South African commercial institutions, and guaranteed by the apartheid government. In agreeing to relieve Namibia of the debt, Davies concurs, the new South African government implicitly acknowledged the principle of odious debt.

"But in the case of Namibia we are the creditors. In our own case, we are the debtors." South Africa's foreign debt — about one-third of the total apartheid debt — is owed in up to five different countries. "If the doctrine is used, it is not clear in which legal jurisdiction" the case will be made, and "what chances there are that it will succeed," says Davies.

There is also the strong possibility, he adds, that by challenging repayment of the loans — which are owed to banks and not governments — South Africa could shoot itself in the foot by raising the cost of future borrowing. Because foreign debt is a small percentage of South Africa's export earnings, the country is not regarded as being "debt distressed" in international terms.

The bulk of apartheid domestic debt, according to a spokesperson for the Department of Finance, is owed to pension funds like Sanlam and Old Mutual. Refusal by the government to pay this, she says, will hurt ordinary citizens.

Much of the money borrowed, adds Old Mutual Chief economist David Mohr, "went into funding infrastructure". The effect of tampering with domestic debt, at a time when the government still has a substantial budget deficit to fund, would be to push up the price of future borrowing on the home front as well, he says.

Privately, NGOs recognise that domestic debt is a can of worms that might be better to leave closed — although they argue that even a renegotiation of the terms of the repayment of this debt could make a difference.

They remain optimistic however, that — particularly with renewed fervour among former anti-apartheid groups desperately searching for a new role for themselves — agreements could be reached for the repudiation of foreign debts, loaned by banks in flagrant disregard of international opinion at the time.

The NGO Coalition's Naidoo says, in embarking on the campaign, NGOs are aware of the complexities and "enormous amount of creative energy and resources that will be required to win".

However, he says, what could be gained — in the way of savings that could be ploughed into homes and schools, and awareness raising on crucial economic issues — make it a risk worth taking.

NEWS

Getting into gear rests on government

CT(BR)15/5/97 (49)

Matt Getz

Johannesburg — South Africa would be able to realise its growth potential if the government was shown to be committed to implementing its Growth, Employment and Redistribution plan (Gear), Standard New York, a branch of Standard Bank, said in an economic paper recently.

The paper was written for the New York Cotton Exchange, which last month became the first financial exchange in the world to offer rand-dollar futures contracts.

It said the Gear plan could lift South Africa's annual GDP growth rate to 6 percent, as envisaged, but the consequences of failure could be severe and far-reaching. "If the government fails to move rapidly ... the rand can be expected to depreciate, no matter what the monetary authorities do with interest rates."

It said the hard decisions would have to be taken now, otherwise the IMF might impose stringent structural adjustment plans. Nevertheless, the economy seemed to be progressing steadily and there was enough fundamental strength to give hope for the future.

The economy grew 3,5 percent last year and 3,3 percent the year before. "These relatively low rates of growth are considered to be laying the foundation for sustainable growth," the report said. It said inflation was higher than the Asian tigers, but lower than most of the rest of the developing world, which was a good sign.

The country's success in bringing inflation down over the past decade (it averaged 7,4 percent last year) and the stable acceleration in the growth rate meant that South Africa would probably be able to break out of the boom-bust economic cycle that had plagued it in the past.

The country would be helped to more positive growth by, among other things, its world-class financial sector.

Gear strategy has failed, says Cosatu

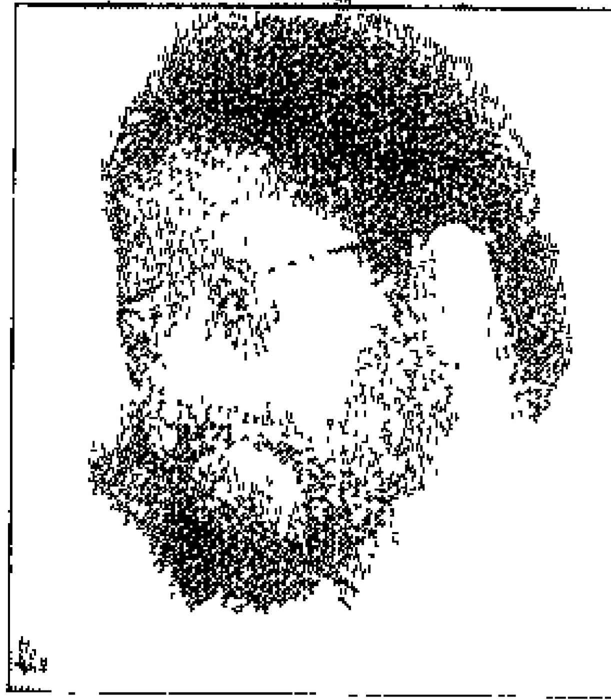
(49) CT(OR) 16/5/97

FRANK NXUMALO

Johannesburg — The government's growth, employment and redistribution (Gear) strategy had already failed, Zwelinzima Vavi, the assistant secretary-general of Cosatu, said yesterday.

Vavi told Cosatu's policy conference on the South African labour market that the federation should devise a strategy "to save our country from an imminent disaster of self-imposed structural adjustment".

"Gear has already failed the test Cosatu set for a macroeconomic policy (regarding) job creation, closing the apartheid inequalities and wealth redistribution."



Zwelinzima Vavi

Vavi said the government had already acknowledged that it would not meet its target on job creation. "If one looks at the Central Statistical Service statistics, there is only one conclusion —instead of job creation there are massive job losses."

He said labour should resist business calls for a more flexible labour market as these amounted to nothing more than the "retention of apartheid in a different form".

Any strategy designed to change the domestic labour market must tackle structural deficiencies introduced by the country's previous dispensation, Vavi said.

He said that structural adjustment of the labour market must include the development of human resources to meet the emerging challenges of the labour market, the adjustment of the significant remuneration gaps between management and labour, and the introduction of a living wage.

He added that workers, as the key producers of wealth and the largest segment of consumers, must reject the "neo-liberal" market theory that had reduced labour to a common commodity to be traded freely.

Vavi also challenged the market theory's advancement of the concept of a "labour elite", as this distorted the real working conditions of the South African working class. "The irony of the labour market is that 63 percent of wage earners fall within the category of the poor."

South Africa is 44th

(130) (49) BD ARG 21/5/97

Johannesburg – South Africa was ranked 44th of 53 countries in the World Economic Forum's 1997 Global Competitiveness Report.

The WEF said South Africa edged out India and Hungary, but trailed Jordan and South American economies, Brazil and Colombia.

The index judged the countries' "recipes" for growth, with open financial markets, corruption-free civil service, superb infrastructure and a highly educated labour force high on the list. Labour market flexibility, technological prowess and contained fiscal deficits were also important criteria.- Sapa

WORLD ECONOMIC FORUM *Foreign executives remain more bullish*

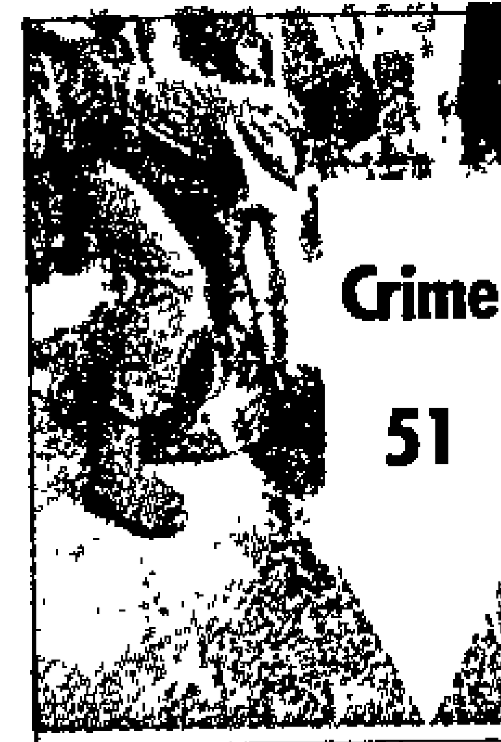
(49) CT 21/5/97

SA's competitiveness takes another dip

JONATHAN ROSENTHAL AND CHRISTO VOLSCHENK

Competitiveness: South Africa versus 53 nations

SOUTH AFRICA		ZIMBABWE	UNITED KINGDOM
Overall ranking	44	51	7
Size of government	17	30	32
Efficiency and competition	20	6	9
Infrastructure	26	53	3
Skills and productivity	52	36	29
Police protection and combating of organised crime	51	32	12



Johannesburg — South Africa has slipped one place to 44th out of the 53 countries ranked in the latest Global Competitiveness Report released by the World Economic Forum yesterday.

But, despite brooding pessimism in this country, foreign business executives seemed to think the South African economy is more competitive than the report ranks it. In an opinion survey in which foreign executives listed countries they thought were most competitive, South Africa came in at 38.

The 44th placing by the World Economic Forum does not reflect an absolute loss of competitiveness, as the report's ranking included four countries for the first time — one of which, the Slovak Republic, slotted in at 35th position, pushing South Africa down a position to 44.

Vietnam, Zimbabwe and Ukraine, the other newcomers, placed at positions 49, 51 and 52.

Russia was judged the least competitive nation for the second year in a row.

Top of the ranking is Singapore, followed by Hong Kong and the United States.

The report ranks countries according to their ability to achieve sustained high rates of growth in GDP per head.

It takes into account 155 criteria, including the openness of an economy to international trade and finance, the quality of infrastructure, technology and business management as well as the flexibility of its labour markets and the role of government.

South Africa's best ranking was 17 for the size of its government. South Africa also scored well in infrastructure, its financial sector and its technology.

But it ranked atrociously in the areas of labour and its institutions, coming last in industrial relations and third from last in the ranking in terms of labour skills and productivity.

The ability of police to safeguard personal security and mitigate the effects on business of organised crime came third from the bottom at 51.

Not surprisingly, Singapore was ranked world first in terms of police protection, and Russia came last.

Gearing up for great challenge

ANC leaders will have to stick to their guns to keep new strategy of growth, employment and redistribution on track

By Ann Bernstein

Steely determination and strong leadership are what is needed to ensure that the Government's macro-economic strategy (GEAR) is consistently maintained in all policies and actions.

Although the strategy has been declared "non-negotiable" by President Nelson Mandela and Finance Minister Trevor Manuel, the strength of the leadership required can be seen in the current battle over the Minister of Welfare Geraldine Fraser-Moleketi's decision to cut the subsidy for individual child support in order to spread limited resources more widely throughout the total needy population.

GEAR (growth, employment and redistribution) is consistent with the strong international consensus on the efficiency of the market system. Recognising the importance of the globalised world economy, it stresses the need for a market-oriented growth strategy, fiscal discipline and investor confidence.

While not discounting an active redistributive role for the state, it sees job creation through greater labour market flexibility as the most effective and sustainable means of reducing inequality. The strategy proposes a reduction of the budget deficit from 6% to 3%, financial liberalisation, a programme of privatisation, and a 6% annual growth rate projected to generate 400 000 new jobs by the year 2000.

There can be little doubt that GEAR is taking the most viable strategy available to the Government. The major challenges are to develop and implement consistent public policies, build business confidence, deal with organised labour and keep firmly on track.

But GEAR faces critical challenges in its economic and political environment. It trades off short-term social and political costs against sustained, long-term delivery.

Economic activity is in a period of cyclical decline which is unfortunate for GEAR's objective of attracting investment. Investor confidence is a key variable. The success of GEAR hinges on increased private sector investment, both domestic and foreign. However, surveys show that perceptions among businessmen are currently negative.

Perceptions among businessmen are negative

The Government must not only create an environment conducive to investment but convince business that this will be maintained for 10 to 20 years. GEAR's hypothetical projections of 400 000 new jobs per annum and a growth rate of 6% are probably over-optimistic. It is important to bear in mind that such projections are not predictions, but if politicians don't recognise this distinction they might overreact when the projections are not achieved. A government oscillating uncertainly (or seen to be) between GEAR and greater populism will create an unattractive environment for investment.

There is a close relationship between economic and political reform. Economic policy reforms lead to political complications, which in turn lead to rethinking the economic policy. GEAR has been developed by technocrats generally insensitive to political fallout as the ANC moves away from its past.

It is incompatible with the full realisation of many of the policy objectives set out by cabinet ministers and their departments in white papers during the past three years, at least as these were originally envisaged.

If GEAR is to work, all line ministries must be brought on board. Currently, links between GEAR and the ministries appear to be weak. This must be remedied. Sectoral policies must be consistent with the realities of GEAR; limits must be built into programme design and ministries will have to revisit delivery mechanisms especially by exploring private sector partnerships.

GEAR will also disrupt objectives previously set out by local governments. It has been severely criticised in certain quarters as a decisive move away from the Government's proclaimed commitment to the Reconstruction and Development Programme (RDP).

The much stronger argument is that GEAR is a necessary precondition for redistribution through economic growth – inevitably a long-term strategy, with a 20-year horizon – whereas fiscal redistribution through government spending, would be bound to fail dismally, not least because resources are severely limited.

GEAR is not an attack on the RDP, but a necessary precondition for the effective implementation of RDP objectives – redistributing opportunities and thereby access to wealth.

The Government must ensure that in as many households as possible there should be people who are employed. Policies that raise the costs of employment for employers contradict the principles of GEAR and will fundamentally undermine its chances of success.

There is strong evidence that a steady job of almost any sort is the decisive factor which enables families to escape from deep poverty. This will require much greater deregulation of all kinds as a matter of urgency. Nevertheless there is also an urgent need for policies to soften the impact of unemployment over the medium term and to ensure an improvement in social services for those people who most need them. Improvements in the efficiency and quality of social service delivery would amount to the equivalent of a massive injection of resources, greater even than under the most populist expenditure programme.

GEAR needs to be driven by a strong champion in central Government. Deputy President Thabo Mbeki's office and the Department of Finance are obvious candidates to take on this role in close collaboration with each other.

Effective public relations is essential to building confidence. This needs urgent attention. The Government has not been effective in publicising its economic successes such as tariff cuts, some exchange control liberalisation and deregulation in agriculture. South African businessmen attempting to send positive messages to the international community are frustrated by an unreceptive environment.

Enhancing receptiveness is the task of the Government. The positive symbolic, and real value of well managed events to demonstrate the Government's commitment to investment-friendly policies cannot be over-estimated. For example: at least one large privatisation, and/or an irrevocable commitment not to raise company taxes.

Government must set and phase in priorities

Investor confidence is only one element in a wider process of confidence-building. This requires consistent policies and government actions.

Labour-market flexibility – essential to GEAR's success – needs to become a reality. At the moment the momentum is in the other direction. The Government and ANC spokesmen need to be more consistent in the signals they send.

A key target group for GEAR's success is skilled South Africans inclined to emigrate, rationalising this in terms of crime, declining education and health facilities and affirmative action. The Government must address crime and make local audiences believe it is committed to doing so.

It must recognise that it cannot do everything it wants to simultaneously. Priorities must be set and phased. The Government must project a firm centre of gravity, which will help to increase predictability. The effects of GEAR in the short term will make it an unpopular policy. Therefore the leadership of the ANC will need to dig in its heels. A much greater awareness of the political vulnerability of economic reform is required, but this must be balanced by the reality that the ANC has no significant political competitor now or anywhere in sight.

GEAR is a positive strategic step by the Government. It makes real choices. Commitment to GEAR and its implications must be strengthened within the Government.

Business leaders must be clear about their strategic objectives, the way in which they will respond to GEAR and what support they will give.

Above all, leadership will be crucial to GEAR's success, which in turn is critical for SA.

■ Ann Bernstein is executive director of the Centre for Development and Enterprise. This article is based on a newly released CDE publication, *Getting into Gear: the assumptions and implications of the macro-economic strategy*

Star 22/5/97

(49)

Nedlac summit 'likely to focus on Gear strategy'

(49)

Shareen Singh

GOVERNMENT's macroeconomic policy is likely to be the subject of intensedebate at tomorrow's National Economic Development and Labour Council (Nedlac) summit, with business wanting speedy implementation and labour still opposing the strategy.

It would be hard to have a tripartite summit without referring to the Growth, Employment and Redistribution (Gear) strategy, a business source said. The key issue would be the implementation of Gear, now that it was government policy, but labour's opposition to the strategy could spark further debate. Business would like to see a narrowing of the divide on the issue.

"It is in both labour and business' interests to assist in its (Gear) implementation and we hope Nedlac will be able to play a constructive role in this respect," he said.

He also hoped some consensus would emerge on employment creation. "The summit would in a sense be a teaser to the planned jobs summit. We would be able to determine from discussions on employment whether or not a jobs summit would be successful."

A labour representative said it was natural discussions would focus on Gear. "We have made our position very clear. There is no way that labour can participate in the implementation of a strategy it has fundamental difficulties with." The formulation of Gear had bypassed Nedlac and that was "unfortunate", and it raised questions about the existence of Nedlac as a consensus-seeking institution.

However, the business source said the key issue in assessing the success or failure of Nedlac lay in asking "what would the situation be if we did not have a consensus-seeking mechanism in a period of difficult transition?"

Nedlac executive director Jayendra Naidoo said the aim of the summit was to reflect on the institution and determine its strategic agenda. "We would want the commissions to raise questions which can then be channelled to the Nedlac chambers as strategic policy issues for further discussion."

He did not expect major policy decisions to emerge from the summit.

BD 23/5/97

See Page 5

SA ranks 50th in economic freedom

(49) CT(BR) 28/5/97

NANCY MYBURGH

Johannesburg — While South Africa is becoming a freer society, it still ranks 50th out of 115 countries in terms of general economic freedom, according to the publication, Economic Freedom of the World, 1997 annual report, published by the Fraser Institute, the Canadian research organisation.

The book's 1997 edition was launched worldwide this week. It measures countries' economic freedom in terms of an index taking into account their main economic and social policies. It was developed with the advice of, among others, Nobel laureates Milton Freidman, Gary Becker and Douglass North. The authors are economists James Gwartney and Robert Lawson.

Over the past two decades, South Africa's freedom rating has moved from 3,8 out of 10 in 1985 to 5,7 now. "While South Africa's economic freedom rating has increased ... its ranking continues to place it in the middle range among the countries in our study," Gwartney and Lawson said.

Heavy government consumption expenditure, state-owned enterprises in many sectors of the economy and a shadow on the security of property rights, thanks to a history of political instability, have all pulled the country's rating down, they said.

But "there have been some encouraging developments. Interest and exchange rate controls have been liberalised. The top marginal tax rate was reduced from 60 percent in 1980 to 40 percent in 1985 (before climbing back to a 43 percent rate in 1995).

"Conscription was abolished in 1994. Most recently, legislation permitting citizens to maintain foreign currency bank accounts ... was approved," they said.

Though the publication comes out as an annual report each year, so far its four categories of rankings cover the period from 1975 to 1995.

"A move of just one point (in any of the ranking categories) is a major improvement in terms of this study," said Eustace Davie, a director of the Free Market Foundation, the domestic policy institute, a distributor of the publication.

According to Gwartney and Lawson, South Africa has not made a full-point improvement in its money and inflation category, rising from 3,2 out of 10 in 1975 to 3,9 in 1995, based on its ability to contain annual money growth, at least stabilise inflation, and allow residents to hold foreign currency deposits.

But the other three categories have made striking improvements. The category of government operation, which includes government consumption as a percentage of total consumption, paring down state enterprises, reducing price controls and barriers to entry into business, has had a jump from 4,5 to 5,8 in the past two decades.

The international sector category, including the reduction of taxes on international trade and size of the trade sector as a percentage of GDP, has improved nearly 4 points, from 6 in 1975 to 9,9 — almost a 10 — in 1995.

But the biggest improvement has come in the area called "takings", or, roughly, the government's propensity to appropriate money from the private sector, either through subsidies as a percentage of GDP, or taxation. That category went from a lowly 0,8 out of 10 in 1975 to 5,6 in 1995.

Negative growth rate for SA

BUSINESS EDITOR ARG 30/5/97

Pretoria – The economy lost ground in the first quarter of the year, official figures show, recording a negative growth rate of 0,8% a year in Gross Domestic Product (GDP).

This compares to an annual rate of growth of 3,3% in the last quarter of last year. (49)

The Central Statistical Service figures show the poor performance of the economy was mostly due to a decline of 34% a year in agricultural production.

If agriculture is excluded, GDP growth in the first quarter of the year was 1,4 %.

Big boost for township economies

By Bongiwe Mlangeni

A multimillion-rand project aimed at building and strengthening the economies of disadvantaged communities was officially launched at the weekend.

The project will attempt to see community-driven factories mushroom in townships which have a high rate of unemployment and are economically weak.

Speaking at the launch in East London, Deputy Minister of Trade and Industry Phumzile Mlambo-Ngcuka said the local industrial-park initiative would promote the small, medium and micro enterprise (SMME) sector in rural and urban areas.

The United Nations Development Programme has pledged R23-million to boost the initiative.

The project is driven by the Ministry of Trade and Industry through Ntsika, a government company formed to promote SMMEs.

Townships in the Western Cape, Eastern Cape and Free State already view the project as a solution to unemployment.

Residents of Guguletu in Cape Town were among the first to make use of the assistance provided to emerging entrepreneurs.

They will soon be opening a factory in the area to provide building materials and cheaper housing for the community.

Other areas making progress include Emonti in East London and Welkom in the Free State.

Guguletu community spokesman Bulelwa Belu-Toni said the first show house had been approved by residents.

"Our area is covered with shacks. So we have created a model that suits the needs of our people at no more than R15 000. Providing housing will be our main product," she said.

Close to R3-million has been donated to the Guguletu project.

The success of the project, however, relied largely on the willingness of big businesses to support local emerging entrepreneurs, Mlambo-Ngcuka added.

Companies such as Mercedes-Benz and Anglo American have already donated land for the factories. They have also shown an interest in providing training for residents.

(49) Star 1/4/97

MAIL & GUARDIAN
April 4 to 10 1997

Five steps to sound industrial strategy

In the first of a series of articles on economic policy, **Asghar Adelzadeh** of the National Institute for Economic Policy looks at industrial development

South Africa's industrial development has been and remains deficient, with serious problems: a lack of capacity in intermediate and capital goods, an aged capital stock, reflecting limited investment in the past; declining shares in critical world markets for manufactured exports; a lack of integration across sectors, limited skills and employment opportunities for the workforce, complemented by poorly trained and inadequate management; a highly concentrated pattern of corporate ownership that straddles the economy as a whole and not just industry, an institutional structure and governance that continues to reflect the economic and industrial imperatives of the past; and a highly skewed distribution of economic and industrial activity within South Africa and across the region as a whole.

In addition, inadequate finance for industry, co-ordination of investment across sectors, formulation, implementation and monitoring of sectoral strategies, and co-ordination across government departments and other agencies raise concern, as do corporate strategies inconsistent with the policies required for industrial reconstruction, and macro-economic policy that is unduly influenced by short-term financial rather than longer-term economic imperatives.

Specifying the scope and content of industrial policy is extremely difficult. Almost any economic policy of any significance is liable to affect industrial performance and, consequently, can be considered to constitute a component of industrial policy. Even those who would seek to minimise the role of industrial policy, in preference to favouring the market and avoiding state intervention, can be interpreted as adopting an industrial policy of a particular type.

Moreover, the sensitivity of industrial performance to a range of influences means that policies that directly or indirectly affect research and development, training and skills, regional distribution of economic activity, for example, also qualify, at least in principle, as industrial policies. Such side effects are, for example, especially important in the case of macro-economic policy, industrial relations and labour market policies.

The weakness of the government's position stands out sharply in its macro-economic policy

As a result, it is necessary neither to take a fixed nor a limited view of what constitutes industrial policy even though this has happened traditionally in South Africa as elsewhere.

In formulating an industrial strategy, the following should be given the highest priority:

Role of Investment: Through a variety of overlapping mechanisms — for example scale economies, externalities, economic linkages, spill-over effects, learning by doing, research and development, education and training, evolving entrepreneurship — investment and growth have the potential to be self-sustaining and mutually reinforcing.

From the perspective of industrial policy and the central role to be played by investment, the weakness of the government's position stands out sharply in its macro-economic policy, especially the growth, employment and redistribution [Gear] strategy.

While it should be commended for emphasising the need to raise and sustain the level of investment, it is sorely deficient because the strategy is heavily oriented to improving business confidence, and is overly optimistic with respect to the responsiveness of investment to the strategy. This is hardly surprising given that the main orientation of Gear is to hit macro-economic targets, such as the fiscal deficit, with an implicit presumption that doing so will suffice to induce appropriate levels of effective investment.

Role of Finance: One of the key issues in determining investment is the role played by the financial institutions in mobilising and deploying funds. International evidence suggests that the nature of a financial system is crucial in determining the levels, composition and effectiveness of investment. The South African financial system is generally acknowledged to be deficient in promoting appropriate industrial investment and policy. Serious consideration must be given to relations between finance and industry. An investigation into industrial policy should be undertaken with a particular emphasis upon the role played by finance for industrial investment.

Among issues to be investigated are the past, present and prospective sources of finance for investment and the institutional arrangements governing the relations between finance and industry, covering both macro-economic and micro-economic issues, distinguishing between different sectors and enterprise scale and type of ownership.

Role of Foreign Investment. Also to be explicitly addressed is the role played by direct foreign investment, drawing upon best practice in assessing the net socio-economic impact of such investment. There should be no presumption that the overall impact will be significant relative to what needs to be provided from domestic resources, and investments need to be carefully assessed in the light of sectorally specific circumstances and outcomes. An undue courting of direct foreign investment will be damaging to policy making more generally, and will engender support for policies that could even weaken investment from domestic resources.

Role of Trade Policy: Policy makers have in general pursued trade liberalisation beyond the level even required by the Uruguay Round of the General Agreement on Tariffs and Trade. This is despite the negative impact on some industries, and the failure to formulate and put adequate supply side policies in place before liberalisation.

The justification for, and impact of, trade liberalisation has rested to a large extent on the calculation of effective rates of protection. These are, however, ill-founded conceptually in how they have been calculated, and as a guide to policy in their imputed effects.

In particular, they take no account of dynamic and static economies of scale and scope, excess capacity, capital-labour intensity, market structure, presence of multi-nationals, skill requirements of the labour force and management, developments in world markets, product differentiation and quality, commercial risk, age structure of capital stock, the differential impact of non-tradeables, and the substitution between capital and labour in production in response to changing input prices.

Rather than assessing trade independently of industrial policy, the two must be integrated, with neither logical nor sequential priority attached to trade policy. Exactly the opposite is happening in South Africa. The process of dismantling protection preceded the election of the ANC government and is to gather momentum under Gear.

It is essential that appropriate sectoral industrial strategies are put in place, insisting upon co-operation from large business if necessary, prior to any further trade liberalisation.

Implementation and Monitoring: As important as the formulation of policy is how it will be implemented and monitored. The choice of particular policies does not guarantee that they will be adopted at all nor in the way in which it was intended.

In addition, policy can never be specified in complete detail so there is always flexibility in interpretation and in practice. Who participates in the implementation of policy and how thus becomes crucial. Clearly, government will play a major role in general but its role will depend upon the institutions with which it works, the capacity of those institutions and their staff, and the way policy is put into effect.

Ideally, implementation and monitoring of policy should overlap considerably. One particular role that can be played by monitoring is in ensuring that broader goals are targeted and achieved whenever government intervenes through industrial or other policy. In the context of contract compliance, for example, government as a major customer of industry can impose a number of conditions on its suppliers in order to implement and monitor policy, over and above the traditional concerns of price, quality and delivery time.

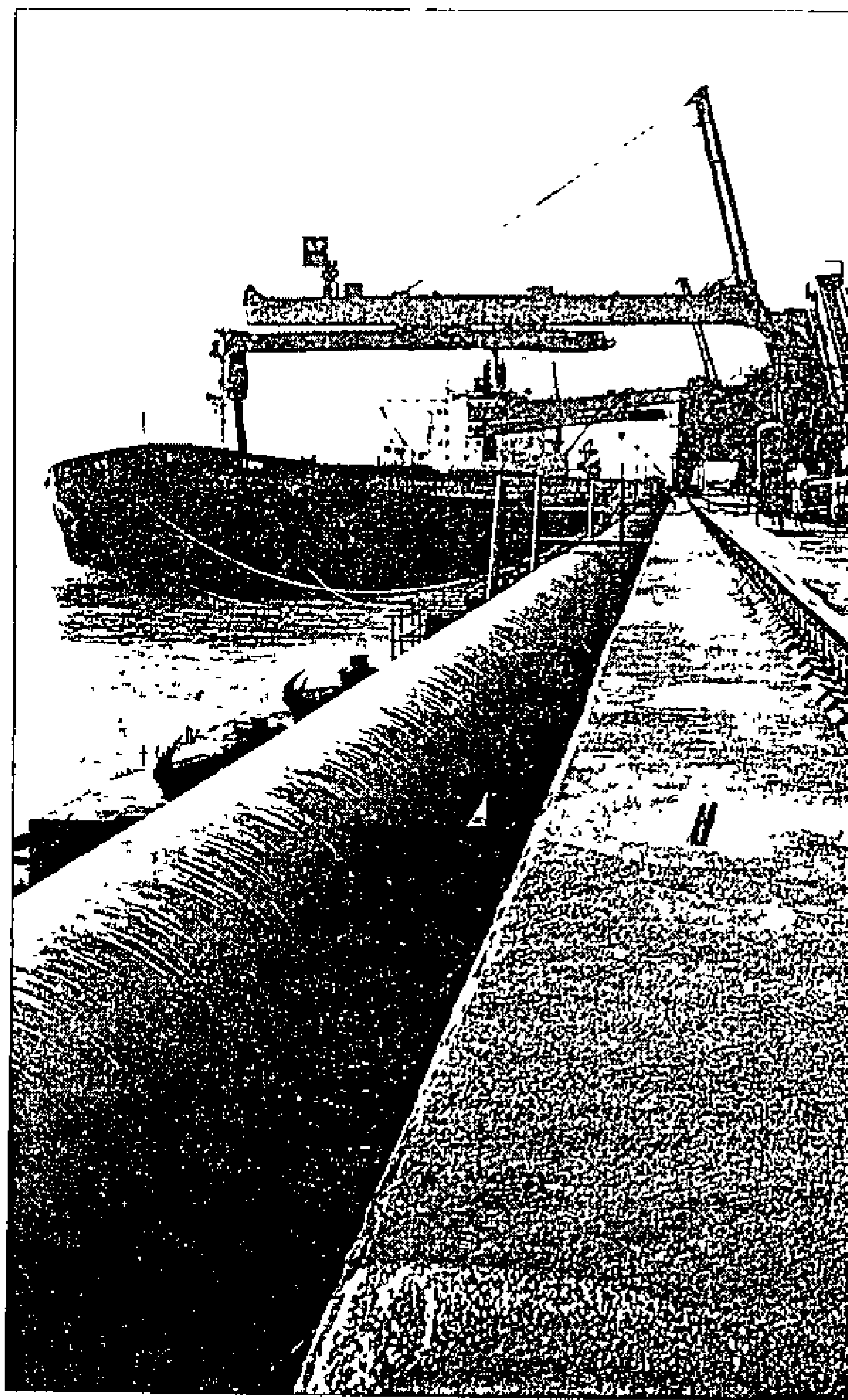
Contracts may usefully incorporate requirements on the development of education and skills, security of employment, the development and sharing of technology, affirmative action, and observance of general government policy and specific sectoral policy, such as export targeting.

Some of the above issues are already high on the government's agenda but others are not. Even where they are high on the agenda, sufficient attention is not always paid to their impact on industrial policy. Moreover, too great an emphasis has been placed on less important determinants of a successful industrial policy, such as promoting a spurious business confidence, privatisation and mega-projects.

In short, there is a need for an industrial policy that gives top priority to the above issues and ensures that efficient, effective and equitable policies are adopted within the context of larger objectives of meeting basic needs, generation of employment, education and training.

South Africa could itself take a lead in the formulation of a new agenda for industrial policy to its own benefit as well as to the advantage of other developing countries, especially those in Africa which have been least affected in practice by the new currents in development policy.

This is based on a paper commissioned by the National Institute for Economic Policy from Professor Ben Fine of the School of Oriental and African Studies, University of London



Terms of trade: Liberalisation has had a negative effect on some industries
PHOTOGRAPH: KAREN HARVERSON

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'Sweeping reform' the only way, Swiss tell SA

Structural changes and investment-friendly policies are advocated for economic growth, writes MARCIA KLEIN

ST(BT) 13/4/97 (49)

FOR South Africa to achieve sustained growth above 3%, "nothing less than sweeping structural changes, supported by an unambiguous, investment-friendly policy environment" is required, says the Union Bank of Switzerland.

UBS, which was partly responsible for starting the run on the rand last year with its report that the currency was overvalued, has researched 50 emerging market countries, including Croatia, Hong Kong, India, Pakistan, Taiwan, Vietnam and Zimbabwe.

Its latest report says: "While the country's ability to achieve growth of 6% by 2000 is debatable, it is reasonable to expect higher growth rates in the years ahead as a result of an improving policy environment, a more open economy and greater political stability." But growth could be hampered by the legacy of the past, the cost of the transition process, crime and the flight of skills.

The reports says emerging markets have been growing at about 6% a year for the last 10 years — considerably faster than traditional industrial economies which have grown at about 3%.

They have received sizeable net capital inflows and many have witnessed rapid financial market development. The growth differential with the rest of the world has entailed "dramatic" shifts in world output, with emerging markets' share of world output growing rapidly to half of global GDP.

Most have lowered inflation and improved their public finances but have widening current account deficits, increasing the need for foreign capital.

UBS says sub-Saharan Africa "has been the only continent which has not yet shared in the growth of the 1990s, and this is unlikely to change in the near future". But South Africa has better prospects — although its recent economic reforms "have not been particularly noteworthy in an international context" and it lags behind other emerging markets in terms of the adoption of liberalisation measures.

Tough foreign exchange restrictions, no major privatisation drive and a rigid labour market "are reminiscent of Britain in the 1970s", the report says. These, together with crime and political uncertainties, are obstacles to investment in the medium term.

But the government has reduced import tariffs faster than required by GATT, and has committed itself to privatisation and equity partnerships and to a budget deficit of 3% of GDP by 1999.

South Africa's savings rate of 17% is at a record low, but the macro-economic strategy aims to cut government's dissavings and boost the level of private savings to push the overall savings rate closer to 22%. Even with a savings rate of 22%, the country will require capital inflows equivalent to about 2%-3% of GDP to finance the shortfall in its projected investment requirements. "This has been the country's Achilles heel for much of the last decade," the report says.

At about 24% of GDP in 1995, South Africa's level of foreign indebtedness "compares very favourably with many other emerging market countries", meaning that given the right macro-economic framework, SA foreign borrowings could be increased.

● A report commissioned by international communications company Burson-Marsteller says Russia is widely tipped to be the best performing emerging market in 1997.

It says apart from South Africa, markets in sub-Saharan Africa "remain of little interest to most institutions". Investors see corporate governance, shareholder value and the rights of minority shareholders as a low priority for emerging markets.

The report says most global investors are cautiously optimistic about South Africa's equity markets and economy. But cross-shareholdings and tight exchange controls "remain the major obstacle". Relatively low growth rates also thwart investment. Crime is seen to hamper direct, not portfolio, investment.

BASIC COUNTRY INDICATORS - 1996

	Population in millions	GDP in US$bn	GDP per capita US$	GDP growth %	Foreign debt % of GDP (end 10/96)
China	1 234	773	670	9.6	13.5
Malaysia	20 2	96	4 638	8.3	51.5
Chile	14.4	74	5 140	6.5	29.4
Mexico	96.6	300	3 106	4.9	58.3
Czech Rep.	10.3	54	5 189	4.3	33.6
Poland	38.7	130	3 353	5.0	34.6
Kazakstan	16.3	22	1 397	1.0	20.2
Russia	146.3	476	3 305	-6.0	23.9
Greece	10.6	121	11 624	2.2	22.1
Egypt	60.1	68	1 123	4.0	42.3
Saudi Arabia	19	135	7 106	1.8	18.7
Kenya	31.5	9	290	4.8	86.6
South Africa	42	126	3 052	3.0	25.2

Graphic FIONA KRISCH

Source UNION BANK OF SWITZERLAND

Gear not a failure, but danger signs flickering

ARG 16/4/97 (49)

Concerns are being expressed in various quarters about the apparent failure of the Government's Growth, Employment and Redistribution (Gear) strategy to get off the ground. I do not share these concerns. It is too soon to expect visible signs of success.

THE MIDWEEK

OCKIE STUART

But, it would be foolish not to take note of the danger signs and to warn the Government against the emerging perception that it is failing to deliver the goods.

The key growth drivers in Gear are fixed investment and vigorous growth in exports other than gold. If these are threatened, Gear is undoubtedly going to come under pressure.

Last year, South Africa managed to improve its export performance substantially in what was, according to a World Trade Organisation (WTO) report , a sluggish year for world trade. This year, the WTO predicts an increase in world trade, so South Africa's exports should do better.

As far as fixed investment is concerned, though, red lights are flickering. The country is not as investor-friendly as it should be. Interest rates are too high, inflation is threatening to become a bit of a problem and tax rates are too high. And a factor which could dampen fixed investment considerably is the high crime rate.

Finance Minister Trevor Manuel based his Budget on an economic growth rate of 2,5 percent this year, while Reserve Bank governor Chris Stals is on record as saying that 3 percent is on. Both predictions are close to the Gear projection of 2,9 percent.

As far as I am concerned, a growth rate of 3 percent in Gross Domestic Product this year seems to be attainable. Merchandise exports should do better than last year and imports are likely to increase at a slower rate than in the past.

Growth in Gross Domestic Expenditure (GDE) is likely to be similar in real terms to that of last year. Consumer spending, the main ingredient of GDE, is likely to be more sluggish than last year because of high interest rates and inflation, but not much more because job creation and a reduction in the tax rate of some income groups will offset these negative factors.

Government consumption spending is budgeted to post much lower growth than last year.

Real gross domestic fixed investment should increase moderately, especially in response to measures aimed at promoting manufacturing.

Thus there are factors – the high crime rate in particular – which could threaten the Gear strategy if they are not addressed properly. But all in all, the medium-term outlook is good.

The macro-economic and fiscal framework which is in place is sound.

■ *Ockie Stuart is the director of the Stellenbosch Bureau for Economic Research*

IMF outlook on SA gloomy

BD 24/4/97 (49)

Simon Barber

WASHINGTON — SA will turn in a disappointing 2,1% growth rate this year with inflation hitting 10,1%, the International Monetary Fund (IMF) predicted in its latest World Economic Outlook (WEO).

Athough the government's commitment to fiscal responsibility and structural reform "is gaining increasing credibility" among investors, "efforts to stabilise the economy and remaining uncertainties are likely to constrain the pace of growth in the near term."

The forecast follows SA's failure to live up to expectations last year. In the previous World Economic Outlook, released last September, the fund projected a 4% growth rate for last year. The actual figure was 3,1%.

In line with its less optimistic projections for this year — given SA's historical propensity to import growth — the IMF sees SA's current account deficit shrinking to 1,1% of GDP, from 1,6% last year. Earlier, the Fund had projected a figure of 2,5% for this year.

The IMF remains supportive of government's economic strategy and urges it to stay the course. It was noted that the rand had come under renewed pressure in October, after the last WEO, due to "concerns about higher inflation and disappointment with progress toward the macroeconomic plan announced earlier in the year."

Further depreciation had been resisted by an interest rate hike, and the currency had now "rebounded somewhat".

About Africa as a whole, the IMF was upbeat. Continent-wide, real gross domestic product (GDP) growth reached 5%, the strongest rate in 20 years, and nearly double the average rate recorded since the early 70s.

"There are signs that the implementation of stronger macroeconomic and structural policies and improvements in governance have begun to produce higher growth in an increasing numbers of countries."

The performance was said to reflect "strong activity" in the primary products sector, especially agriculture, but also, in some cases, manufacturing.

Worldwide, the IMF said conditions were "propitious" for continued expansion this year and beyond. "There are few signs of the tensions and imbalances that usually foreshadow significant downturns in the business cycle."

Global inflation was subdued, as governments appeared more committed to price stability than at any time since the war.

Budget deficits were under "increasingly determined" attack in many countries, helping to keep long-term real interest rates in check while encouraging savings and investment.

Worries included continued high unemployment in many EU countries. This, combined with weak growth, could make it difficult for members to meet the fiscal deficit targets set under the monetary union plan.

That "could affect expectations about the likelihood of the project going ahead on time and lead to turbulence in financial markets".

The recent stalling of bullish equity markets in the US and other countries might portend a significant correction, especially if earnings expectations started to diminish and inflation fears required a "marked" rise in interest rates.

However, "in contrast the run-up in asset prices in the late 1980s, especially in Japan but also in the US and several other countries, a generalised overvaluation of asset prices, leverage by increased indebtedness, does not appear to be present in most countries with strong stock markets".

Govt criticised for slow pace of budget shake-up

(49) BD 25/3/97

Tim Cohen

CAPE TOWN — The parliamentary finance committee yesterday approved the 1997/98 budget, but harshly criticised government for dragging its feet on reforming the process by which the budget is drawn up.

Following a week of hearings, the committee noted in its report on the budget to Parliament that government had firmly committed itself to reforming the budget process. But it said the slow pace of implementation was "a matter of extreme concern to this committee".

It noted that several submissions expressed strong dissatisfaction with the slow progress on this issue, including the Financial and Fiscal Commission which expressed its concern that its work was still not integrated into the budget cycle.

"Some organisations argued that there was no place for their inputs, a situation worsened by Parliament's inability to influence the budget," the report said.

The report suggested a lack of budget reform could hamper the implementation of a host of different aims of government, including improved fiscal relations between national and provincial governments and public sector reform.

On public sector reform, the committee noted that the growth, employment and redistribution (Gear) strategy called for the reduction of the ratio of government consumption expenditure as a proportion of gross domestic product. While Gear called for a government consumption expenditure ratio of 20% in 1996, declining to 18% in 2000, in fact government consumption expenditure had increased to 21% in 1996.

On the reprioritisation of spending, the committee noted that it would be possible to pass judgment only once the provincial budget had been tabled, but supported the general direction of the budget's expenditure proposals.

On job creation, the committee noted that while the total as well as labour productivity had shown encouraging improvement, capital productivity remained stagnant, primarily due to the high level of real interest rates. "A further concern in relation to productivity enhancement is a perception of the continuing failure of the private sector to significantly raise spending on training."

"While government had to improve the quality of output on its education and training spend, the private sector must — as a critical component of the new patriotism — increase the quantum and quality of its spending in this area"

Referring to a call by the Congress of SA Trade Unions (Cosatu) for the resignation of state expenditure director-general Hannes Smit, the committee said it was "unfortunate" an official was singled out, saying it did not share Cosatu's view.

African economic difference

(49) (B) Sowetan 25/4/97

By Steven Moti

EASTERN and Southern African states are set to harmonise their financial practices with those of international standards following the International Accounting Standards Committee meeting held in South Africa this week.

The meeting, held by representatives of the Eastern, Central and Southern African Federation of Accountants (ECSAFA) under the auspices of the South African Institute of Chartered Accountants (SAICA), was to enable ECSAFA delegates to interact with IASC members in order to stimulate economies in the region.

Chief executive of ECSAFA Ken Mockler says, "With regard to standards relating to accounting, auditing, and ethics in Africa, the differences between the standards of the individual countries and international standards have been codified.

"While it has been established that the differences are not great, each country is to inform ECSAFA of its intended course of action to close the gap and ensure that it complies with international standards."

Also identified by ECSAFA as requiring harmonisation are corporate law and education.

Another key topic covered at the meeting was the progress of Competency Based Education & Training (CBET).

"The value of the Technician Accountant is currently being promoted amongst ECSAFA countries," says Mockler.

The Director
South Afric
Research

Call for more data on SA's borrowing

BD 29/4/97 (49)

Simon Barber

WASHINGTON — Government needed to publish detailed, up-to-date data on SA's foreign borrowing, the Institute for International Finance (IIF) said in a review of financial statistics of the 28 biggest emerging markets.

The quality, detail and timeliness of economic data was "an important means of sustaining private capital flows to emerging market economies and reducing the risk of sovereign financial crises", the IIF, a global association of financial institutions, said.

SA's balance of payments and external debt "lack sufficient details on creditor category", the institute said. It found that data on equity transactions, itemising foreign direct investment and portfolio flows, was "sparse". Further details of when external debt was due would also be helpful. "Detailed amortisation schedules by creditor are not available," the IIF said.

In the IIF's view, countries should publish external asset and debt figures quarterly, and these should be no more that 12 weeks old. SA published this data semi-annually, releasing information that was 24 weeks out of date at the time of publication.

The IMF had established a data dissemination standard, to which SA subscribed. The IIF's standards are tougher than the IMF's.

Slow rise of the rand

Sowetan 10/3/97 (49)

Although SA's economy seems to be on the recovery, the economic picture is not entirely rosy. Only an annual growth rate of six percent can combat unemployment...

A YEAR AGO, South Africans watched in despair as their economy appeared to crumble. Output in both the mining and manufacturing sectors was shrinking.

The rand plunged 6% against the dollar in just one day in February. Foreign capital began to flee. Foreign currency reserves, already minuscule, were nearly depleted.

Thanks chiefly to the rand's collapse – it lost 22% against the dollar by the year-end – the Johannesburg stockmarket in 1996 was among the four worst-performing emerging-country markets in the world.

One year later, sentiment could hardly be more different The stockmarket surged to successive records in February. The rand has gained 5% since the start of the year.

While most private forecasters are projecting that the economy will grow only by about 2,5% this year, Chris Stals, the governor of the Reserve Bank, contends that those predictions are far too gloomy.

A real turnaround seems to be under way. The rand's fall last year is the greatest cause for optimism. At the start of 1996, it was undoubtedly overvalued.

On the back of strong capital inflows following the 1994 general election, it had held fairly stable against the dollar despite an inflation rate three times that of America's.

As a result, the country was becoming expensive for foreign investors and South African exporters were struggling.

By last October the cheaper rand began to off-set and rectify those problems. Exporters finally began to take advantage of their new competitiveness as foreign sales of chemicals and metals took off.

In the fourth quarter of 1996, the hitherto contracting manufacturing sector inched up 2,2% on the same period a year earlier. Thanks to improved exports, the annualised current account deficit fell to below R5 billion rands in the fourth quarter, from a peak of about R15 billion in the second.

The trend is continuing – exports in January this year surged 50% on the same month in 1996. Over the past 12 months South Africa has booked a trade surplus of R10 billion.

Why, then, do this year's economic growth forecasts look no better, and on some estimates worse, than last year's 3,1%? The mediocre forecasts mask a genuine comeback in the non-agricultural economy.

Last year's growth was achieved chiefly thanks to exceptionally good rains – farm output surged, while industry languished.

This year, growth is expected to come from manufacturing, financial services and mining. All of which should help increase the trade surplus and further reduce the current-account deficit. That, in turn, should help to stabilise the rand. At the same time, President Nelson Mandela's government is improving its own housekeeping. On Wednesday, Finance Minister Trevor Manuel, whose appointment last year unnerved the markets, will present the 1997-98 budget.

Finance Minister Trevor Manuel will present the Government's 1997-98 budget in Parliament on Wednesday.

Manuel, who has brushed off periodic rumours of a Cabinet reshuffle, looks more sure of himself than he did a year ago and is less prone to cracking the sort of poor jokes that had currency traders reaching for their telephones.

More confident

He has reason to feel more confident. His government has drawn up a conservative macro-economic policy, which aims to slice the budget deficit from 5,1% of Gross Domestic Product in the current fiscal year to just 4% by 1998

This, he insists, will be done without accounting trickery. "No sale of strategic oil stocks," he promises, "and no proceeds of privatisation". Though the government is still loath to use the word, it is pressing ahead with some privatisation, with the proceeds to be used to repay government debt.

Final negotiations for the sale of 30% of Telkom, the state-owned telecommunications monopoly, are taking place with Telekom Malaysia and SBC Communications, an American company. That deal, scheduled for completion in April, is expected to bring in R5-R6 billion.

The economic picture is not entirely rosy. Although 1997 will be South Africa's fifth consecutive year of growth after a long recession, its growth rate is far from exciting for an emerging market

The Government itself says that unless the economy expands by at least 6% a year, the country's huge unemployment problem – by most estimates, one adult in three lacks regular work – will be untouched.

Yet South Africa faces enormous obstacles in increasing growth Short-term central-bank loans currently go for 17% – eight points above the inflation rate – and there are still too many inflationary pressures to allow Stals to cut rates.

Faster productivity growth could offer a way out of that conundrum, allowing the Reserve Bank to ease interest rates while simultaneously curbing inflation.

But a poorly skilled labour force in which illiteracy exceeds 35%, makes for dismally low productivity. Nor is the private sector eager to add workers, given the difficulty in discharging them should the economy take a downward turn

Perhaps most difficult of all is dealing with residual currency controls, which prevent South Africans taking their money abroad. Exchange controls on foreigners were lifted in 1995, when the financial rand, which was the only way foreigners could invest, was merged with the commercial rand

Since then, foreigners have been free to take their money in and out as they please. South Africans, however, enjoy no such liberty.

Stals and Manuel agree that the remaining controls must go. That, they believe, would make the rand less volatile – their very persistence deters foreign investors by implying that South Africans lack faith in their own economy.

And most analysts think that freeing the rand would have an extremely desirable side-effect. South Africa's economy is dominated by a handful of huge firms.

They are reluctant to sell stock or unwanted subsidiaries because they could not use the proceeds to expand their core businesses abroad. If these giants could freely export their capital, they would be able to send more profits back to Johannesburg. And, if more dynamic owners took over their stodgier operations in South Africa, they could give the economy a badly needed fillip. – *The Economist (London).*

CAPE ARGUS, TUESDAY, MARCH 11, 1997

Students and unions warn of Budget siege

'Mass action' on cuts

(49)

ARG 11/3/97

WILLIAM-MERVIN GUMEDE
Political Staff

Trade unionists and students are threatening to besiege Parliament tomorrow to protest against expected social spending cuts in the Budget.

In a joint statement on the eve of the Budget, the SA Students' Congress (Sasco) and the Congress of SA Trade Unions (Cosatu) warned Finance Minister Trevor Manuel they would not accept cuts in health, welfare, education and social services spending.

"We will not accept any budget cuts for government departments that are providing a much-needed service to the communities," they said.

If it meant continuing mass action to ensure health care services were taken to communities, education was free and the welfare and social needs of the poor were cared for, they would do so, leaders of the two organisations said.

Cosatu provincial general secretary Tony Ehrenreich said the trade union federation wanted more money to be allocated to redressing the imbalances of apartheid. "If 1997 is to be the year of delivery, the transformation of our society must be reflected in the Budget.

"If this is not displayed with the shifting of the bulk of the funds to the improvement of health, education, welfare and social services, the Budget is not a budget for the people, but rather a budget catering for the needs of big local and international capital," he said.

Sasco national vice-president Kenny Diseko said the student movement would join Cosatu in the streets to demonstrate under the banner "Workers and students unite for a people's budget".

Cosatu urged Mr Manuel not to pander to the "whims" of the World Bank and the International Monetary Fund, but to stand firm and table a "people-friendly" budget.

It called for taxation policies which would include zero-rating for basic goods such as water and medicines. It also wants the tax burden to be shifted from the poor to the rich.

■ The municipality will close Darling Street outside the City Hall from 11am tomorrow, Ted Doman, public relations manager said.

A BUDGET FOR THE POOR

And Manuel manages to cut deficit on his debut

ARG 12/3/97 (49)

Finance Minister Trevor Manuel today handed out billions of rands in poverty relief and lightened the load on low-income taxpayers in his debut Budget.

He also kept his promise to cut the Government's deficit.

Sobering news for drinkers and smokers, though, is that "sin taxes" are up sharply again.

A pack of 20 cigarettes will cost 54c more, while beer goes up 3c a can.

Exchange controls are to be significantly relaxed.

A hallmark of the R186,7-billion Budget is a tight rein on government spending, with a significant shift of emphasis to spending on social development.

"This is a tough Budget – it demands substantially more austerity from government than many of its forerunners have," he told Parliament.

"This Budget tells the story of a government determined to effect deep transformation and to live within its means."

Mr Manuel said the cut in the deficit, from 5,1 percent of gross domestic product last year to 4 percent, had been achieved without new taxes or net tax increases.

"For the first year in many we have been able to provide tax relief to working people," he said, referring to the R2,8-billion tax saving for people at the bottom end of the scale.

Presenting the Budget, Mr Manuel said: "In this Budget we make a substantial allocation to poverty relief; we invest in people through a significant reprioritisation of expenditures in favour of social development.

"We are bold in the further integration of South Africa into the global economy by the freeing up of exchange controls, we provide tax relief for those on incomes up to R60 000."

He said a budgeted cut in the marketable securities tax would boost the competitiveness of South Africa's financial markets.

About 60 percent of national and provincial spending will go to social services.

This includes big boosts for education and health spending.

Tackling the vexed issue of crime, the Government has dedicated R406-million to the National Crime Prevention Strategy, which will cost R902-million and run for three years.

Spending on police, justice and correctional services will go up by about 15 percent, taking into account improvements in conditions of service.

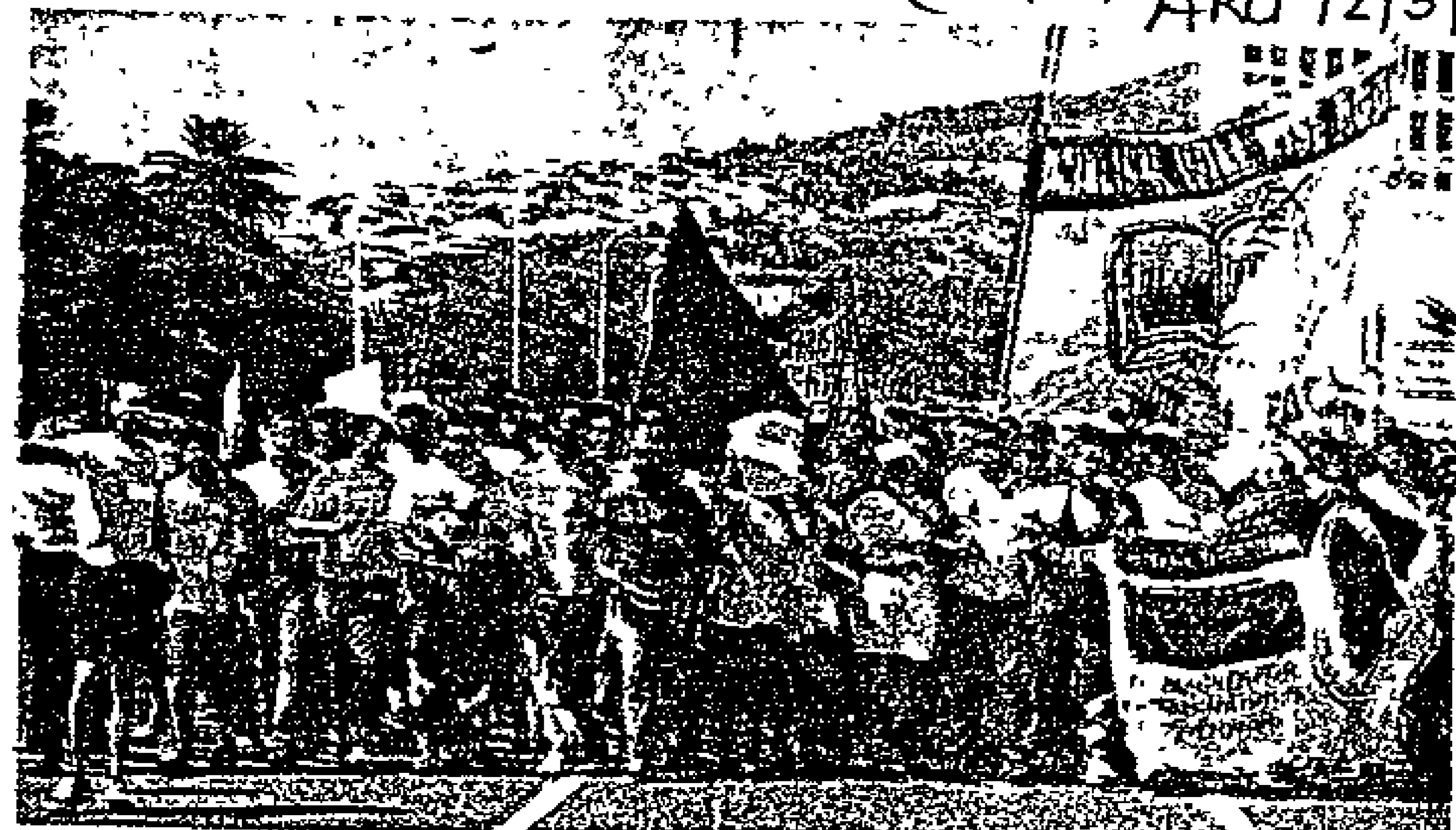
"This provides a clear indication of the seriousness with which the Government is approaching the issue of crime," Mr Manuel said.

In all these departments, particularly the police, steps were being taken to improve management of resources, including extensive training initiatives.

Announcing revenue measures, Mr Manuel committed the Government to further tougher measures against people evading and failing to pay tax.

"The Government will more vigorously enforce the tax legislation.

"We shall actively pursue anyone who breaks the law."



OBED ZILWA

Joint march: students and workers march to Parliament today to demand more social spending

CAPE ARGUS BUDGET TEAM

Clive Sawyer, Aide Dasnois, William-Mervin Gumede

Steps announced today include requiring people who want government contracts to prove they are registered taxpayers and sign a certificate that their tax affairs are in good order.

Similar steps will have to be taken by people wanting foreign currency.

Tax relief for low-income earners will be partly offset by better tax collection, expected to yield R800-million this year.

As expected, Mr Manuel stopped short of a VAT increase. But improved VAT collections should put an extra R400-million in the state's coffers this year.

Budgeted revenue of R161,98-billion will leave the Government short of some R24,77-million this year.

The deficit will be financed mostly from foreign and domestic borrowing, as well as from the proceeds of privatisation.

The sale of a 30 percent stake in Telkom is expected to yield R516-million.

Mr Manuel's long-awaited announcement on the phasing out of exchange controls included what he called "profound" changes. As expected, the new measures benefit individuals.

Overall, he predicted a 2 percent growth in the economy this year.

■ Tomorrow morning the Cape Argus's sister newspaper, the Cape Times, will publish a [illegible]

THE MAIN POINTS

- Income tax relief for individuals
- No VAT increase
- Exchange controls to be relaxed
- R1 billion more for social security
- Defence spending cut to 1,6 percent of Gross Domestic Product
- R40 billion for education
- R4 billion for housing
- R20 billion for health
- 15 percent more for the criminal justice system
- Tax treatment of public and private pensions to be equalised in 1998
- Deficit cut to 4 percent of GDP
- Higher taxes on perks
- Better tax collection to yield extra billions
- Marketable securities tax reduced
- Motorcycle import duties cut
- Sale of Telkom stake to yield R516 million
- R4,4 billion for RDP projects
- Better management of the state debt
- R75 million for child support
- Continuing investments in infrastructure and job creation through public works
- R300 million community poverty relief
- Public service restructuring on track

BRENTON GEACH

Income tax reform will leave R2,8-billion in taxpayers' pockets this year.

Those at the bottom and middle of the scale will benefit most, with 60 percent of the tax savings going to them, Mr Manuel said

He said steps had been taken to reduce the effect of inflation on taxpayers

Measures announced in today's Budget include a rise in the primary rebate from R2 660 to R3 215, a reduction in the number of tax brackets from eight to seven, a cut in rates paid by taxpayers in the R40 000 to R45 000 bracket from 41 percent to 32 percent and the creation of a single tax bracket for all those earning less than R30 000.

These steps would cost the Exchequer R2,8-billion, Mr Manuel said.

Tougher action on fringe benefits and better tax collection by the revamped Revenue Service would partly offset this, drawing in an extra R1,17-billion.

But individual taxpayers would be contributing R1,6-billion less to government revenue this year

Mr Manuel said the reforms were in line with the Government's plans to make the tax system more equitable.

ARG 12/3/97 (49)

Unions, students march on Parliament

(49) ARG 12/3/97

EDUCATION REPORTER

Trade union members and students from universities and technikons marched on Parliament today to call on the Government to allocate the bulk of the Budget to social services

The marchers set out to remind parliamentarians on Budget Day of their election mandate to improve the lives of the people of South Africa

The joint march is said to be the first of its kind since the 1994 elections. It began with a rally on the Grand Parade addressed by the Congress of SA Trade Unions, the SA Municipal Workers' Union and the SA Students' Congress Memoranda were then handed over at Parliament.

WHAT YOU PAY, WHAT YOU GET

Tax tables and reports on Manuel's speech

WEATHERMAN PETE SAYS:

Parliament feels the heat

ARGUS 14

CAPE ARGUS TELEPHONES
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Welcome 9,3% boost for old age pensions

(49) ARG 12/3/97

Old age pensions are to go up by 9,3 percent to R470 a month from the beginning of July as part of a comprehensive poverty relief package revealed by Mr Manuel.

Mr Manuel said the Government was setting aside more than R1-billion extra this year for social security

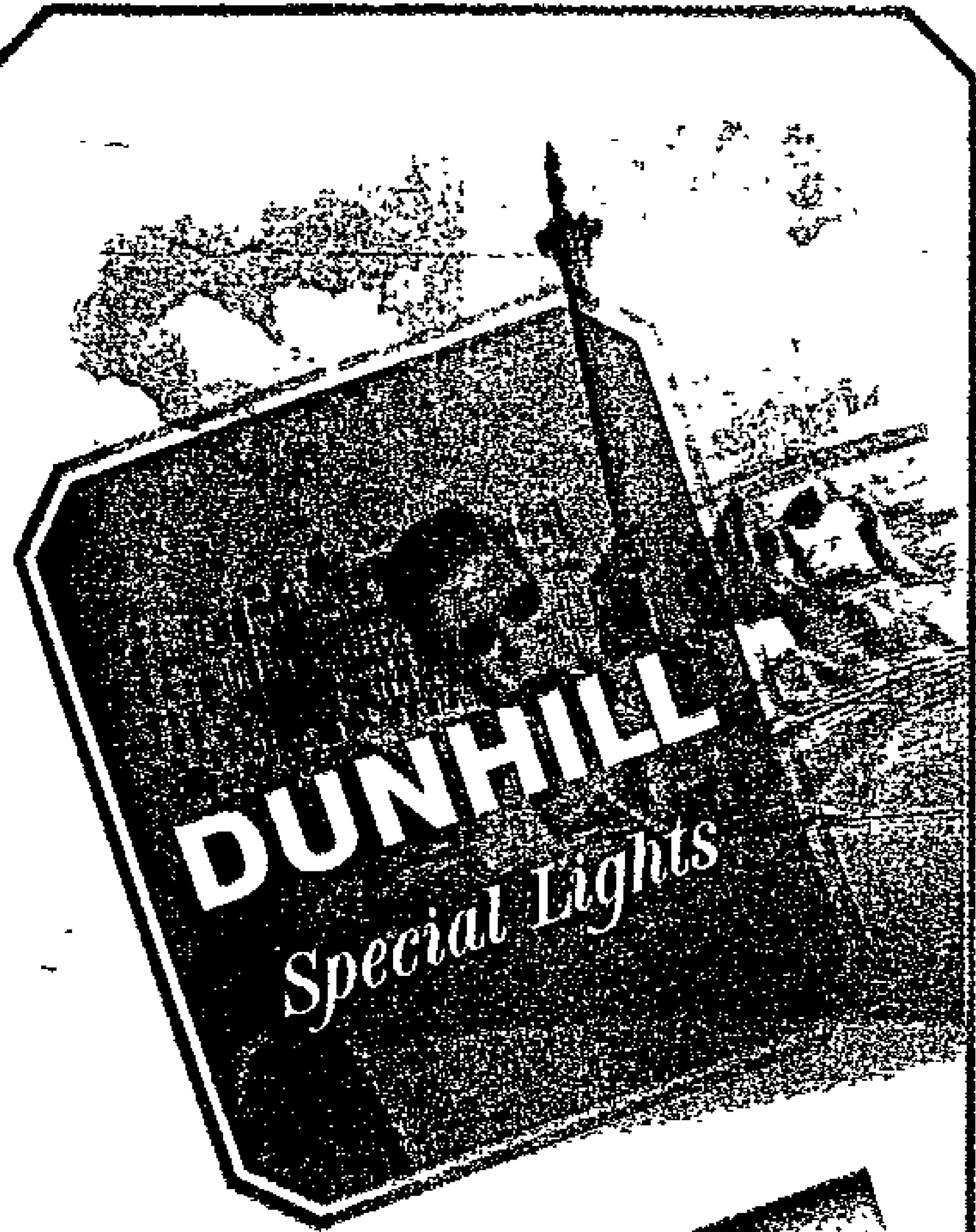
This would make it possible to raise grants to elderly people from R430 to R470 a month.

A total of R300-million would be allocated to community-based poverty relief programmes, targeting women in rural areas in particular, he said.

Also as part of the poverty relief package, child support benefits, which would cost the state R75-million, would be phased in from this year

These would replace the existing maintenance grant, Mr Manuel said.

"The legacy of apartheid is most stark when we consider the abject poverty which characterises the lives of a substantial portion of our population," he said.



WHERE THE BEST SHOES COST LESS

'People's Budget' gets thumbs up

(49) Star 13/3/97

Big business, politicians welcome tax cuts for the poorer and relaxation of exchange controls to help bolster confidence

BY JOVIAL RANTAO
Cape Town

The first "people's Budget" has been produced by the country's first black finance minister, and is being praised by political parties, while big business has welcomed its intentions.

Trevor Manuel has been congratulated for presenting a balanced Budget yesterday to which financial markets have responded positively.

Anglo American has described his debut financial programme as an important milestone in the creation of a sound framework for economic growth, and the SA Chamber of Business said it would promote investor confidence.

Manuel did not touch either VAT or tax on retirement and pension funds. However, he announced increases of up to 50% on so-called "sin taxes". The price of cigarettes will go up by 54c for a packet of 20. Pipe tobacco will cost an extra R2,49 per kg.

The news for drinkers was equally sobering. Beer goes up by 3c per 340ml, sorghum beer by 2c, unfortified wine by 8c per 750ml, mineral water and soft drinks go up by 1,2c per litre, while cane, whisky, brandy and gin will be increased by 66c per 750ml bottle.

Singled out for acclaim was the improved fiscal discipline, the relaxation of exchange controls, tax relief for lower and middle-income earners, increased funding to the criminal justice departments, more money for pensioners, and additional poverty relief programmes.

However, the finance minister has been slated for the sharp increases in tobacco and alcohol, the increase in fringe benefit tax on company cars and the fact that the Budget did not do enough to encourage economic growth.

- More Budget reports: Page 3
- For the most comprehensive guide to the Budget, see today's 24-page Business Report special inside The Star

IFP leader Mangosuthu Buthelezi said the Budget was the first to take into account the whole of society and assure them that "we have entered into the real democratic South Africa".

The ANC welcomed the broad thrust of the Budget and called on domestic and foreign business to show their confidence in the economy by ensuring continued investment.

Manuel's Budget received a mixed response from the National Party, which said it found many aspects laudable but was shocked "at the insensitivity it showed to individuals in the middle and higher-income groups".

The R186,7-billion Budget contained huge increases for poverty relief programmes, social pensions and tax relief to low- and middle-income earners.

There were also increased overseas holiday allowances – to R80 000 a year for adults and R25 000 a year for children.

Manuel told Parliament that the budget for police, justice and correctional services had been increased by 15%, signalling the seriousness with which the Government would tackle rampant crime.

Police will receive R13,1-billion, correctional services R3,9-billion (an increase of 23,5%), and courts R2-billion (a 13,3% increase). Defence received R10,7-billion, which represents a reduction of 9,4%. Education will receive R40,3-billion, an expenditure that represents 45,5% of all social services spending.

More than 80% of the education budget is allocated to pre-primary, primary, and secondary schooling, with the remainder allocated mainly to transfers to tertiary education institutions.

There will be an increase of R1-billion in provision for social security, which will enable social pensions for the elderly to be increased by 9,3% from R430 to R470 a month from July 1.

Manuel said the Government had set aside R300-million for community-based poverty relief programmes which would be targeted at rural areas and women.

Defence: down 9,4%
Up 54 cents
Up 66 cents per 750ml bottle
Fuel: no change
Police: up 14,4% Correctional services: up 23,5%
Education: up by R4,8-billion
Justice: up 13,3%
Welfare: up 23,3%
No change

VIJAY GOVENDER

'Poverty relief is targeted'

While lower-income earners have received relief, those in the higher income bracket have been hit with increases in fringe benefit taxes.

The primary rebate rises from R2 660 to R3 215, one tax bracket has been created for those on taxable amounts of up to R30 000, and the marginal tax applicable to taxpayers with taxable incomes falling in the range from R40 000 to R45 000 has been reduced sharply from 41 to 32%.

"By way of example, a person under the age of 65 earning R20 000 will now pay R255 less tax a year," Manuel said. "Similarly, a person earning R60 000 will now pay R805 less tax a year.

"This package will cost the Government R2,8-billion in lost taxes, with 60% of this relief going to low/middle income earners. Another way of looking at it is to say that these measures put R2,8-billion into the pockets of families who need it."

Import tax for specified items such as cameras, perfumes and watches has been reduced from 37,5% to 15%.

For individuals, some relaxation of exchange controls means that overseas travel allowances have been increased to R80 000 an adult and R25 000 a child.

Individuals will be able to remit an amount of capital abroad and maintain foreign currency-denominated deposit accounts within South African banks subject to a prescribed ceiling, and will be permitted to retain foreign income earnings in foreign currency accounts.

Manuel praised for disciplined redistribution

(49) BD 13/3/97

Lukanyo Mnyanda

FINANCE Minister Trevor Manuel's first budget drew a favourable response from economists yesterday, the consensus being that it provided a good balance between government's often conflicting commitments to redistribution and fiscal discipline.

Economists said they had been especially impressed by Manual's commitment to slash expenditure, describing it as a brave move which would require great discipline to implement. However, the unanimous view was that the ambitious expenditure target was achievable, especially in view of conservative revenue expectations that would probably lead to overruns.

Manuel's moves on exchange controls also impressed economists, who said he had managed to slightly exceed their expectations. They felt the moves were still vague in certain aspects but, with further relaxation expected in coming months, should be enough to keep the markets happy.

The only major criticism related to Manuel's failure to mention how government planned to use privatisation proceeds to help reduce debt. "He had a very neutral approach to privatisation ... but that gives government the scope to view such proceeds as a 'bonus' to be used to fit in with its policies," one economist said.

Some disappointed was also expressed over Manuel's decision not to cut or abolish the secondary tax on companies, a move Standard Bank group economist Nico Czypionka described as "deplorable".

However, the markets would generally welcome the budget, which he said was conservative with tight expenditure targets, while also containing redistributive elements which should please the labour movement.

Rand Merchant Bank economist Rudolf Gouws said that he was impressed with the budget. "He (Manuel) was unequivocal in his view that many of the reconstruction and development objectives will not be achievable if Gear (government's growth, employment and redistribution strategy) is not implemented."

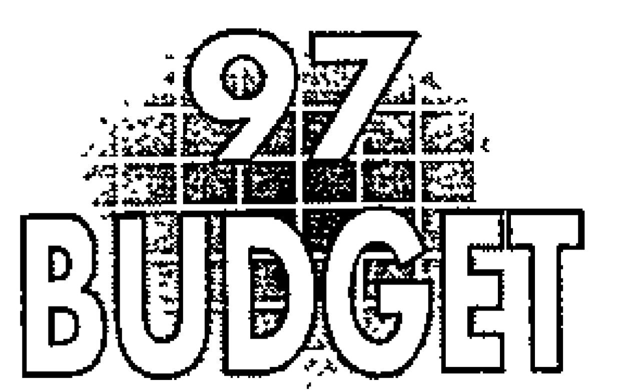
He described the minister's expenditure target as "credible". It should be supported by the conservative revenue predictions, which made a shortfall unlikely, he said.

Nedcor senior economist Kevin Lings said that the budget was "a positive adherence to Gear", and that it had generally met or exceeded people's expectations, especially in relation to the latest round of exchange controls relaxation.

Syfrets asset management economist Sandra Gordon described the budget as a "fair balance of what is achievable", while measures to relieve low earners' tax burden had exceeded expectations.

Industrialists welcome fewer forex restrictions

Ingrid Salgado



LEADING industrial groups welcomed Finance Minister Trevor Manuel's budget announcement yesterday that a substantial number of foreign exchange restrictions would be scrapped from July, saying that it was a positive step which would open new doors for SA companies.

The extent of government's move to abolish forex controls had been "pleasantly surprising", since the industry had been uncertain of whether Manuel would "go that far".

Manuel and Reserve Bank governor Chris Stals announced that local companies would be able to raise foreign funding on the strength of their balance sheets.

Companies would also be able to transfer up to R30m from SA to finance approved investments abroad, and up to R50m per approved new investment project in Southern African Development Community countries.

Another change would allow companies to retain foreign currency earnings for up to 30 days instead of the present seven day allowance.

Dorbyl CE Bill Cooper said the move to allow local companies to transfer cash abroad was "a huge step forward". It would allow business to integrate their overseas operations, which was critical to SA's global future and international competitiveness.

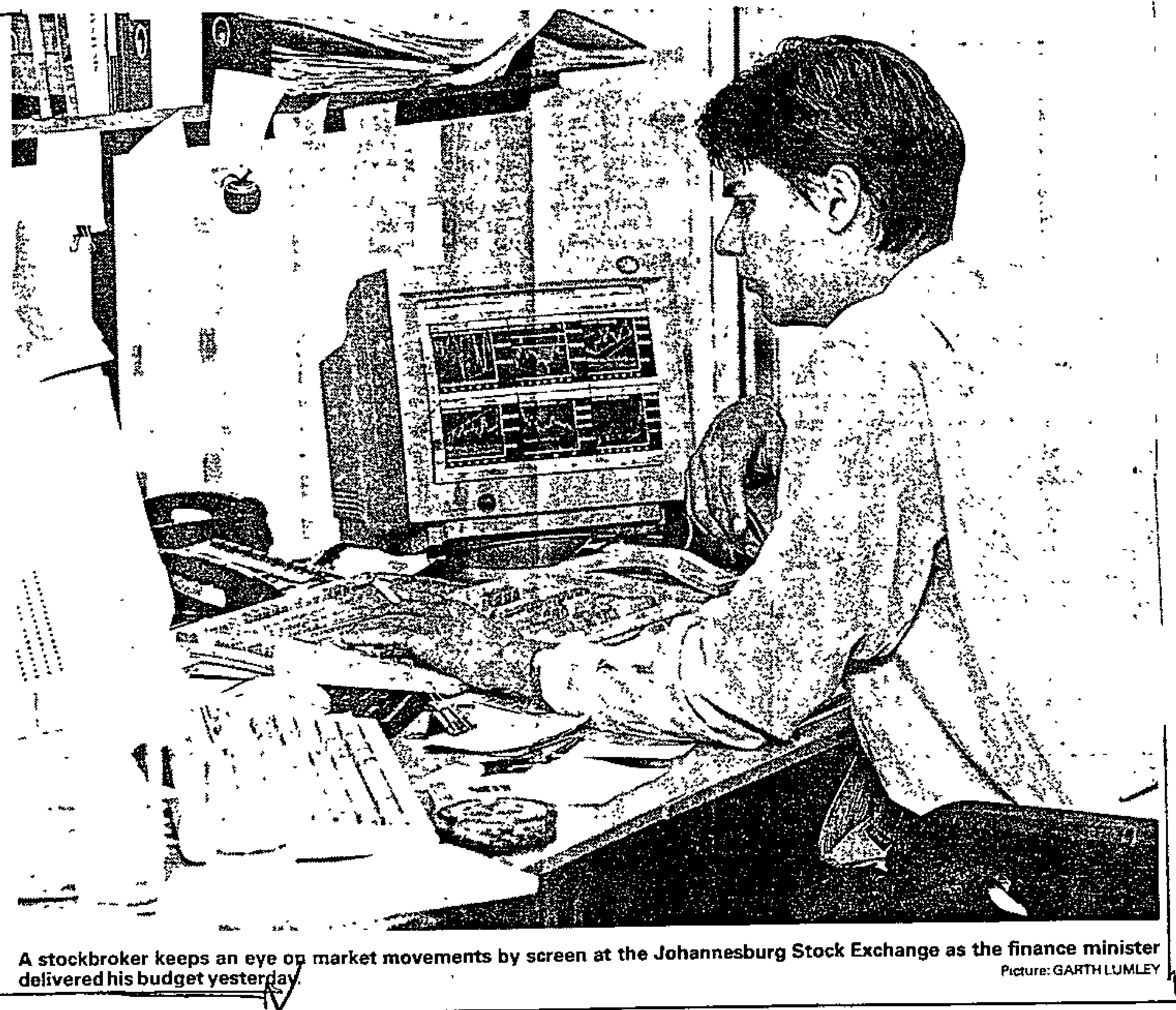
There was no doubt the international community would see the move as a positive step in the process of scrapping restrictions, provided it continued, he said.

Anglovaal Industries MD Richard Savage said government had made good progress in easing forex controls. This could result in more foreign investment within six months to a year. It was "an exceptionally positive sign".

A spokesman for another industrial holding company said the easing of restrictions would allow local business to participate on a more level playing field and would enable a longer-term approach to global development.

Imperial Holdings chairman Bill Lynch said the scrapping of restrictions was a good development and that SA business ought to be pleased as it would encourage foreign investment.

Many companies were optimistic about the general tone of "a sensible" budget, which they said showed that government was committed to fiscal discipline and good management.



A stockbroker keeps an eye on market movements by screen at the Johannesburg Stock Exchange as the finance minister delivered his budget yesterday. Picture: GARTH LUMLEY

R9bn rollover the wild card in spending

Finance Minister Trevor Manuel's budget deserves applause, but he must still answer key questions on ambitious spending targets, says assistant editor **Greta Steyn**

(49) BD 13/3/97

FINANCE Minister Trevor Manuel has wielded a scalpel on a scale never seen before in government, cutting spending to the bone But it is too soon to bring out the champagne, as major questions remain unanswered

Manuel's maiden budget appears to represent a decisive break from the past, in which finance ministers lacked the political clout and economic conviction to slash spending. He did more than just cut spending; he gave real meaning to the hackneyed phrase "reprioritisation" The housing and police budgets surged while the defence budget experienced a large cut in real terms. In areas where spending is already high, and efficiency is the issue, he has had little mercy

The figure for the education budget for the country as a whole, which will be final only once the provinces have delivered their budgets, shows only a small rise in nominal terms from last year's budgeted figure of R39bn. As Manuel noted in his speech, education spending, at 6,5% of gross domestic product (GDP), is higher than the international norm.

The extent of the spending achievement is clear when one goes back to economists' predictions before the budget At least three well known analysts were looking at a spending figure of R192bn — an increase of 9%. Even those who had picked up signals from government that something major was happening were surprised by the overall increase of only 6,1% to R186,7bn It is all the more astonishing when compared with the 1996/97 spending rise of about 14%.

One's first impulse is to question the budget's credibility; to argue that Manuel is being overambitious and that the spending cut is wishful thinking. The creation of a "safety net" in the form of a R1,5bn contingency reserve helps to address the credibility problem. Undoubtedly there will be overspending, but Manuel has recognised that and provided for it. But will it be enough?

The credibility of government's spending number is a complex issue. Superficially, it seems incredible that government can bring its spending rise down to 6,1% from more than double that without firing hordes of public servants. But the issue takes on a whole different hue when one brings the vast amounts of unspent budgeted allocations from the previous fiscal year into the equation.

The ballooning rollovers are the key to analysing government spending trends and assessing government's spending cuts.

At the end of the 1996/97 fiscal year, government's rollovers are projected to be R9bn. This amount is not included in that fiscal year's spending total of about R176,1bn.

In past budgets, government automatically assumed that the same amount of money that was unspent at the end of the past fiscal year would again be unspent at the end of the new year. The rollovers were treated as a kind of "float", which made no difference to the spending totals. But as they grew, they started having a major effect on the figures.

The rollovers also confused analysts. On the one hand, government was overspending and had to ask Parliament to approve extra funds; on the other, billions were unspent. The point about the rollovers is if they had been spent, as budgeted, spending totals would have been extremely high.

A key feature of the budget is the fact that government has done away with the automatic assumption that the rollover will just be repeated. In a major change from past practice, it is not budgeting to end this fiscal year with R9bn in unspent money This year, the assumption is of a zero rollover, and "what you see is what you get" The importance of that change cannot be underestimated

Obviously the question then becomes what happens to the R9bn that is projected to be unspent at the end of the 1996/97 year? It clearly should be added to this year's spending total to arrive at a new — and substantially higher — total. When Manuel was asked what would happen to the R9bn, his answer was evasive. The only point on which he was clear was: "The expenditure targets are as published."

But his officials acknowledged that the R9bn in allocated, unspent funds expected to be left over from the previous fiscal year was a major headache, and had the potential to add massively to the new fiscal year's spending total. They hinted, though, that a plan was in the pipeline to deal with the problem. "You will probably find only about R2,5bn of the rollovers will be allowed. There are hints in the Budget Review about which areas of spending will be allowed," one official said.

Finance Minister Trevor Manuel has key questions to answer

In other words, government is planning effectively to cancel billions of rands of spending which was planned but not implemented in the 1996/97 fiscal year.

One area in which rollovers are likely to be allowed is constitutional development, which deals with municipal infrastructure spending.

The department is budgeted to reduce spending to less than R700m from a budgeted R1bn. But the Budget Review notes: "It is anticipated that the amount available for RDP (reconstruction and development programme) projects, implemented at local government level, will be supplemented by rollovers. Actual expenditure is expected to increase."

Manuel will soon have to answer the question of what happens to the R9bn in budgeted allocations from the previous fiscal year, and to pin down the actual spending levels. He must do this publicly. If he does not announce the effective cancellation of a large part of the rollover, his spending totals for the new fiscal year will have little credibility.

Credibility over the spending figures is also strained by the fact that government has not shed staff, and the fact that its total wage bill is set to rise by about 9% in the new fiscal year. But the sad truth is that government has shown that the one area where spending cuts are easy is capital spending. This is despite a stated intention to change the mix — cutting back recurrent spending and raising capital spending.

Manuel budgeted for a nominal cut in capital spending to only about R13bn from about R14,6bn in the previous fiscal year. This brings capital spending as a percentage of GDP down to 2,1% of GDP from 2,6%.

In theory, government should only borrow long-term finance to pay for capital expenditure, and not for salaries and other current spending If the deficit exceeds fixed investment spending, government "dissaves" The extent of the dissaving is indicated by the difference between the deficit — 4% of GDP — and capex, which is 2,1% of GDP However, to government's credit, the gap between the two is narrowing.

Ideally, government should get rid of thousands of "ghost" workers who are sitting around doing nothing, and use the money to increase infrastructure spending

Manuel and his officials argue that the budget this year is not a holding operation; it is a major step towards implementing the growth, employment and redistribution (Gear) strategy. That will only be true if the spending cuts are actually implemented, and prove to be sustainable.

The African National Congress government's difficulties in getting spending off the ground, which caused rollovers to balloon, apparently gave Manuel an ideal opportunity to make cuts before the rot had set in. But there is still a lot of waste that can be removed. freeing up finance for more deserving causes. There is also a chance that Manuel has been overambitious, and that he might not be able to solve his R9bn rollover problem.

Until all the spending questions have been answered, it will be premature to rejoice too much. In addition, the tax burden of 26% of GDP needs to be reduced to the Gear target of 25% before getting too complimentary about fiscal policy.

But those problems do not mean that we should not applaud a budget which is market-friendly as well as relatively generous to the man in the street. Although much remains to be done, it is a good beginning.

Manuel's Robin Hood Budget

(49) CT 13/3/97

BUDGET SUPPORT: President Nelson Mandela leaves Parliament with Finance Minister Mr Trevor Manuel after Manuel's maiden Budget speech yesterday Manuel's mother, Mrs Philma Manuel, and his youngest son, Jamie, accompany them

PICTURE: BENNY GOOL

YESTERDAY'S Budget features a relaxation in exchange controls and huge cash injections for social welfare programmes and the criminal justice system. **MAGGIE ROWLEY, HENRY LUDSKI, CHRIS BATEMAN** report.

FINANCE Minister Mr Trevor Manuel walked a fiscal tightrope yesterday, delivering a Robin Hood budget targeting poverty relief at the expense of the middle- and upper-income groups. The minister's maiden Budget speech also signalled the government's resolve to give economic backbone to the fight against rampant criminality

The Budget also set up the beginnings of a broader national social security net, with the lion's share of expenditure going to welfare relief, health and shelter for mainly marginalised communities.

The financial markets immediately gave a strong nod of approval to the R186,7-billion Budget, which entrenches the government's commitment to the Reconstruction and Development Programme (RDP) and its Growth Employment and Redistribution (GEAR) macro-economic strategy

The tightly disciplined Budget limits growth in expenditure to 6,1% (it was 16,3% last year), and reduces the Budget deficit from 5,1% to 4% of the gross domestic product.

The Budget includes a wider-than-expected relaxation in exchange controls, with individuals now being allowed to invest overseas for the first time since 1961.

Reaction from the major political parties has generally been favourable, with the National Party applauding the improved fiscal discipline, the reduction in tax payable by the lower- and lower middle-income groups, and the sharp increases in spending on social programmes and the criminal justice system.

The Democratic Party welcomed the poverty-relief programmes and the beefed-up commitment to tackle crime, but warned that the Budget contained "a sting in the tail for ordinary taxpayers".

Manuel's "benign facade and honeyed word" disguised hikes in excise duties on consumer products and a failure to reward people wanting to save, the DP said.

Describing the Budget as a "watershed", the Freedom Front complained that farmers would be hard-hit by the discounting of the current diesel refund system and said the massive alcohol and tobacco tax increases were "shocking".

Yesterday's "Better Life for All" Budget included a R2,8bn package in tax relief measures, aimed mainly at those earning less than R60 000 a year.

Added to this was an increase in the primary rebate from R2 660 to R3 215, and a reduction of the effects of fiscal drag for all taxpayers.

The Budget eliminates the effects of inflation for those earning less than R30 000, creates one tax bracket for those earning up to R30 000, and reduces the number of income brackets from eight to seven.

Manuel also shifted spending priorities strongly in favour of social services. Education, housing, welfare and health have been allocated a total of R82bn.

Among the widespread poverty relief measures announced by the government was a R1bn increase in provision for social security

This allows for a 9 3% increase from R430 to R470 month for old-age pensioners, R300m for commun based poverty-relief programmes and R75m for a flat-child support benefit to replace the existing maintena grant

But the middle- and upper-income earners, who h been given little relief for fiscal drag, are going to have to deeper into their pockets.

Fringe benefits — company cars, travelling allowan housing and holiday accommodation — have be pounced on to raise close to R800m in additional revenu

Sharp increases in "sin taxes" were also forthcoming

Smokers are going to have to cough up an extra 5 packet of cigarettes as the rate of duty on tobacco increase by 52%, bringing the tax (including VAT) to 5 of the average retail price

Drinkers will have to swallow hard Beer is to rise 8, per litre, or about 3c per 340ml can, sorghum beer by 2c litre, unfortified wine by 8c per 750ml bottle, mineral wa and soft drinks by 1,2c per litre, and c spirits, whisky, brandy and gin by 66c 750ml bottle.

R780 million Western Cape cut could be disastrous — Kobus Meiring PAGE 3

In a move that has drawn widespr applause, Manuel announced a ma cash injection for crime preventic boosting optimism for the Cape To 2004 Olympic bid.

A large chunk of the stat resources has been thrown behind t fight against crime, with police, justi and correctional services expenditu 15% up on last year, which is signi cantly higher than the average tot expenditure increase of 6,1%

About 70% of the protection services budget has al been allocated to improving the salaries, working con tions and morale of the people running South Africa's cri inal justice system.

By allocating R19bn to the criminal justice syste departments, the treasury has sent a clear signal of what main priorities will be for the year ahead.

The lion's share of this will go to Safety and Securit who get R13,1bn, which will be spent on sharpening the crime-fighting and management skills. Greater representi ty, together with a strong emphasis on discipline in care training, are key themes for transforming the police.

A shocking statistic in the Budget is the projecte increase in the number of inmates expected to be housed South African jails in the 1997/98 financial year. The priso population is set to rocket from 130 000 to a staggerin 165 000 inmates in the coming year.

Trevor praised by all parties

(49)

Sowetan 13/3/97

By Rafiq Rohan and *Sapa*

FINANCE Minister Trevor Manuel received several rounds of applause when he presented his first Budget in the National Assembly yesterday

The warmest applause came when he announced drastically increased "sin taxes" — higher excise duties on tobacco and alcohol products -- and more government money for poverty relief programmes.

At the end of his speech, attended by the full Cabinet and all party leaders and delivered in English, Xhosa, Tswana and Afrikaans, he received a standing ovation from members of the African National Congress, Inkatha Freedom Party and the Pan Africanist Congress, and a handshake from President Nelson Mandela.

Former finance minister Chris Liebenberg was full of praise for Manuel's Budget and described it as "an excellent performance".

Liebenberg, who sat in the presidential bay in the National Assembly, said he was impressed with the wide range of issues it covered. "He addressed South Africa's position in the world and the position of the country at present very effectively I think this will add to his own personal standing. I think today we saw Manuel in a new dimension," Liebenberg said.

There was generally a positive reaction from political parties to the Budget.

The National Party welcomed it for a number of reasons that include the decrease of the total State debt from 56 percent to 55.3 percent of the GDP and the relaxation of exchange control measures The NP said it was disappointed in the increase in tax on retirement funds and was "shocked" at the "unacceptably sharp increase in excise duty on cigarettes" and alcohloic drinks

The ANC's head of policy Labour Minister Tito Mbowem said his organisation also felt extremely positive about the Budget, especially in its focus on poverty alleviation. He, however, called on the minister to take note of the phenomenon of rolled-over funds which could be seen as a symptom of non-delivery in some areas

Democratic Party finance spokesman Ken Andrew said the Budget contained many good aspects but warned that there were "stings in the tail" Andrew said it was encouraging to see the Government was remaining within its previously determined economic framework However, the DP was concerned about the 13 percent rise in individual taxation.

The Freedom Front said, although hard in certain respects, the Budget may be called a watershed one "At last the Government has committed itself to stick to its economic plan. In the past, too many plans have come and gone without being carried out," FF finance spokesman Dr Willie Botha said.

Good news Budget

(49) Sowetan 13/3/97

By Rafiq Rohan
Political Correspondent

FINANCE MINISTER Mr Trevor Manuel's first Budget presented to Parliament yesterday firmly focused on social, protection and economic services but offered little respite to those in the high income bracket.

As expected, the biggest cut of the Budget pie went to education, which was allocated R40,7 billion to ease its transformation process.

The second highest recipient was health which got R20,2 billion.

While the defence budget is still double that of housing, Manuel announced it would be reduced to R10 billion from R11 billion.

Housing got just over R4 billion, more than 100 percent higher than last year's R1,5 billion.

Manuel was optimistic yesterday when he presented his Budget as the first black Finance Minister – parts of which were delivered in Xhosa for the first time in the history of Parliament.

"In this Budget we make a substantial allocation to poverty relief; we invest in people through a significant reprioritisation of expenditures in favour of social development. We are bold in the further integration of South Africa into the global economy by the freeing of exchange controls; we provide tax relief for those on incomes up to R60 000.

"We improve the competitiveness of our financial markets by reducing the marketable securities tax; and we ensure the stability and integrity of macro-economic policy by delivering on our commitment to a four percent deficit," he said in the summary of his all-encompassing Budget.

High allocation

Up went the budgets for social security, welfare and protection services. The Ministry of Safety and Security was allocated R13 billion, Correctional Services got R3,8 billion and Justice R1,9 billion.

At grassroots level, it was good news for pensioners, whose monthly pensions rise from R430 to R470.

But there was bad good news for drinkers and smokers. Smokers have to pay 27 cents more for every ten cigarettes; pipe tobacco goes up by R2,49 a kilogram; beer goes up by 8,15 cents a litre, sorghum beer increases by 2 cents a litre; wine goes up by 8 cents per 750 bottle.

Mineral water and soft drinks go up by 1,2 cents per litre and cane spirits, whisky, brandy and gin go up by 66 cents per 750 bottle.

It's good news for those earning up to R60 000 who will be exempted from submitting annual Pay As You Earn returns to the Inland Revenue Services.

However, it is not too good news for high earners. Manuel has targeted the fringe benefits of those in the high income bracket.

Company cars will be taxed 1,8 percent, travel allowances will be taxed at 40 percent and housing provided by employers will have a revised increased tax levy.

It is also not so good news for tax dodgers. Manuel warned that only those people whose tax affairs are in order will be able to do business with the Government or benefit from relaxed exchange controls.

The evaders have been warned: "We shall actively pursue anyone who breaks the law," Manuel warned sternly.

● See pages 10, 14, 15 and 22.

Premiers praise 'progressive' and 'positive' boost to their coffers

Star 13/3/97 (49)

By Justice Malala
Provincial Correspondent

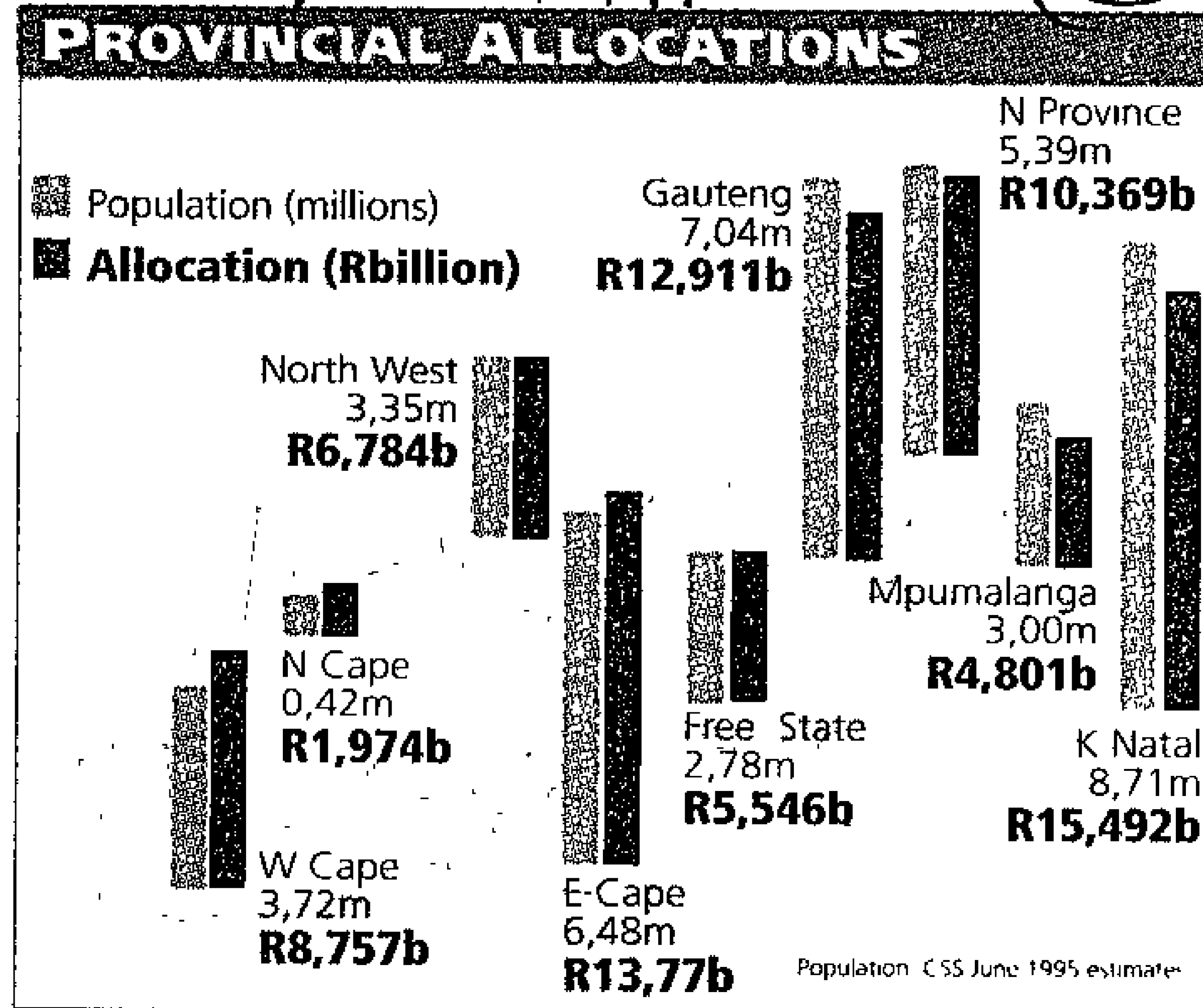
South Africa's nine provinces received an increase of more than R5-billion to their budgets this year, an addition that moved provincial leaders to heap kudos on Finance Minister Trevor Manuel for being "prudent" in his allocation.

The provinces received a total of R80,806-billion, up from last year's R75,499-billion.

Gauteng Premier Tokyo Sexwale hailed the Budget as a "delivery and growth Budget", but said there could have been an improvement in the allocation "for health and safety and security, particularly for us in Gauteng".

North West MEC for Finance and Economic Affairs Martin Kuscus described the budget as "very progressive", while Northern Cape Premier Manne Dipico said it was "positive".

"Once and for all it breaks out of the apartheid mould of spending. It reflects the Government's commitment to the policy of redistribution and growth," Kuscus said.



"It is clear the minister has announced a Budget which, together with continued fiscal discipline, will lead South Africa on a path of sustained social development, economic recovery and growth," Dipico said.

Manuel said transfers to provinces had been determined on the basis of recommendations made by the Budget Council, which includes the minister of finance and the provincial MECs for finance, and after considerations of the recommendations of the Financial and Fiscal Commission.

"Provinces will, in addition to their allocations, make use of their own revenue resources, expected to amount to a further R3,8-billion," he said.

Sexwale said the Budget was "very prudent" and would boost confidence in Manuel. "It is both a delivery and growth Budget – a social Budget leaning heavily towards being developmental while being balanced with economic growth. It is a people-oriented Budget without compromising on the medium and long-term objectives of economic growth."

Low income earners benefit, corporate high-flyers tumble

Business Day Reporters (49)

CAPE TOWN — If you are a heavily made-up, French-perfumed, non-smoking, low-income teetotaller and music lover with designs on a motorbike, the budget will be just up your street.

Finance Minister Trevor Manuel might have had you in mind when he decided to radically cut the ad valorem duties on luxury and imported goods ranging from perfumes and beauty products to cassette players. And a lower tax dispensation was given to motorcycles.

However, if you are a high-flying executive with a company car, whose accommodation and holidays are paid for by your employer, then you are definitely not a target of Manuel's magnanimity. A tightening up on fringe benefits will mean you deliver more of your income to the taxman.

Middle- and low-income earners benefit from measures to alleviate fiscal drag and from the restructuring of tax rates, while "full-bodied" public servants will be pleased to learn that R4,9bn has been allocated for improving their conditions of service.

Criminals are definitely out of favour with SA's finance ministry, with the three criminal justice ministries, police, justice and prisons, receiving substantial increases to improve performance.

But even criminals have something to smile about: a large chunk of the increase in the correctional services budget is earmarked for improvement of prison conditions and the rehabilition of offenders. The budget did not specify, however, whether the improved conditions were in or outside disused mines.

Education in real terms is down by about 5%, but remains the largest expenditure item on the budget. Social pensioners win with a 9,8% increase in grants, but the monthly state pension for those with no other means of support will still only amount to R470 a month, and will only be implemented in July.

A further drop in health and education standards is possible following the real reduction of more than 4% in provincial allocations. Drinkers and smokers will find their vices cost considerably more, while travellers will be able to take an extra R20 000 on overseas trips. And if they control corporations, they can get R30m out of SA legally.

BD 13/3/97 (49)

Manuel receives praise from organised business

Patrick Wadula

ORGANISED business in SA welcomed Finance Minister Trevor Manuel's budget yesterday, saying it would boost investor confidence in the country.

The SA Chamber of Business said the trade-offs between accommodating an economy that sought to become globally competitive and the social demands of a society intent upon eliminating poverty, had been suitably balanced.

However, the Steel and Engineering Industries Federation of SA (Seifsa) felt that the budget should have gone further to inspire local and foreign investor confidence.

Seifsa said although no changes in corporate taxation had been expected, business might have preferred an increase in VAT if it would have allowed for tax reductions elsewhere.

Foundation for African Business and Consumer Services general secretary Cyril Gwala said the absence of an increase in VAT was a positive development since this would have had a negative effect on people in the lower income bracket.

Black business and small businesses welcomed the fact that there was no increase in tax rate on company profits, he said.

The Afrikaanse Handelsinstituut (AHI) expressed concern over the dramatic increase in excise duties, especially on wine, beer and tobacco, noting that this could lead to more smuggling and black market activities, "exactly the reasons the minister gave for the lowering of ad valorem and excise duties on various goods".

The AHI was also concerned that total tax income was foreseen to increase at a higher rate than anticipated gross domestic product, which meant that tax pressure in the economy would mount.

National African Federated Chamber of Commerce general secretary Mashudu Ramano welcomed Manuel's confirmation of the establishment of the National Empowerment Fund.

Debt repayments will cost R39bn

Linda Ensor

(49) BD 13/3/97

CAPE TOWN — Government would have to set aside R39,6bn, or 21% of its total estimated expenditure of R186,8bn this year, to service its projected debt of R341,9bn.

The debt servicing bill, R38,6bn of which was interest, would be 8,8% higher than last year's revised figure of R36,4bn, which included R1,6bn in provincial debt taken over by national government.

Finance Minister Trevor Manuel said in his budget speech: "What this means in very simple terms is that for every rand of tax we collect, about 24c is spent on interest on government debt. This leaves 76c to be divided between all other government programmes. Clearly this situation is untenable and unsustainable.

"The first charge against government revenue is interest on government debt. The bigger our deficit the more we have to borrow, the higher the interest bill and the less money there is to invest in social development, in poverty relief and in the development of our human resources.

"It is for this reason that reducing our debt burden is important. It is important because it will free the resources we need to create a better life for all."

Some of the assumptions made in estimating the cost of state debt were domestic and foreign loan redemptions of R12,1bn, a possible R3bn conversion of nil-coupon stock by the Reserve Bank, an average capital market yield of 15%, an average coupon rate on new government stock issues of 13%, and average short-term interest rates of 14,5%.

Government anticipated that its stock would be sold at an overall discount to market interest rates of R5,23bn this year, compared with last year's revised discount estimate of R6,7bn.

The debt servicing amount, which included debt service costs in respect of the R12,5bn debt of the former TBVC states and self-governing territories taken over from provincial governments, represented 6,4% of gross domestic product (GDP), compared with the revised estimate of 6,5% of GDP for 1996/97.

Total state debt was expected to rise nominally by R30,6bn to R309,5bn, or 55,3% (56%) of GDP, by the end of this month and to R340,8bn (54,8% of expected GDP) by end-March next year. However, if the taking over of Namibia's RSA government guaranteed debt of about R1,24bn was included, the projected debt at end-March next year would be R341,9bn (55% of GDP).

The Budget Review said government's policy framework to cut state debt, it was hoped, would bring to an end a 10 year period in which interest on state debt relative to GDP had increased each year from 3,6% in 1987/88 to an estimated 6,5% in 1996/97.

To reduce debt, government planned to eliminate dissaving, reduce the level of consumption expenditure as a percentage of gross domestic product, maintain the current level of tax as a proportion of national income, contain overall remuneration increases and strengthen public sector investment spending.

New measures to clamp down on the abuse of fringe benefits

Linda Ensor

CAPE TOWN — Measures to stamp out the abuse of fringe benefits announced yesterday would impose a stricter tax regime on housing and travel allowances, the private use of company cars, and holiday accommodation.

The measures, which included anti-avoidance provisions to eliminate schemes devised to abuse housing allowances, were expected to generate R443m in additional tax revenue this fiscal year.

"It was never the intention that fringe benefits should be used to structure packages in such a way that they create a bias against cash remuneration. The widespread abuse of fringe benefits also results in a substantial loss of revenue to the government and creates inefficiencies in remuneration," Finance Minister Trevor Manuel said in his budget speech.

The budget proposed that, from July 1 1997, the tax on the fringe benefit arising from the private use of a company car should be increased from the monthly 1,2% of the cost of the car to 1,8%.

The budget review noted the value of the fringe benefit based on the actual cost of purchasing and maintaining a car was far less than the monthly taxable value of its private use. Also, the taxable value on any second or subsequent vehicle not primarily used for business purposes was increased to 4% (2%) a month as from July. Another R200m in revenue was expected from these measures.

Regarding travelling allowances, the budget proposed that as from March 1 the total kilometres deemed to be private where no accurate records were kept and where total distance was less than 32 000km a year should increase from 12 000km to 14 000km, to bring the tax treatment of travel allowances and company cars into line. This was expected to yield an additional R100m this fiscal year.

Allowances

Furthermore, the budget proposed that as from July 1 1997, the taxable portion of travel allowances given to employees to compensate them for the private use of their own motor vehicles, which were also used for business purposes, be raised to 40% (35%).

This taxable portion was normally collected under the PAYE system and was over and above the tax imposed on the balance between the allowance paid for the business use of the car and the annual cost of the use of the vehicle in those cases where the cost was less than the allowance. This proposal was expected to generate additional revenue of R93m.

Regarding housing allowances, the budget review noted that "numerous schemes have been devised whereby the provisions relating to the determination of the taxable value of residential accommodation provided to employees by an employer are abused".

As a counter, it was proposed that from March 1 1997, where the residential accommodation provided to an employee as a benefit was not owned by the employer or by a person connected to the employer or where the employee has an interest in the accommodation, "such employee be taxed on an amount equivalent to the rentals paid and other expenditure incurred by the employer in order to provide such accommodation".

Also, it was proposed that reference to the employee's interest in the accommodation be extended to include any person connected to such an employee. These amendments were expected to generate R50m more in revenue this year.

The percentages applied to the formula determination of the taxable value of the housing benefit would also increase by 1% in each case to 16%, 17% and 18% as from March 1 next year.

Finally, the value for fringe benefits tax purposes placed on holiday accommodation was increased from R35 a person a day to R100 a day with effect from March 1 this year.

Spending kept in check · Confidence boost for business · Concessions for taxpayers

Govt opts for fiscal rectitude

BD 13/3/97 (49)

Tim Cohen

CAPE TOWN — Finance Minister Trevor Manuel delivered on his promise to place SA on a road of fiscal rectitude yesterday, containing overall spending to a mere 6,1% increase in the 1997/98 fiscal year.

Manuel presented a budget to Parliament which conformed to government's undertaking to hold the deficit to 4% of gross domestic product (GDP), while not raising value-added tax (VAT) and reducing personal tax, mostly for lower-income earners.

Total expenditure was budgeted at R186,7bn against revenue of R162bn, with nominal GDP assumed at R622bn, real GDP growth of 2,5% and an inflation rate of 8,5%. The deficit was projected to fall to R24,8bn from R30,3bn.

Manuel said the budget "told the story of a government determined to effect deep transformation and to live within its means", indicating that there would be carefully selected areas where spending would increase.

Within severe spending constraints, he presented a "consolidation" budget which attempted to provide real relief to most personal taxpayers while providing business with a confidence boost.

For individuals, Manuel outlined substantial allocations to poverty relief and reprioritised expenditure in favour of social development, and provided meaningful tax relief for those on annual incomes up to R60 000.

For business, the budget speech "boldly integrated SA in the global economy" by easing exchange controls and improving the competitiveness of SA's financial markets by reducing the marketable securities tax.

Also boosting business confidence was his delivery of a deficit of 4% of GDP, which Manuel said ensured the stability and integrity of SA's macroeconomic policy.

97 BUDGET

The deficit target was reached partly by ruthless spending cuts, indicated by a 50% fall in the rate of increase compared with the rise in spending in the 1996/97 year.

Some of the departments to come under the knife were defence, whose budget decreased 8,5%, trade and industry 7,4%, and water affairs and land affairs, both by about 10,5%.

Other departments, however, will see their budgets rise sharply, including housing by 156% (although this follows last year's cutback), police services by 14,3%, correctional services 20,3% and justice by 12%.

Manuel was at pains to point out areas in the budget where social spending increases would occur, including a total of R4,4bn on costs of remaining RDP projects despite the closure of the RDP office.

Helping Manuel deliver a 4% budget deficit will be a projected R2,5bn increase in the efficiency of tax collection. A spin-off of improved collection will be an increase in the overall tax burden to about 26% of GDP, despite several tax relief measures.

Manuel gave away R2,8bn in relief to personal taxpayers, through a vari-

Continued on Page 2

Full text of the minister's speech .... Supplement
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Rectitude (49)

Continued from Page 1 BD 13/3/97

ety of measures which he said would result in 60% of the relief going to low and lower middle-income earners.

But this concession was made at a price, with Manuel pledging to "stop the rot" to ensure that those who paid their taxes did not have to carry the burden for those who did not pay.

Consequently, a range of measures was introduced to ensure that tax evaders did not benefit from any government foreign exchange concessions or government contracts.

Manuel said job creation was the one area in which government was lagging behind its targets.

"However, this budget and the policy stance it embodies will provide an impetus for both investment and job creation," he said.

Sustainable job creation required a steady stream of capital investment, and because SA's savings ratios were low, SA needed to compete to attract savings from elsewhere in the world.

For all these reasons, it was imperative that SA took stock of the disciplines of the global economy.

"We need to examine continually how we integrate into that economy without sacrificing our fundamental and implacable commitment to social transformation," he said.

Labour 'digging its own grave' by backing Gear

BD 13/7/97

(49)

Reneé Grawitzky

LABOUR would be committing mass suicide if it agreed to co-operate in implementation of government's growth, employment and redistribution strategy (Gear), National Union of Mineworkers (NUM) president James Motlatsi said yesterday.

In his opening address to the NUM's ninth congress in Pretoria, the president of union federation Cosatu's largest affiliate said that labour would be digging its own grave if it agreed to co-operate with big business, international finance and government in implementing Gear.

Gear, he said, represented 95% of the views of 5% of the population and 5% of the views of 95% of the population — "something seems wrong".

Motlatsi said he endorsed Gear's long-term vision of economic growth and redistribution of income and opportunities in favour of the poor.

Yet he rejected Gear's thrust towards a competitive, outward orientated economy which would create the framework to enable capitalism to work most effectively.

He also criticised government's call for wage restraint as proposed by Gear to be included in a national social agreement. In the UK, union leaders lost their respect and authority "so that the contracts they signed with employers and government were worthless". It would be the same here, he said: "Every worker would look on Cosatu as government puppets."

Workers would suffer as a result of a wage restraint while the white and black middle class would not suffer.

Motlatsi criticised government for its failure to include a labour person or someone with a "socialist perspective" in the technical team which drafted Gear — which was dominated by monetarist economists.

Turning to organisational issues, he stressed the need for the union to provide efficient services to members. According to latest statistics, membership had dipped from 357 196 last year to 336 010 — only partly because of retrenchments and mass dismissals.

The four-day congress, besides addressing core wage demands for the year ahead, would focus on a 10-year strategic plan to take the union into the 21st century. This plan proposed several scenarios, similar to those being considered by the September commission investigating labour's future.

MARKETS *Industrials take a slight dip after release of yesterday's Budget*

Manuel gives the rand muscle

(49) CT(BR) 13/3/97

MATT GETZ

Johannesburg — Industrial share prices took a slight knock yesterday following the release of the Budget, but the rand took strength on positive announcements about exchange controls, dealers said.

The all share index ended the rollercoaster day just 6,1 points firmer at 7168,1, but the industrial index was down 16,1 points at 8368,6 after rising as high as 8400,8 before the Budget was released.

Financial shares took the Budget in their stride, with the index coming off an intraday high of 8657,9 but still closing at a record 8648,3.

"It was a good Budget, but there wasn't anything too unexpected," a dealer said, adding that most of the positive factors of the Budget had already been factored in. The JSE's all share index has risen more than 100 points in the past week.

EVERYONE'S BUSINESS *The Budget presentation was closely followed around the country*

PHOTO: LINDSAY YOUNG

The change in the marketable securities tax was the most controversial point of the Budget. Dealers welcomed the government's 50 percent cut in the tax, but they were split over the effects of its extension to foreigners.

Some said it would have a negative effect on the market as foreigners, who have provided a large boost to the market since the beginning of the year, would find it more expensive to invest here.

"We might see a 5 percent sell off in the next few weeks," said one dealer. But other dealers welcomed the decision, saying it would level the playing field between local and foreign investors.

The raising of tobacco tax had a depressing effect on Richemont, which fell 200c to R59,50, and Rembrandt, which lost 45c to R45,40, but dealers said the effect could have been far worse. "I was surprised by how little they reacted," one said.

The rand gained 1,5c against the dollar to R4,4185 after a volatile day. Fears of violence surrounding a Zulu march in the morning sent the currency weaker, but it regained some ground before the Budget.

Dealers said most of what they were expecting had been in the Budget, but the easing of exchange controls had been a pleasant surprise. One dealer said the lack of detail about the exchange control relaxations in the Budget had probably helped the rand because players were uncertain as to how much money would leave the country when the changes came into play.

The most positive reaction to the Budget was seen on the bond market. The yield on the key R150 bond, which falls when the price rises, strengthened to 14,620 from 14,810. Dealers said the market was encouraged by the government's lower gross borrowing figures, which they said should take pressure off the local market.

Manuel's first Budget hailed and criticised

ANC calls on business to show its confidence by investing in SA

ARG 13/3/97 (49)

LEON MULLER

Big day: Finance Minister Trevor Manuel

CLIVE SAWYER
Political Correspondent

Finance Minister Trevor Manuel's debut Budget has been hailed by several parties for its steps to aid the poor, but lambasted by others for further burdening the middle-classes.

The Budget, announced in Parliament yesterday, was designed for deep transformation, while ensuring the Government lived within its means, Mr Manuel said.

There was a significant shift to spending on social services and to measures like tax relief for low-income earners.

Paying off government debt accounted for just more than 20 percent of the Budget, inevitable given pre-1994 borrowing.

Spending on welfare and on the criminal justice system - police, justice and prisons - went up.

Mr Manuel announced a huge increase in spending on housing, from just more than R1,5-billion last year to R4-billion.

Excises on tobacco and liquor, the so-called "sin taxes", increased sharply as part of a continuing programme.

Value-added tax was unchanged at 14 percent and customs duties on some goods were halved, while perks tax on items like company cars and travel allowances were raised.

Defence spending was cut drastically, also in line with the trend of recent years.

Reacting to the Budget, African National Congress policy department head Tito Mboweni welcomed the focus on poverty alleviation, the increases in old-age pensions, the reduction in the deficit and the tax relief for those earning less than R60 000.

While welcoming the relaxation of exchange controls, the ANC called on domestic and foreign business to demonstrate confidence in the economy by ensuring continued investment in South Africa.

The ANC was concerned about the continuing roll-overs of unspent funds.

"Unspent budgeted amounts are tantamount to denying some citizen of our country a service or the opportunity to get out of poverty," Mr Mboweni said.

The Communist Party generally welcomed the Budget, specifically the targeted tax relief for low-income earners and the significant increase in the housing budget.

National Party finance spokesman Theo Alant said the Budget contained many laudable instances of improved fiscal discipline and improved management of government finance.

But Democratic Party finance spokesman Ken Andrew said it did not do enough to encourage economic growth.

Provinces to have allocations effectively cut by 4%

(49) BD 13/3/97

Wyndham Hartley

CAPE TOWN — The nine cash-strapped provinces, which all overspent their 1996/97 budgets, have had their allocations effectively slashed by 4%, the new budget showed yesterday.

The real estimated reduction in provincial spending should amount to a loss in funding for the provinces of more than R3bn.

The budget review estimated that the budgeted provincial transfers, and an amount of R3,323bn for the improvement of conditions of service for public servants, would make a total transfer to the provinces of R84,129bn. This was an increase of 4,1% over the total paid to the provinces in 1996/97.

It was announced also that the projected inflation rate for this year would be 8,5%, making the allocations to the provinces an effective reduction of more than 4%.

Included in the budgeted amount for 1997/98 is also an amount of R9,476bn for reconstruction and development (RDP) carry through costs. This is money being paid to complete RDP projects currently under way in the provinces and cannot be spent at the discretion of the provinces. Almost R1bn of the provincial allocation is also spoken for in the form of increases in social grants.

Finance Minister Trevor Manuel said the budget council, which comprises the minister and the provincial MECs, had agreed that the allocations to the provinces could only be made after government debt costs had been paid.

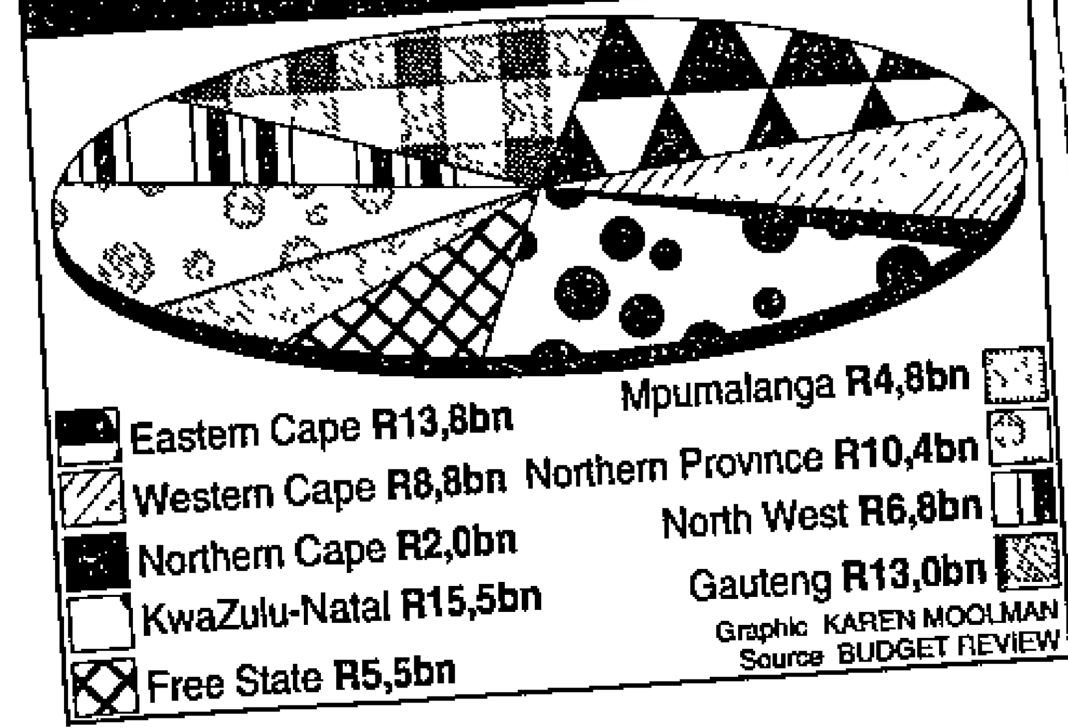
"It also agreed improvements in conditions of service, the carry-through costs of social pensions and the RDP commitments and an allocation to the housing programme would be set aide to be deducted from revenue before the division was made between the provinces and the national government.

Manuel said once this was done, the formula and percentage allocations to the various provinces as proposed by the Financial and Fiscal Commission was used to determine the amounts paid to each of the provinces.

The largest provincial allocation is to KwaZulu-Natal with a total of R15,492bn including RDP carry through and social grants, but excluding its share of the money set aside in the national budget for improving conditions of service.

The Eastern Cape was allocated R13,770bn, the Northern Province given R10,369bn and Gauteng R12,911bn. The smallest allocation was R1,974bn to the Northern Cape.

It was also announced that provincial sources of revenue would provide a further R3,8bn.



Standing up for the vulnerable: The Black Sash staged a silent street protest against the Cabinet's decision to accept the Lund Committee's proposals to cut state maintenance grants PHOTOGRAPH: ERIC MILLER/AFRIKA

Manuel heralds the year of the turnaround

As expected, the Budget held few surprises. But one thing is sure, this has to be the year of delivery, writes **Madeleine Wackernagel**

Forecast for 1997

	1996	1997*
Private consumption expenditure	3,0%	2,4%
Consumption expenditure by general government	2,9%	1,5%
Gross domestic fixed investment	6,0%	5,5%
Gross domestic expenditure	**3,1%**	**2,3%**
Exports	8,0%	7,0%
Imports	7,6%	5,0%
Gross domestic product	**3,1%**	**2,5%**
Exchange rate: SA rand/US dollar (Average for year)	4,40	4,75
Average rate of inflation	**7,6%**	**8,5%**
Prime overdraft (year-end)	**20,25%**	**18,25%**
Balance on current account of the balance of payments	**-R11,0bn**	**-R4,0bn**

* Forecast

Source Sacob

TREVOR MANUEL is not the only optimist on the state of South Africa's economy: the latest edition of *The Economist* magazine states. "A real turnaround seems to be under way."

And Manuel's "no smoke, no mirrors" Budget is designed to underpin the economy's renaissance and with it, the government's commitment to the Gear (growth, employment and redistribution) strategy

The Budget Review states: "Real incomes have begun to increase and a new vigour is apparent in South African industry and trade Investments are being made with growing confidence and international opportunities are widening. The 1997 98 Budget seeks to reinforce these trends, while continuing the expenditure reprioritisation . initiated by the Reconstruction and Development Programme "

A Budget deficit target of 4%, says Manuel, should not mean the end of social transformation. Expenditure will be kept down through better management controls — and "a firmer hand on wish lists" The time has come for the government to demonstrate that life can be different, he said on Wednesday. "It is imperative in the context of Gear to demonstrate that we are not just taking but also giving In this context, direct transfers and social grants are very important So the pressure will be on the South African Revenue Service to render unto Caesar what is due to Caesar "

In line with Gear, Manuel is taking a medium term approach, miracles are not on the cards Although his growth forecast — of 2,5% — is not quite as optimistic as the Reserve Bank governor's, who considers 3% more feasible, the medium-term prospects are "positive".

Manufacturing should benefit from supply side measures ensuring rapid expansion this year, while strong export growth will narrow the current account gap and greater inflows of capital will help shore up the foreign reserves

Inflation, while higher than last year, should still come in below double-digits but some easing is likely as domestic expenditure slows and the public sector borrowing requirement falls

So far, so positive There are plenty of negatives in particular the unemployment rate of 29% — or 4 7 million economically active people — according to the October 1995 Household Survey

But Manuel believes the combination of industrial, labour market and infrastructural development strategies within a sound fiscal and financial environment will ensure good progress on this front

Thus greater emphasis is placed on tax incentives for manufacturing industries and export promotion, superseding the general export incentive scheme, which will be phased out by the end of this year

Small business is also targeted with the Khula Enterprise Finance company up and running and a loans programme due to get under way this year Infrastructure spending is another potential job creator, with increasing use of small and medium sized contractors and more labour intensive construction methods To this end, a total of R19 billion has been earmarked for the principal projects — road construction, water provision, support for agriculture and industrial promotion programmes

With these programmes Manuel has managed to satisfy two different constituents business and labour, while keeping the promises made in Gear and still following the aims of the Reconstruction and Development Programme While it held few surprises — in terms of the parameters set out in Gear, the minister had little room to manoeuvre — it nonetheless marks a turning point this finally has to be the year of delivery

Comments from the gallery

Trevor Manuel's finest hour: a selection of gut responses on the first Budget devised by an ANC minister

NATIONAL PARTY: "The budget demonstrates shocking insensitivity towards the agricultural and forestry sectors of the economy.'

"The budget demonstrates a shocking insensitivity towards individuals in the middle and higher-income groups.'

The NP said it was shocked by the "unacceptably sharp" 52% increase in the excise duty on cigarettes, cigars and pipe tobacco.

It was also 'shocked that the Budget speech presented to the portfolio committee on finance was available in English only'.

■ Freedom Front: "The huge increases in excise duty on cigarettes and liquor were unacceptable and shocking,' the party said.

"At last the government has committed itself to stick to its economic plan In the past, too many plans have come and gone without being carried out," it said

■ Mangosuthu Buthelezi: the 1997/8 Budget was the first to take into account all of society "We have entered into the real democratic South Africa"

■ The South Africa Communist Party "generally" welcomes the Budget, specifically the targeted tax relief for lower-income groups and the significant increase in the housing budget.

The SACP welcomed the fact that the Budget made no provision for privatisation windfalls".

■ The Democratic Party's finance spokesman Ken Andrew: "All in all this is a Budget with a sting in the tail for ordinary taxpayers. Beneath its benign facade lie increased individual taxation, increased excise duties on a range of consumer products and no relief for people wanting to save."

The DP warned of cuts in capital expenditure at a time when the country needed new roads. There was a danger that roads that were already deteriorating would collapse, it said.

■ The ANC in KwaZulu-Natal: "This money will go a long way to address the problems of internal refugees, orphans of political violence, traumatised communities, the building of houses that were destroyed during political violence etc," it said

Of Trevor Manuel's Budget speech it said: "This is in stark contrast to former apartheid regimes that budgeted for the death and destruction of innocent South Africans and the peoples of Southern Africa." The ANC said it would remain the eyes and ears of the people and ensure that every cent of this money would be used for peace in the province.

■ Gauteng Premier Tokyo Sexwale said Manuel's offering was "prudent". The Budget showed that profound thinking had gone into its compilation and it would go a long way in increasing the confidence many people had in Manuel. He accepted the Budget with enthusiasm for its balanced nature.

■ The South Africa Foundation: "While it is unfortunate that the tax burden remains high, it was more important to meet the deficit reduction targets at this stage. But achieving higher growth targets will require further movement in tax reduction in succeeding Budgets."

■ The South African National Civic Organisation: It accuses Manuel of bowing to pressure from big business by relaxing exchange controls, which was going to negatively affect the government's revenue. "Even developed countries have exchange controls to ensure that income generated in domestically does not leave ... in huge amounts," it said.

"We do not want to trumpet the same old song, but we must ask if it is enough to ensure that every South African is in a position to get a house which is electrified and has access to clean water in a clean, stable, healthy and peaceful environment."

Extracts courtesy of Sapa

Manuel walks the tightrope with ease

Madeleine Wackernagel

HOW to keep spending under control without dramatically raising taxes? Trevor Manuel seems to have managed to walk the Budget tightrope with relative ease, although next year's revisions may tell a different story.

Expenditure in the 1997/98 Budget increases by 6,1% over last year's revised spending total to R186 747-billion, while revenue is tipped to rise 11,1% over the revised figure for 1996/97 to R161 976-billion, leaving a Budget deficit, as stipulated in the growth, employment and redistribution (Gear) strategy, of 4,1%

More important than the numbers however, is the allocation and true to his Gear principles, Manuel seeks to ensure redistribution is put into effect Thus, 55% of non-interest spending goes to the social services R40-billion for education, R20 billion for health, R18 billion for social security and welfare; and R4 billion for housing

In addition, R300 million is set aside for community based poverty relief programmes, with emphasis on rural areas and helping women, social security provision is increased by R1 billion and R75 million goes towards a flat-rate child support benefit, to replace the existing maintenance grant

The biggest beneficiary is education, winning 21 3% of total government expenditure (6 5% of gross domestic product) which is way over the international norm for developing countries but testimony to the ground that has to be made up in the wake of apartheid era inequities

Tertiary education will also gain, with R5,4 billion of the national vote of R5,5 billion

A big loser in this year's Budget — again — is the South African National Defence Force Its apportionment is down 6 5%, to R9,579 billion In the reprioritisation away from defence however crime prevention is high on the agenda The South African Police Service gets 20 6% more, or R11,919 billion while Correctional Services gets 28,1% more, R3,32 billion

Other big beneficiaries are Home Affairs, with R520 4 million, which includes R93,3 million for a new identification card system, Housing, which receives R4,038-billion; and Justice with R1,812 billion Direct comparisons with last year's Budget allocations are misleading however because in the case of health for example expenditure programmes have been devolved to the provinces resulting in reductions in the national Budget measure

Without unlimited funds at his disposal, Manuel did some dextrous juggling

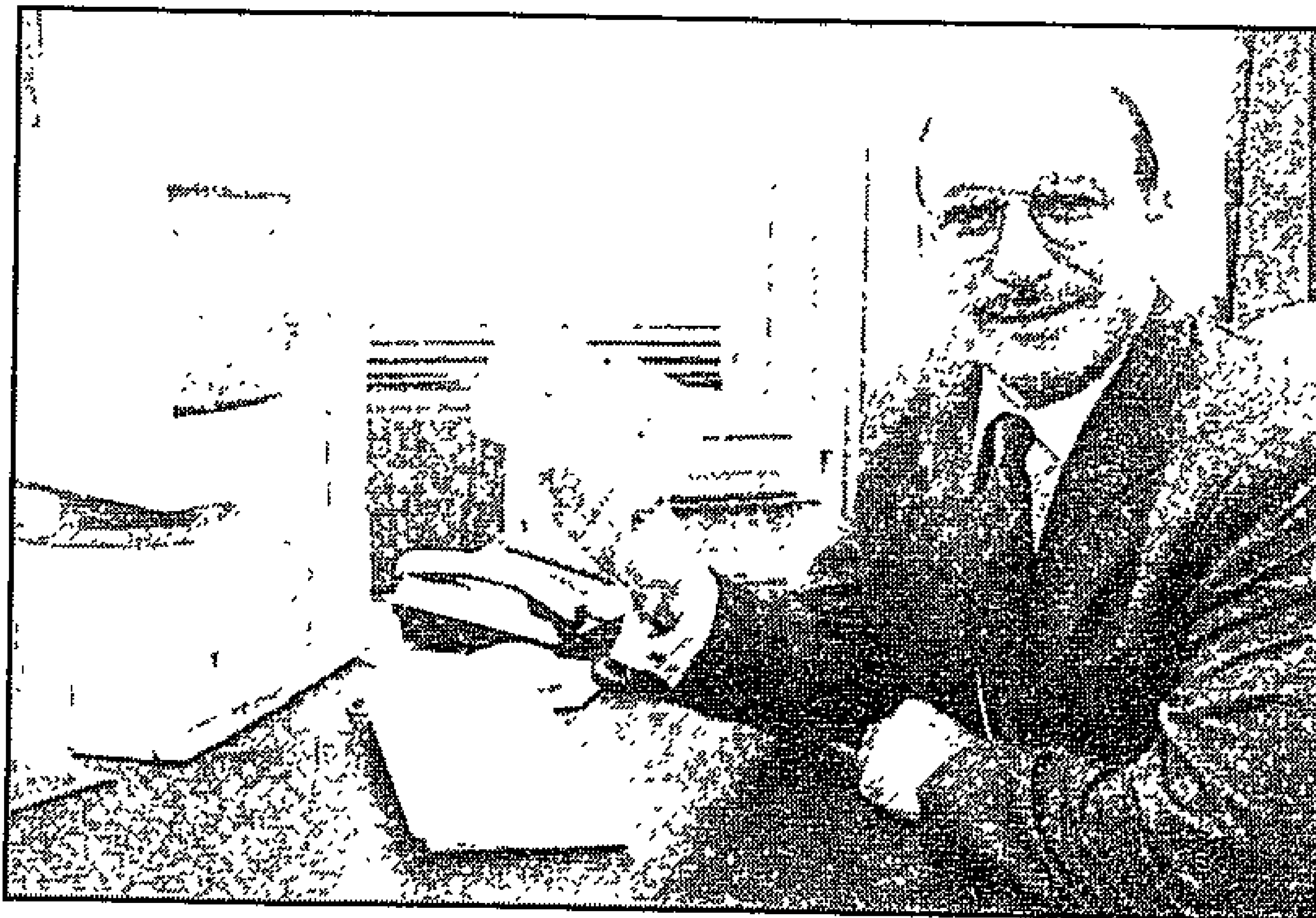
In addition, Reconstruction and Development Programme spending is provided for through the normal budgetary process with R4,378 billion set aside this year These projects include the primary school nutrition programme clinic building school building, urban renewal and support for improving the policing and criminal justice system, including the establishment of the first victim support centre in Port Elizabeth and community safety centres

Market reaction to the spending plans was favourable Said one analyst "Without unlimited funds at his disposal, Manuel did some dextrous juggling cutting the normal things like defence, while still keeping within the framework of Gear But what we'll be watching for now is that the money is effectively spent on delivery "

Budget pros and cons

Sowetan 14/3/97 (49)

Relaxing exchange controls casts shadows for some but the Budget seems to have cleared the skies for many. **Mike Cohen** clarifies...



Finance Minister Trevor Manuel's Budget placed the Government firmly on the path of spending on social upliftment and the development of human resources.

SOUTH AFRICA'S "transformation Budget", which bolsters social spending and the criminal justice system and cuts income tax for individuals, was unveiled by Finance Minister Trevor Manuel on Wednesday.

But the Budget was overshadowed by Manuel's announcement of bold steps to substantially relax exchange controls, giving individuals and local companies much greater freedom to conduct business abroad.

These measures and a R2,8 billion tax relief package for individuals went further than predicted, and were well received by the markets, with the rand strengthening by 2.5 cents during the Budget speech.

Budgeted expenditure for the year was R186,746 billion and revenue R161,976 billion, producing the targeted four percent deficit of R24,77 billion

At the end of Manuel's speech, attended by the full Cabinet, predecessor Chris Liebenberg and all party leaders, he received a standing ovation from African National Congress, Inkatha Freedom Party and Pan Africanist Congress members and a handshake from President Nelson Mandela.

The more significant changes to exchange control regulations include allowing individuals to invest limited funds abroad and hold foreign currency accounts in local banks subject to a prescribed ceiling yet to be announced.

Companies will also be able to raise capital abroad, transfer up to R40 million in assets for new ventures out of the country and, subject to certain restrictions, invest a percentage of their assets abroad. These measures will probably come into place on July 1.

On the tax front, the goods news for consumers was that the cost of fuel will not go up, VAT will remain at 14 percent, and the prices of some imported goods could drop as a result of certain customs duty cuts.

Smokers and drinkers will have to find alternative ways of celebrating if they are to reap any of the benefits. Manuel announced hefty increases in the "sin taxes" – cigarettes will go up by 54 cents a pack of 20, beer will cost three cents more a can and unfortified wine eight cents more a bottle. Increases will also apply to mineral water, soft drinks, spirits and sorghum beer

Tax relief measures will cost the fiscus about R2,8 billion and largely be financed through better tax collection, expected to reap R2,5 billion.

Lower- and middle-income earners will benefit most, with the effects of inflation having been eliminated for people earning less than R30 000, Manuel said.

A tax bracket had been created for those earning up to R30 000 who will be taxed at a rate of 19 percent. This reduces the number of income tax brackets from eight to seven.

Marginal tax for people earning between R40 000 and R45 000 will fall from 41 percent to 32 percent.

Primary rebates, which are deducted from the tax liability calculated as per the tax tables, have been increased from R2 660 to R3 215, but secondary rebates for people over 65 stay the same

Income at which people start paying tax has been raised to R16 291 from R15 580 for people under 65, and to R30 050 from R27 907 for people over 65

Benefits taxed

Fringe benefits such as company cars, travel allowances, housing and holiday accommodation will all be taxed more heavily.

Manuel said little about company taxes, other than that marketable securities tax will be halved to 0,25 percent.

As far as spending goes, 20,4 percent of the total budget or R39,6 billion will go towards interest on government debt.

The lion's share of the balance has been allocated to education, welfare and health.

On the expenditure side, the Defence Force will have its budget slashed by 9,4 percent from last year to R10,7 billion, but the SA Police Services, Correctional Services and Justice departments will all get more money

The police and related services have been allocated R13,1 billion, an increase of 14,4 percent on last year, prisons get R3,9 billion, a 23,5 percent increase, while the courts have been allocated R2 billion – up 13,3 percent from 1996/97.

● This year's Budget placed the Government firmly on the path of spending on social upliftment and the development of human resources

The highest allocation goes towards education, which accounts for 21,3 percent of the R186,747 billion budget and 6,5 percent of the country's Gross National Product. Manuel pointed out that this was high by international standards and signalled the priority which the Government attached to investing "in the future of our children".

Health accounts for 10,7 percent of the total budgeted expenditure, and represents 3,3 percent of the Gross Domestic Product on health.

Manuel said that while this was below the level of spending on health in industrialised countries (5,6 percent of GDP), it was well above the average for developing countries, which was a mere 0,9 percent of GDP.

Welfare takes 9,8 per cent of the Budget, and the elimination of fraud has resulted in the suspension of 46 682 beneficiaries, resulting in a saving of R241 million a year

Manuel reported that housing delivery was accelerating and R4 billion was being allocated for housing in the 1997/8 financial year He said the housing vote last year was less half this amount after substantial underspending in the 1995/6 year.

After setting aside the R39 billion for interest on government debt, nearly R60 billion of national and provincial government spending went to the social services – R40 billion on education; R20 billion on health; R18 billion for social security and welfare and R4 billion for housing. – *Sapa.*

Budget boost for Gear

(49) M+G (BM) 14-19/3/97

Trevor Manuel's first Budget confounded his critics and pleased the markets, reports **Madeleine Wackernagel**

THE South African Chamber of Business (Sacob) has long called for a champion to lead the government's growth, employment and redistribution (Gear) strategy. On Wednesday, it looked like one had been found

Minister of Finance, Trevor Manuel dubbed his first Budget the "transformation" Budget, which sets out to deliver a "better life for all" A tall order, but judging by the market reaction, not unattainable

"Manuel has managed to walk the fiscal tightrope and not lose his balance," said one economist. "He's done a pretty good job considering the constraints he faces," said another.

There were complaints, of course Sacob was keen on some measures to boost savings and to correct the imbalance between direct and indirect taxation. Instead, we got some adjustment for bracket creep in the lower income groups but value-added tax (VAT) remains unchanged.

Indeed, some economists raised the point that now would have been the best time to lift the VAT rate: "The political acceptability of a VAT hike lessens the closer we get to 1999," said Abri Meiring of Old Mutual "It makes more sense to help the poor through expenditure than through income tax measures As long as some compensation is introduced, in the form of food stamps, for example VAT is the most productive form of tax"

Another bugbear was privatisation Says Sacob "Business . . would argue that in addition to the state-owned enterprises themselves, numerous activities of the public sector can be examined in order to determine whether they can be more effectively undertaken by the private sector"

Nevertheless, Manuel went a long way in silencing most of his potential critics with the "philosophical shift", as he called it, on exchange controls. Essentially what we have now is a free exchange control regime with a few exceptions, against a regulated system with no exceptions, he said

And, depending on how this move goes, it won't be long before total freedom reigns "We're in the second half of the race now," said Dr Chris Stals, governor of the Reserve Bank "When we get to the last lap we can run much faster."

Impressive debut: Manuel dubbed his first Budget the 'transformation' Budget which sets out to deliver 'a better life for all' PHOTO ERIC MILLER/AFRICA

But while welcomed in principle, the lack of detail raised concerns. Dennis Dykes, chief economist of Nedcor, said uncertainty about what the limits would be when finally decided on in June could lead to unnecessary volatility in the currency markets

Corporations will be subject to prudential requirements, in line with practice overseas In Britain, for example, pension funds are only allowed to invest 10% of their assets outside the country But only individual taxpayers of "good standing" will be allowed to take advantage of the new measures — another sideswipe at the non-payers.

Nobody expects a massive capital flight to ensue after July 1, however. The limit for individual foreign currency transactions is likely to be in line with the new R80 000 travel allowance. And the limits will be re-evaluated as circumstances demand and reserves permit, said Manuel First off, the administrative issues have to be dealt with

It was what the market wanted — a clear signal that South Africa is well on its way to becoming a fully-fledged member of the global economy

But this Budget was not just about lifting exchange controls Manuel pounded home his message of stopping the "non-payment rot" time and again. "Our ability to [ensure equity and fairness in the tax system] is severely hampered by the culture of non-payment and evasion that has come to characterise our tax system. Non-payers and tax-evaders stand in the way of significant tax reform and relief

"The government will more vigorously enforce the tax legislation," he said. "We will actively pursue anyone who breaks the law"

And with the latest figures from the tax amnesty showing a disappointing R900-million received, albeit with VAT figures yet to come, Manuel will have to do all in his power to make sure his Budget balances

Business satisfied with the Budget

(49) Sowetan 14/3/97

By Isaac Moledi

FINANCE Minister Trevor Manuel managed to do an excellent balancing act in his Budget speech on Wednesday to appease both business and the public at large.

Business agrees that the overall Budget has been positive.

On the whole it has met most of the expectations of the business sector, particularly with concrete measures aimed at the relaxation of exchange controls, which can be regarded as a tool for building investor confidence in the country.

Looked at from business' point of view, Manuel's Budget is considered investor friendly.

Social development

It is also well disposed to the public, as it allocates substantial resources for social development.

But what is interesting to note is that the Budget reflects the seriousness of the Government concerning its strategy on growth, employment and redistribution (GEAR) and the implementation of the reconstruction and development programme.

The Institute for a Democratic South Africa believes the Budget is likely to contribute positively to the GEAR and growth but tangible progress on reprioritisation and the RDP remains a serious challenge.

RDP delivery has been assigned to the provinces, but without significant increases in provincial planning and delivery capacity socio-economic equity may have to await the indirect effects of private sector investment and growth

Idasa believes the macro-scenario within which the Budget was delivered is the most favourable

Since the depreciation of the rand several months ago, the economy has stabilised. Inflation is set at its lowest rate since 1972, foreign reserves have improved and growth has been positive for the fourth year running.

"This background allowed a bold Budget, including exchange controls," says Idasa.

At micro level it is important to note two positive points that support the implementation of the GEAR. These include several incentives to local and foreign investors which are a reduction of 0,25 percent in Marketable Securities Tax, a significant easing in exchange controls, a boost for privatisation and a reduction in the deficit with an even tighter deficit promised for next year.

In addition, *ad valorem* rates are reduced and a variety of supply side measures have been introduced to support trade and industrial development.

Particularly commendable in these measures, says Idasa, is the greater focus on small, medium and micro-enterprises and the bias towards investment support in the Southern African Development Community countries.

Significant gains

"The exchange controls relaxation, specifically the measure which allows South African companies to diversify on the international market, could give an impetus to unbundling," Idasa argues.

The Budget also reflects significant macro-level efficiency gains and sets up structures to achieve further resource savings.

"In future, we can look forward to the efficiency gains of the debt management office and improved information collection systems and inter-departmental coordination."

MARCH 15/16 1997

NEWS

'Budget does not serve the needs of women'

'Drop VAT on household essentials'

ARG 15/3/97 (49)

ALIDE DASNOIS
Business Editor

The Budget tabled in Parliament by Minister of Finance Trevor Manuel this week still does not serve women as well as men, Debbie Budlender and Pregs Govender of the Women's Budget Initiative have charged.

The Women's Budget Initiative is a joint project of Parliament's Joint Standing Committee on Finance, the Law, Race and Gender Unit and the Community Agency for Social Enquiry.

Reacting to Wednesday's Budget, Ms Budlender said allocations to the provinces would have a negative impact on women.

Apartheid had put the poorest provinces, where more of the population was rural and female, at a disadvantage, she said, and "the new Budget does virtually nothing to reverse this trend".

The three provinces where 60 percent of African women live – the Northern Province, the Eastern Cape and KwaZulu-Natal – would get almost 10 percent less per head of population than the three richest provinces (Gauteng, the Western Cape and the Northern Cape) where about 15 percent of African women lived.

Women, who relied more than men on Government services, would be particularly hard hit, said Ms Budlender.

'Government's anti-crime strategy does not reflect needs of women, who suffer most from crime'

In many rural areas, old age pensions were virtually the only source of income for very poor women, she said, noting that the 9,3 percent increase in social pensions – which will cost R1 billion – provided only a slight increase in real terms.

"Women need a commitment to maintaining old age pensions in real terms over the long term, with increases invariably to match inflation, as a minimum."

On child maintenance payments, the Budgeted increase of R75 million would not come close to raising grants sufficiently to cover the cost of raising a child, Ms Budlender said.

"The Budget does nothing to relieve the tax burden for most women," she said, charging that the tax savings would not help most African women, who are unemployed, or the two thirds of women workers who earn less than R15 000 a year.

Rather, she said, the Government should extend VAT zero-rating to cover other household necessities including paraffin, and increase VAT on luxury goods.

The Women's Budget Initiative gave the Government good marks for cutting the defence budget and improving social services, for higher perks taxes and for tougher taxes on alcohol which would "reduce the danger of physical attacks on women by men who have been drinking".

But it slammed the anti-crime strategy, claiming that this did not reflect the needs of women, who suffer the most from crime.

"The increase in policing seems unnecessary, as the sector primarily requires clear targeting rather than increased funding," said Ms Budlender.

Health spending should be more closely focused on women's needs, she said.

And cuts in budgets for water, agriculture and land affairs could hit rural women hard, she warned.

The Women's Budget Initiative called on the Government to involve departmental gender units more closely in policy and budget processes.

All policy proposals to the Government should define the potential impact on women, especially in poor communities, and the Government should "reduce the secrecy" surrounding the Budget.

Manuel performs balancing act to general applause

(49)

ST(BT) 16/3/97

Both financial market players and social welfare pundits seem happy about Trevor Manuel's Budget, writes MARCIA KLEIN

FINANCE Minister Trevor Manuel's maiden Budget appears to have created a perfect balance between acknowledging the importance of local markets and foreign investment, and improving on social delivery

This is clear from the positive reaction among both financial players and social welfare pundits Market reaction saw the rand firm to R4 39, breaking the level of R4 40 to the dollar.

The main thrust of Manuel's Budget is to limit the increase in expenditure to 6.1% (total expenditure is budgeted at R186 7-billion) and increase revenue by 9 9% As expected, the target deficit is 4% of gross domestic product in 1997/98 compared with the 5 1% achieved this year

Other major budget initiatives include relief for lower-income earners and significant concessions on exchange control The Budget reflects a shift towards expenditure on social services, including health and education

The Budget suggests a commitment by government to live up to optimistic targets set in its recently announced GEAR macro-economic policy

Syfrets economist Sandra Gordon says a welcome change "was the introduction of a longer-term perspective to the Budget with a number of short-term decisions taken to improve the growth potential of the economy". These include incentives for export

> 'A welcome change is the longer-term perspective with short-term decisions to improve growth'

There is some concern that government's tight expenditure targets will not be met. But BOE Natwest Securities economist Nick Barnardt points out that excluding interest on debt, the budget provides for an expenditure increase of only 3.9% While government may overspend, as it did this year, by a few billion rand, revenues could "well overrun the Budget's relatively cautious estimates", so the 4% deficit target should be met, Barnardt says.

He says government's commitment to limit spending growth is "most pleasantly surprising" in the face of an inflation rate above 9% and a "plethora of demands for government spending across a wide range of provincial and national functions". Government spending is budgeted to be less than the expected inflation rate for the first time in years

Some critics say the Budget did little to move the burden from direct to indirect taxation. An increase in VAT was not expected, but there was little to suggest a move in this direction.

GOVERNMENT SPENDING

	BUDGET R billion	% OF TOTAL
SOCIAL SERVICES	88.6	46.9
– Education	40 3	21 3
– Health	20 2	10.7
– Social security and welfare	18.4	9.8
– Housing	4.2	2.2
– Other	5.5	2.9
PROTECTION SERVICES	29.6	15.7
– Defence	10 7	5.7
– Police	13.1	6.9
– Prisons	3 9	2.0
– Courts of law	2.0	1.0
ECONOMIC SERVICES	18.9	10.0
– Transport and communication	7.3	3.9
– Agriculture	4.5	2.4
– Water and related services	1.9	1.0
– Export trade promotion	1.4	0.8
– Other	3.8	2.0
OTHER GOVERNMENT SERVICES	14.6	7.0
INTEREST	38.5	20.4
TOTAL ESTIMATED EXPENDITURE	190.2	–

Source: BUDGET REVIEW

GOVERNMENT REVENUE 1997/98

	ESTIMATE R billion
TAXES ON INCOME AND PROFITS:	
• Companies	24 2
• Secondary tax on companies	1.3
• Individuals	65.1
• Tax on retirement fund industry	2.7
• Interest on overdue tax	0.7
Taxes on property	2.4
DOMESTIC TAXES ON GOODS AND SERVICES:	
• Value Added Tax	40.3
• Excise duties	7.9
• Fuel levy	11.6
Customs duties	7.1
Stamp duties and fees	1.3
Customs union agreement	5 2
TAX REVENUE (net)	159.0
NON-TAX REVENUE	2.8
TOTAL ORDINARY REVENUE	162.0

THE BUDGET'S ECONOMIC CRITERIA

	1996/97 REVISED FORECAST	1997/98 FORECAST
GDP (R billion)	560.0	622.0
GDP growth	3%	2.5%
Inflation	8%	8.5%
Private spending	3.5%	2%
Nominal import growth	24.5%	7%
Average wage increase	12.5%	11%
Employment growth	-1.5%	0.5%

Note: Projected percentage changes are rounded to the nearest quarter of a percent

Forex inflows will exceed outflows

EXCHANGE CONTROL

By MARCIA KLEIN

GOVERNMENT's bold steps towards abolishing exchange controls could see an immediate outflow of billions of rands, but this would be more than offset by incoming investment, economic sources say.

Exchange control concessions announced in this week's Budget include an increase in travel allowances to R80 000 for adults. Individuals will be allowed to take an unspecified amount of capital abroad and maintain foreign currency deposit accounts The amount allocated to individuals could be between R50 000 and R100 000.

SA corporations will be able to raise foreign funding on the strength of their balance sheets and institutional investors will be allowed to make foreign acquisitions with a percentage of their net inflow of funds

Deputy Finance Minister Gill Marcus said this week the Reserve Bank would set up guidelines as soon as possible. On Thursday the Reserve Bank met with commercial banks. A spokesman said 90% of the issues were discussed with the exception of investments abroad by individuals. Most of the concessions are now in operation All will be in force by July 1.

BOE Natwest Securities' Nick Barnardt estimates that forex concessions will facilitate capital outflows of about R10-billion. But he says "this should be compensated for by accelerated net equity inflows, privatisation inflows and direct fixed investment from outside" Privatisation proceeds alone are expected to yield R10-billion this calendar year.

Economists do not expect large flights of capital. The relaxation will facilitate geographical diversification, but with high interest rates and a stabilising rand, South Africa remains attractive for investment.

Estimates of money that has already left the country illegally vary considerably, but tens of billions of rands outside the tax net have undoubtedly left.

Wealthier citizens in for a mauling

ST (BT) 16/3/97

Even lower-income earners don't have that much to celebrate, reports TERRY BETTY (49) (~~illegible~~)

THE much-vaunted gain in take-home pay of lower income earners has been overstated, but wealthier taxpayers who enjoy structured packages are in for a real mauling.

Changes to personal tax announced in the Budget include reducing the number of tax brackets from eight to seven. This offers some relief to individuals from fiscal drag and results in a tax saving of R805 (before inflation) for those with taxable incomes of R45 000-R70 000.

Further relief is offered through the increase in the primary rebate from R2 660 to R3 215.

The marginal rate still kicks in at 45% for those who earn over R100 000.

Some fringe benefits, namely company cars, travel allowances, residential and holiday accommodation, have been squeezed.

The SITE limit has been raised from R50 000 to R60 000.

The four accompanying examples, across the spectrum of income earners, show that employees on tax-structured packages are hardest hit, though lower-income earners have little reason to celebrate.

The take-home pay of the R40 000 earner has risen by only 1.6%, or a mere R36 25 a month. However, as the tax savings table (below) shows, for someone earning R17 000 a year, or R1 417 a month, tax is virtually eliminated from R270 to R15 a year.

Willem Van Ryswyck, partner at Deloitte & Touche, says clamping down on fringe benefits sends the wrong message to young, desperately-needed professionals already considering leaving the country. "Was it necessary to crack the walnut with a sledgehammer?"

The example shows a young professional's monthly earnings fall by R687 (13%). The executive's salary drops by 26%, largely due to the tax on second company cars. Van Ryswyck says the second company car is doomed to extinction.

"Those using fringe benefits have been salary earners for years, and have paid taxes for years. They'll now pay even more. Should the government not devote its time and effort into tapping into the market of non-taxpayers?"

Heavy smokers are in for a dire year. Tobacco duties are to rise by 52%, bringing total tax, including VAT, to half the average retail price, and smokers will have to pay an extra 27c for 10 cigarettes, which translates into a R200-a-year increase.

YOUNG WOMAN

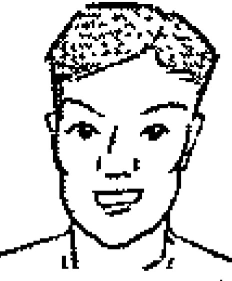
She has an annual salary package of R40 000, of which R6 000 is paid into medical aid and R3 000 into the pension fund by the employer. The employee contributes R2 000 to the pension fund.

	BEFORE	AFTER
TAX PAID	R2 730	R2 295
TAKE HOME PAY	R26 270	R26 705
INCREASE R435 (1.66%)		

COMMENT.
The talk of more beneficial tax brackets for lower income earners is exaggerated.

Graphic FIONA KRISCH Source DELOITTE & TOUCHE

YUPPIE



He has a fully tax-structured annual package of R120 000, of which R6 000 is paid into medical aid, and R9 000 into the pension fund by the employer. The employee contributes R6 000 to the pension fund. The employee receives a travelling allowance out of his total cost of employment to pay for his business travel. He has a R75 000 motor car and travels 30 000km per year. Included in the above package are R24 000 of rental payments made by the employer to lease residential accommodation for the employee.

	BEFORE	AFTER
TAX PAID	R11 656	R19 898
TAKE HOME PAY	R63 344	R55 102
DECREASE R8 242 (13.01%)		

COMMENT
Clearly affected onerously by the changes, particularly the residential perk.

Graphic FIONA KRISCH Source DELOITTE & TOUCHE

EXECUTIVE

He has a fully tax-structured annual package of R500 000, of which R12 000 is paid into medical aid and R60 000 into the provident fund by the employer. The employee receives two company cars as part of his total cost of employment - they each cost R200 000 and cost R96 000 to run each year (these amounts are part of the R500 000). He, his spouse and his two children spend 14 days a year at the company cottage in Plett.

	BEFORE	AFTER
TAX PAID	R128 182	R157 195
TAKE HOME PAY	R107 818	R78 805
DECREASE R29 013 (26.91%)		

COMMENT.
Very significant decrease, because he receives all the attacked fringe benefits.

Graphic FIONA KRISCH Source DELOITTE & TOUCHE

PENSIONER

She receives R80 000, is over 65 years old and incurs medical expenses of R6 000 per year.

	BEFORE	AFTER
TAX PAID	R20 160	R19 395
TAKE HOME PAY	R56 340	R57 105
INCREASE R765 (1.36%)		

COMMENT.
Remains very much unchanged

Graphic FIONA KRISCH Source DELOITTE & TOUCHE

TAX SAVING BEFORE PERKS TAX HITS YOU

TAXABLE INCOME	1996/7 TAX PAYABLE	1997/8 TAX PAYABLE	TAX SAVING
R17 000	R 270	R 15	R255
R20 000	R 840	R 585	R255
R25 000	R 1 890	R 1 535	R355
R30 000	R 2 940	R 2 485	R455
R35 000	R 4 440	R 3 985	R455
R45 000	R 7 990	R 7 185	R805
R50 000	R10 040	R 9 235	R805
R55 000	R12 090	R11 285	R805
R60 000	R14 140	R13 335	R805
R70 000	R18 440	R17 635	R805
R80 000 and over			R705

Source: ERNST & YOUNG

Budget spurs new run in growth

(49)

ST (BT) 16/3/97

Reserve Bank sets unchanged money supply target, writes SVEN LUNSCHE

RESERVE Bank Governor Chris Stals on Friday declared the economic downturn over, providing a further tonic to improved investor sentiment

Addressing the parliamentary finance committee, Stals said South Africa could have its fourth successive year of growth at about 3% in 1997 Just over two months ago the consensus growth forecast for 1997 was a mere 2%.

Much of the credit for the improved outlook has to go to this week's Budget. By cutting spending by about 3% in real terms, Finance Minister Trevor Manuel has made room for an interest rate cut by mid-year, say economists.

In line with his more optimistic growth forecast, Stals announced that the guideline for money supply growth had been set at 6-10% for this year, unchanged from 1996.

Stals said the re-emergence of inflationary pressures in the latter half of 1996 made it imperative to bring current high money supply and bank credit extension growth to lower levels.

"The present situation clearly therefore calls for the retention of a restrictive monetary policy stance."

However, Stals indicated that the curb on state spending could pave the way for an easing in monetary policy later this year.

"The Budget's contribution to financial discipline reduces the need for a restrictive monetary policy," Stals said.

"Normally one would have expected after three-and-a-half years of economic expansion that the business cycle would turn and that economic activities would decline," Stals said. "We've had a slowdown in growth for about six or nine months and we are already at this stage seeing some signs of improvement.

"We feel fairly comfortable about prospects for the economy in 1997 Things may go better than predicted at the end of last year," he said.

An economic growth rate of 3% would provide a significant boost to Manuel in his effort to achieve a 4% budget deficit for 1997/98

Manuel has based his Budget forecast on 2.5% economic growth over the year. A stronger economy could boost revenue from the budgeted level of R162-billion.

Economists have questioned the attainability of government's tough 4% deficit target for 1997/98, particularly the real 3% cut in spending that underlies it.

In an interview on Friday, however, Manuel insisted that the cuts were attainable through a combination of better cash and debt management as well as improved procurement policies.

The Minister of Finance was adamant that the government would not have to renege on its R6.5-billion-a-year package deal with the unions to improve the salaries of civil servants.

Manuel further said that proceeds from privatisation would not be utilised in the 1997/98 fiscal year to reduce the deficit.

In the longer term, however, proceeds from the sale of parastatals would help to address the debt burden, he added. Interest on the state debt, at R39-billion, is the largest item in the Budget.

BUDGET TALK

For more budget copy see Business Times page 3, Money pages 25 and 26 and the analysis pages in the Sunday Times main section

Picture: TERRY SHEAN

TAKING CREDIT . . . Finance Minister Trevor Manuel, whose Budget was well received

● Stals announced on Friday that the Reserve Bank was increasing prices for providing forward foreign exchange cover in a bid to cut its exposure, Reuters reports.

"We can make the price of forward cover more and more expensive and so discourage the private sector from coming to the Bank to make use of forward cover, and this we certainly do," he said.

Stals noted that the oversold forward position of the central bank — which offers cover on behalf of the government — had increased to some $20-billion this year from $8-billion a year ago But this was now declining and would continue to do so if South Africans believed the rand was stabilising.

Now hawkers are making us pay for our sins!

By ALI MPHAKI
Business Editor

TREVOR MANUEL stuttered and stammered through some African languages when he delivered his almost flawless Budget speech on Wednesday.

It's on record that Manuel's "People's Budget" has been widely welcomed by various sectors – with most describing it as a sound framework for economic growth.

However, life after Manuel's speech has been interesting – especially with the 50 percent increase on the so-called "sin taxes".

□ In downtown Johannesburg on Wednesday afternoon, the gunfire from Zulu marchers commemorating the 1994 Shell House shootings did not dampen the entrepreneurial spirit among hawkers.

Almost immediately after Manuel's speech, prices shot up in accordance with the new Budget.

"Loose draws" – as single cigarettes are called – shot from 50c each to 90c and even R1.

The price of cigarettes has gone up by 54c for a packet of 20, while pipe tobacco now costs an extra R2,49 per kilogram.

Hawkers, despite having bought the cigarettes at pre-Budget prices, were simply too eager to do things the Manuel way.

"Do you hear? Beer is also up. The minister said these increases come into effect immediately," chuckled one hawker to another as they listened to Manuel's speech on radio.

The latest increases mean that a packet of cigarette now costs R5,20, a leap from R4,50. A packet of 30s now costs R7,40, while it used to cost R6,20.

The smokers of Camel cigarettes have been hit hard. A packet of Camel 20 now costs R7,40 – up from R6,50.

Interestingly, South Africa's leading cigarette manufacturers, have no say in the price hawkers charge for their products. A United Tobacco Corporation marketing spokesman said they only sell to wholesalers and do not keep tabs of how much the wholesalers charge and how much hawkers charge per cigarette pack.

□ Quick arithmetic shows that on one 20-pack of cigarettes, with each loose draw selling at R1, hawkers make a whopping R14,80 profit. In the case of 30s, with each loose draw going for R1, a hawker pockets a clean R22,60 per pack!

"At least we will make some profit. This Manuel guy seem to have our well-being at heart," an obviously elated hawker said.

□ Asked who decided for how much they should sell the loose draws, a hawker said they are controlled by demand – and simply talk among themselves to decide how much an item should cost.

□ A survey of some Soweto shebeens and bottle stores also reveals an interesting pattern.

At the White City bottle store a case of 750 ml beer now costs R33, up from R32. Each 750 ml beer bottle (kokoromba) is up from R3,30 to R3,50.

A cashier at the bottle store said most shebeeners sold one kokoromba at R3,70, while some have marked up their price to R3,90.

The cashier said they have not changed the prices of their cans, which still keep the pre-Budget price of R2,30 a can.

She added that since she had not yet bought new stock of spirits, prices were still in the pre-Budget state. One bottle of KWV (750 ml) still costs R48,50.

□ Sorghum beer has gone up by 1,2c per litre – while the prices of cane, whisky, brandy and gin have been increased by 66c per 750 ml.

□ At Hilary's Take-Away Chicken in Dube, entrepreneur Sipho Motsamai said he would still sell his liquor at pre-Budget prices.

"My 750 ml beer will still retail at R3,50, while the cans remain at R3 each," he said.

"I am not in a hurry to use the new prices since most of my stock was bought before the Budget. I will alter the prices as soon as the current stock is finished," he said.

□ Meanwhile, beer drinkers vowed not to quit the habit despite the increases. As for the smokers, many said it was going to be very difficult now to "bum" a cigarette from another smoker.

□ Masa Mthembu encapsulated the view of many drinkers when he said: "When bus tariffs were hiked in the fifties, people boycotted buses and decided to walk to work – even from as far as Alexandra to the city centre. Beer prices have been going up throughout the years – but one is still to see a national boycott of beer taking place!

"The government surely knows who their soft targets are when it comes to raising taxes."

□ That Manuel's Budget had been well received, was clear on Thursday morning – when pensioners who receive their pension payouts at banks came in droves to check out the new increase of 9,3 percent in their social grants.

Guinea More, Perm Building Society manager in Dube, said he had to explain to scores of pensioners that the increase would only come into effect on July 1.

"Most told me they had seen on TV that their grants had been upped from R430 to R470 a month. I must say I was overwhelmed by their high spirits – and the fact that they know how much they are supposed to get.

"It's very encouraging," said More.

CP 16/3/97

(49)

Give the people a say – NGOs

By Edwin Naidu

Star 17/3/97 (49)

The South African NGO Coalition, which represents hundreds of groups around the country, has called for restructuring of the budgetary process so that ordinary citizens can make input before it is finalised.

Executive director Kumi Naidoo said the coalition believed the entire budgetary process should be reformed so that ordinary South Africans would have a say in determining the country's financial future.

"We are concerned that only Parliament, and none of the citizens of the country, had anything to do with the drawing up of the Budget.

"The Budget has been developed over an 18-month period, almost exclusively for departmental staff. There is no mandate to involve communities or NGOs in these deliberations."

He said in serving its people, the Government had to ensure that the budget process was reformed, and that local communities were involved in a process of planning and budget prioritising.

The coalition planned to spearhead an international campaign to call for debts owed to overseas organisations which had financed apartheid be written off, Naidoo said. "It is sad to see that the democratic government continues to take money that should go to the poor, and give it to the rich in their finance houses here and abroad. This is done to service the debt run up by the apartheid government."

Director of the Community Agency for Social Enquiry Dr Dave Everatt said it was "terrific" that 40% of the social services budget went to education, but "ludicrous" that 39% of it was still being used to service apartheid debts.

Cosatu calls for greater say in Budget

Star 21/3/97 (49)

By Jovial Rantao
Political Correspondent

Cape Town – A frustrated Cosatu has threatened to halt its participation in Parliament's portfolio committee on finance unless a reformed budgetary process is introduced.

The trade union body hit out at the present process, saying the committee was unable to make a significant impact on this year's Budget presented by Finance Minister Trevor Manuel.

In a submission to the committee, assistant secretary-general Zwelinzima Vavi said: "As Cosatu we are frustrated by the constraining nature of a process which renders meaningless contributions from civil society and the deliberations of the elected people's representatives.

"For this reason we have, after some deliberation, decided that unless the Budget process is fundamentally transformed to accommodate for real public input and effective parliamentary oversight, this submission on the 1997-98 Budget will be our last," Vavi said.

He said Cosatu would take part in future parliamentary Budget hearings only if meaningful participation were made possible through a reformed budgetary process.

Cosatu called on the committee to see that legislation, which would enable Parliament to amend money bills, was passed into law this year.

"The objective of legislation that will allow the amending of money bills should be to see that the committee, Parliament and organisations of civil society will be able to play a more effective oversight role.

"They must be able to make meaningful contributions on decisions concerning financial policy and expenditure and revenue levels.

"We also need to allow for proactive participation in the budgetary process.

"This is very important because the adoption of a medium-term expenditure framework, without effective public participation, is likely to be even more centralised and impenetrable than the present system.

"We completely reject the proposal, as put forward by state expenditure director-general Hannes Smit, that the public participation aspect of multi-year budgeting may be delayed until the second phase of the framework – that is, for at least another three years," Vavi said.

He added that processes should be put in place that would allow civil-society organisations, the National Economic Development and Labour Council's finance and monetary chamber, and members of Parliament to participate in the Budget debate at earlier stages of the process, such as during meetings of the Budget Council.

Vavi said it was vital that public and parliamentary oversight should be included in the process for next year's Budget, which would begin at the end of this month when the departments submitted their proposals to the Department of State Expenditure.

Cosatu called for Smit's dismissal, accusing him of undermining the constitution's commitment to transparency and democratisation.

Cosatu saw the 1997-98 Budget as a missed opportunity to launch a widespread development programme which could have addressed some of South Africa's most pressing economic needs.

Cosatu launches fiery attack on Budget procedure

(49) CT(BR) 21/3/97

CHRISTO VOLSCHENK
ECONOMICS EDITOR

Cape Town — Cosatu shot down the Budget yesterday, called for the resignation of Hannes Smit, the director-general of state expenditure, and said it would turn its back on the Budget procedure in parliament.

The union federation claimed the finance committee had no power to amend legislation and said it would not return to the parliamentary finance process until legislation gave the committee the power to amend the Budget as recently tabled by Trevor Manuel, the finance minister.

During a heated debate at a hearing of the committee on the Budget, Zwelinzima Vavi, Cosatu's assistant general secretary, said the committee was "unable to make any impact on the Budget". Until now the committee could only accept or reject the proposed Budget, but could not amend it.

Vavi shot the Budget down in flames saying "it fails miserably at addressing the national tragedy of unemployment".

Members of parliament said afterwards that Cosatu's stance was more proof that tension was building between the government and organised labour.

Vavi called for the "immediate dismissal" of Hannes Smit for "undermining attempts to empower parliament in Budget-making". Smit told the committee last week that it could take years to reform the Budget process and give parliament an effective say in the Budget.

Budget watchers outside parliament have remarked that the government appeared to be dragging its feet on Budget reform.

"A white paper on Budget reform has been in the pipeline for more than a year and still there is no sight of it," said Warren Krafchik, the head of the Budget unit of the Institute for Democracy in South Africa (Idasa).

Last week Smit told the committee the white paper would not be released before October this year.

Vavi said Cosatu "finds it completely unacceptable that such a high-ranking state official should undermine the constitution's commitment to transparency and democratisation by undermining attempts to empower parliament in Budget-making".

Cosatu demanded the legislation to give the committee the power to amend the Budget be launched through parliament this year.

Vavi also urged the committee to put pressure on the finance and state expenditure departments to table the legislation in parliament.

Smit was unavailable for comment yesterday

Cosatu called the steps announced in the Budget to relax exchange controls as "a serious setback" to development and said the Reserve Bank's policy of keeping the real interest rate high "must be condemned as myopic".

It said South Africa did not face a debt trap since the level of debt as a percentage of gross domestic product was lower than that found in the majority of industrial countries.

FINANCE *Parliament demands more say*

Government slated for slow Budget reforms

(49) CT (BR) 25/3/97

CHRISTO VOLSCHENK
ECONOMICS EDITOR

Cape Town — The parliamentary portfolio committee on finance registered its "extreme concern" yesterday at the slow pace at which the government was moving to give parliament a bigger say in the Budget.

Section 77 of the Constitution compels the government to table a bill in parliament which will enable the portfolio committee on finance to amend so-called money bills such as the Budget.

Until now the committee could only accept or reject the Budget proposed by the finance minister.

No bill has been tabled yet, and the release of a white paper on budget reform had been delayed until this October.

In a report tabled in parliament yesterday, the committee called for a "transformation team with political authority" to be put in charge of the budget reform process.

"The process currently consists of separate initiatives emanating from the various role players with an interest in budgetary reform, including the Financial and Fiscal Commission, the ministry of finance and parliament. These initiatives must be drawn together," the committee said

Last week Cosatu said it would give no more input on the Budget at meetings of the committee until it (the committee) had been empowered to amend money bills.

It also called for Hannes Smit, the director-general of state expenditure, to be sacked because he stood in the way of faster budget reform.

Smit had previously explained to the committee that New Zealand took eight years to complete a similar budget reform process. Cosatu then called Smit a "stumbling block" to rapid reform.

Bongani Mpahlwa, the chairman of the committee, said yesterday the committee "does not share the view that Smit was a stumbling block to budget reform".

The committee endorsed the Budget Council's decision to deduct state debt costs from revenue before dividing the balance between the nine provincial governments.

The committee recommended that forced retrenchments of public servants be "explored. Government's plan to shed 100 000 civil service jobs had not been implemented," it said.

Embattled state expenditure chief gets strong support

(49)

CLIVE SAWYER
POLITICAL CORRESPONDENT

ARG 25/3/97

State expenditure head Hannes Smit, who came under fire for the slow pace of Budget reform, has won the powerful backing of Parliament's finance committees.

The National Assembly and National Council of Provinces finance committees, in a report to Parliament after seven days of hearings of evidence on this year's Budget, rejected calls for Mr Smit to be axed.

They labelled it "unfortunate" that Mr Smit had been singled out during the hearings. Sipho Mpahlwa, chairman of the National Assembly committee on finance, said: "We've worked with Hannes for three to four years and he is one of the most co-operative officials." The row came after frank admissions by Mr Smit and finance director-general Maria Ramos that progress on Budget reform was slow and would continue to be so.

Government cash control falling apart – watchdog

(49)

CLIVE SAWYER ARG 26/3/97
POLITICAL CORRESPONDENT

Unauthorised spending by government departments totalled more than R151-million in the 1995/96 financial year, Auditor-General Henri Kluever told Parliament today.

Mr Kluever said government financial administration was "slowly but surely deteriorating". The trend had been noted first in 1989 but had accelerated after many financial managers took voluntary severance packages.

In most cases the unauthorised spending, which took place in nine departments, involved non-compliance with State Tender Board procedures.

The Health Department was involved in unauthorised spending involving R58-million, including R10,5-million for the Sarafina 2 AIDS-awareness musical.

The department also spent R30-million on fees to consultants without following Tender Board directives. It spent R15,5-million without authorisation on 1 779 consultants to audit the health facilities funded by the Reconstruction and Development Programme.

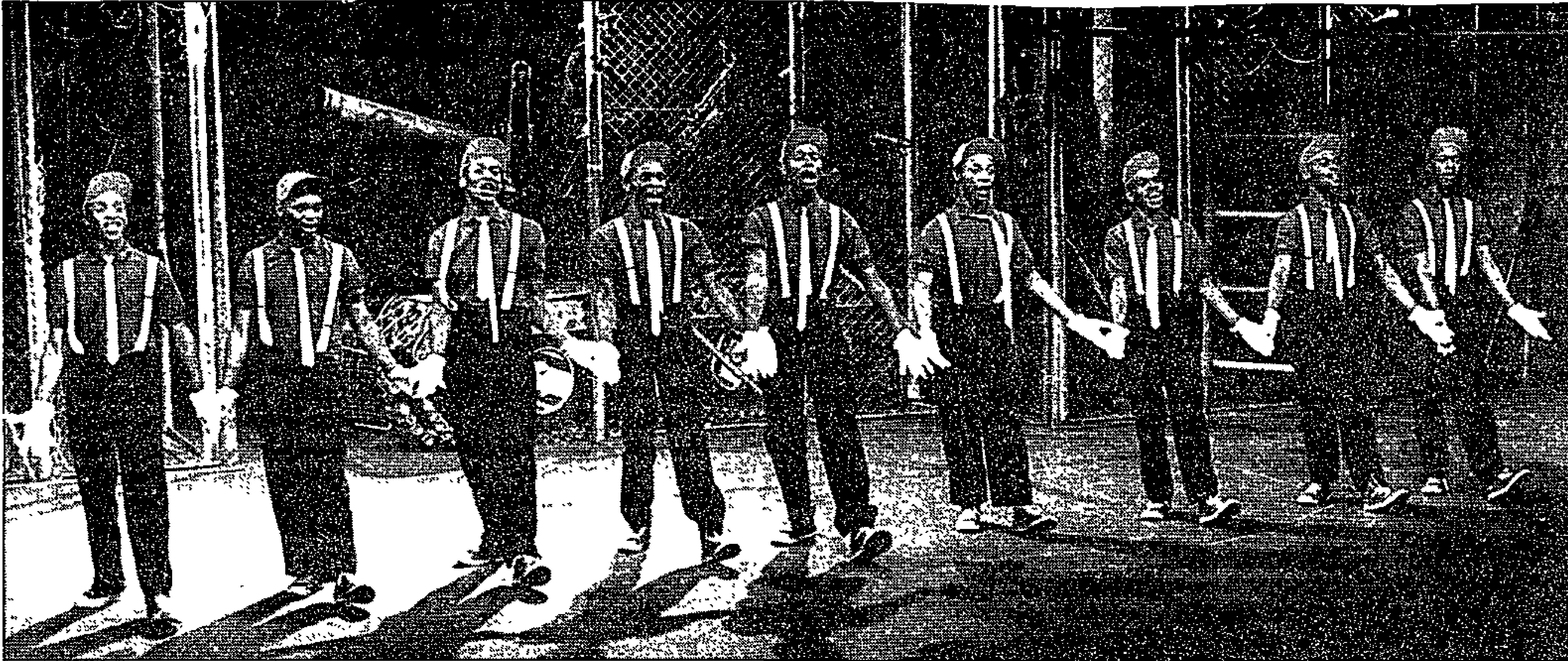
Other unauthorised spending included R1,1-million to an organisation marketing primary health care, R261 892 to "unofficial members of 13 different reconstruction committees" and R345 908 for a special event on AIDS Day in 1995.

Correctional Services spent R35,4-million the Treasury declined to approve.

The Education Department spent R150 019 and the Environmental Affairs and Tourism Department R74 711 without following Tender Board directives.

The Finance Department spent R47-million and the Foreign Affairs Department R8,1-million without authorisation. This included R397 476 for the May 8, 1994, thanksgiving service and the Presidential inauguration on May 10, 1994.

The Housing Department spent R674 423 and the Mineral and Energy Department R119 094 without authorisation.



Ill-fated play: The cost of Sarafina II could increase after a thorough financial probe by the auditor general PHOTOGRAPH RUPHIN COUDYZER

State's financial fiasco

(49)

The auditor general has uncovered a sorry tale of money mismanagement within the government. **Marion Edmunds** reports

MtG 27/3/97 - 3/4/97

THE government's financial management has continued to deteriorate, with irregular spending running to more than R150-million in the 1995/96 fiscal year.

Unveiling his annual report on national government accounts in Parliament on Wednesday, Auditor General Henri Kleuver said he had serious doubts about 22 departments' accounts— the worst culprits being the departments of Health, Finance and Correctional Services.

Kleuver also said the government had underspent R14-billion — 10% — of its total Budget for the 1995/96 year, which underlined poor and confused budgeting.

The Health Department had unauthorised expenditure of R58-million on its books — much of it relating to the failure to comply with state tender procedures. The expenditure included more than R10-million on the ill-fated Aids play *Sarafina II*. The cost of the play could increase, Kleuver said — his office had still to complete a thorough financial audit. Kleuver had also demanded the department hand him all details of tenders allocated during the 1995/96 year.

The Correctional Services Department had R35-million in unauthorised expenditure, much of it spent on running clubs, messes and stores.

The Finance Department had R47-million classed as unauthorised.

Kleuver said the money had not necessarily been lost or stolen, but that frequent incidences of such expenditure indicated poor financial management.

Kleuver said he had been warning of such weaknesses since 1989, but that the main reasons for the current problems included the flight of skills from the public service and difficulties with a newly implemented accounting system. The auditor general planned to establish a special forensic auditing unit to support the Justice Department in its crackdown on economic crime within the public sector.

Kleuver had even written to National Police Commissioner George Fivaz complaining about the apparent inability to curb crime. The police's accounts, he said, were based on limited and often inaccurate information.

Kleuver's other observations included:

- central government was failing to prioritise financial management, despite warnings;
- widespread flouting of tendering procedures;
- lax administration of government assets;
- and the government had not got to grips with the integration of former self-governing territories.

Kleuver also warned that the financial situation of local government was deteriorating fast. He said it was in the public interest to discuss the problem in Parliament. Finance Minister Trevor Manuel has so far refused to disclose details of individual local government financial woes.

Govt in R150-m shock

(49)

Sowetan 27/3/97

By Rafiq Rohan
Political Correspondent

THE Government has spent more than R150 million without authority in the past financial year, with the main culprits located in nine departments, auditor-general Mr Henri Kluever told Parliament yesterday.

The audit also revealed that the situation of local governments in the 1995-96 financial year was cause for concern as they were experiencing serious cash flow problems.

Kluever pointed out that local authorities could only pay four months' salaries to the thousands of people they employed.

"The deterioration is cause for concern, especially when taking into account that 113 local government bodies were identified which had insufficient cash at their disposal to pay one month's salaries," Kluever said.

The auditor-general's report did not have good news for embattled Health Minister Dr Nkosazana Zuma because, it says, it is her department that is responsible for the largest amount of the unauthorised spending – about R58 million.

The controversy around the musical *Sarafina 2* has been resurrected by the report to haunt Zuma.

However, Kluever emphasised that the money might not be lost and the practice could simply be indicative of bad management. Some of the unauthorised expenditure also related to previous years and previous administrations.

He said one of the biggest problems being experienced was the exodus of skilled people from the different departments. They were replaced with less capable and experienced staff.

Departments that accounted for R151 578 512,02 of the unauthorised spending are Education, Correctional Services, Environmental Affairs, Finance, Foreign Affairs, Housing, Mineral and Energy Affairs and the Reconstruction and Development Programme.

In the case of the Health Department, a R58 098 642,83 loss was incurred during various financial years.

Payments to consultants, incorrect tender procedures, and the R14,2- million *Sarafina II* debacle, accounted for most of the loss.

An amount of R1,1 million was paid to an organisation for marketing primary health care without complying with State Tender Board directives; R361 892,81 was paid to unofficial members since 1994 without proper tender procedures; R345 908,02 was paid to a firm for arranging a special Aids Day event in 1995.

The Finance Department spent R47,8 million without authorisation "during various financial years". Much of this also ran foul of tender procedures.

Foreign Affairs was blamed for R8,1 million unauthorised spending. R7,7 million was spent on SABC's Channel Africa.

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Flight of skills has knocked govt's financial management — Kluever

BD 27/3/97 (49)

Linda Ensor

CAPE TOWN — The flight of skills from government institutions had contributed to the deterioration in the quality of financial management and administration, auditor-general Henri Kluever reported yesterday.

He was submitting his report for the 1995/96 year to Parliament's public accounts committee.

He said 22 out of 88 audit reports on different aspects of departmental activities had been qualified. This was largely because of inadequate financial management systems, which had worsened because of the number of skilled staff taking voluntary severance packages.

The report noted a total unauthorised expenditure of R152m. This expenditure included R58m which was the responsibility of the health department, R47m in the finance department and in R35m the correctional services department.

Kluever warned: "Any further loss of skills from departments and institutions is going to cause very grave problems indeed, and positive steps to prevent this should be taken as a matter of urgency.

"If the powers that be do not accord a higher priority to experience, skills and the consequent ability to do the job, the capacity to deliver is going to be severely impaired."

He said there was an urgent need for a coherent framework for financial management, the absence of which was manifested in the length of time taken by departments to finalise their appropriation accounts properly. One department had submitted its report in January, nine months after the end of the financial year.

"This clearly has sustained negative effects on the timeous completion of this report and militates against effective public accountability," Kluever said. To address the problem, departments would be given responsibility for finalising their own accounts.

Areas of concern were the lack of priority given to financial management in central government; the failure to comply with procurement procedures; inadequate administration of assets, stores and equipment; the "formidable" problems arising from rationalisation of the former TBVC countries and self-governing states; and problems with the newly introduced basic accounting system (BAS).

Implementation of BAS had given rise to serious problems in some departments, which prevented the monthly closure and reconciliation of

Continued on Page 2

Kluever

(49)

Continued from Page 1

BD 27/3/97

accounts, Kluever said.

State expenditure director-general Hannes Smit said there were no quick-fix solutions, the only way out being to train staff. Most departments had been operating on a streamlined BAS system since April last year. A draft white paper on reform of the expenditure budget and the improvement of financial management, compiled by his department, was due out soon.

Kluever expressed concern over the exponential rise in unspent funds surrendered by central government departments over the past five years. These amounted to R14bn in 1995/96 (10% of the total appropriation), compared with R8,6bn (7,2%) in 1994/95 and R4bn (4,3%) in 1993/94. He also pointed out that the billions of rands tied up in stocks and stores were not being tightly managed.

Regarding local government, Kluever noted the "disturbing deterioration of the quality and the timeousness of annual financial statements".

On November 30 last year, a month after the closing date for submission of the 1995/96 annual financial statements, the statements of 184 local government bodies for the 1994/95 financial year had been outstanding.

Provincial governments were also experiencing severe problems with financial administration and controls, but provincial auditors were now in a position to complete their reports.

See Page 5

Audit uncovers TBVC fraud of over R1bn

(49) CT (BR) 27/3/97

Christo Volschenk
Economics Editor

Cape Town — Preliminary findings of a special salary audit by the office of the auditor-general show that civil servants in the former TBVC states may have been overpaid by more than R1 billion between 1991 and 1995.

The unauthorised promotion and appointment of civil servants, payment of ghost workers and double-payment of workers contributed to the escalation of the salary bills in these states.

Most of the salary overpayment occurred in the Transkei, where "more than R500 million in salaries may have been overpaid", the auditor-general said in his annual report on the accounts of the national government, tabled in parliament yesterday.

"Legal action may be instituted against the leaders responsible for the payment of salaries of civil servants in the TBVC states, and ways investigated to get the money back," a senior official in the auditor-general's office said. The results of the salary survey will be tabled in parliament soon and parliament will decide how to respond to the fraud, he said.

The auditor-general warned in the report that the quality of financial management is still deteriorating in the departments of national government, provincial governments and local governments.

"The main reason is the departure of skills and experience from the public sector of people who took the voluntary severance packages," the auditor-general said.

There has been a "disturbing deterioration" in the quality and timeliness of reporting by local governments.

With the exception of Eskom, the Industrial Development Corporation and the Post Office, the level of disclosure of information in annual reports by public entities was found to be "deficient in general".

The auditor-general also criticised the Reserve Bank for not disclosing enough information about its foreign currency transactions. A draft report on ways the disclosure levels and management of the stabilisation account can be improved will be released shortly.

The auditor-general found several deficiencies in the accounts and management systems of the South African Revenue Service (SARS) and ascribed it to "the continued loss of skilled staff".

The Sandton office of SARS, where company assessments are handled, suffered "serious staff shortages", and the number of company and individual assessments fell further in arrears in the year up to March 1996, the auditor-general said.

A spokesman of SARS said many of the problems identified in the report had since been addressed and the backlog of assessments in arrears lowered.

☐ Business Watch, Page 18

MINISTER'S BLUNDERS SUSPICIOUS — DP

Zuma tops list of unhealthy spenders

CT 27/3/97 (49)

PARTIES called for state bookkeeping to be improved as excessive unauthorised expenditure was revealed by the Auditor-General.

THE health department is guilty of notching up over a third of the R151 million unauthorised expenditure by the state detailed in the Auditor-General's report on the 1995/6 financial year.

Expenditure of R58,098m "incurred during various financial years" is listed as unauthorised spending by the department, according to Mr Henri Kluever who presented his report to the National Assembly public accounts committee yesterday.

This included R30,13m for consultants paid to "fast-track" the department's clinic building programme without complying with state tender board directives.

Democratic Party health spokesman Mr Mike Ellis said the failure to comply with tender board directives was something "which has clearly become a regular habit". He referred to the failure to do so in the case of Sarafina 2.

"This report shows the result of rushing in with grand ideas but not planning and completely disregarding proper procedure."

He said it was also "of extreme concern" that the department failed to provide full and final information which "smacks conspiciously of a cover-up". To make one error was regrettable, to make two was worrying, "but this minister's litany of blunders begins to look extremely suspicious".

Health Minister Nkosazana Zuma's spokesman Mr Vincent Hlongwane said his ministry would not respond "at all" to the report.

Ellis said Kluever had mentioned that the clinics were "sometimes not accessible to the community" because there were no procedures for prioritising community needs and he questioned the performance of the consultants.

Other unauthorised expenditure on health department projects was R2,3m to the CSIR and R13,2m to 1 779 consultants to audit health facilities funded from RDP money; R345 908 to a firm to arrange a special Aids day; R1,1m to an organisation for marketing primary health care; R129 485 to a university in the 1993/4 financial year to establish a management information system and R361 892 to unofficial members who served on 13 different reconstruction committees since August 1994.

Kluever confirmed that R10,5m had been unauthorised expenditure on Sarafina 2. An audit of this project would be completed sometime this year.

He also noted that the unauthorised expenditure "may possibly be much higher" than the amount mentioned, as the "final reply had not yet been received".

Meanwhile parliamentary parties have called for immediate action to improve the government's financial management following a warning from Kluever of a deterioration in state bookkeeping.

DP spokesman Mr Ken Andrew said the Auditor-General's report was an indictment of the government's so-called right-sizing of the public service.

African National Congress spokesman Mr Ronnie Mamoepa said his organisation had noted the Auditor-General's report and would comment after it had studied it. — Own Correspondent

Shortcomings found in Parliament's finances

POLITICAL STAFF

THE office of the auditor-general says it has discovered shortcomings in the way Parliament manages its finances.

In his report, attorney-general Mr Henri Kluever said deficiencies in the internal checking and control measures were brought to the attention of the acting secretary to Parliament, Mr Chris Lucas.

Kluever said when his office conducted the 1995/6 audit, it discovered several mistakes and omissions on the appropriation account and supporting statements, resulting in them being sent back for adjustment.

The audit revealed a double payment of R253 323 for advertising costs.

An audit test of payments to members of technical committees indicated that several overpayments were made.

Nine cases of theft totalling R96 973, including the theft of a TV camera worth R77 000, were reported during the period under review.

He said the stock-taking of works of art and valuable items has once again not been carried out, stock-taking cards were not updated, and tenders and quotations were not obtained in all cases to buy equipment.

Equipment worth about R935 390 was bought, mainly from one supplier.

Altogether R104 567 was used to buy equipment without inviting quotations.

Kluever said R795 762 in motor vehicle loans, payable in July 1994, was still outstanding.

Political storm brews over state spending spree

Zuma's slice draws fire

(47)

ARG 27/3/97

The Government is under fire for worsening financial administration after disclosures of large-scale unauthorised spending.

REPORT

CLIVE SAWYER

Auditor-General Henri Kluever, who made the disclosures in his annual report to Parliament, singled out the large number of resignations of experienced financial managers from the public service as contributing to worsening lack of control.

Particularly targeted for criticism by opposition parties were Health Minister Nkosazana Zuma and her director-general, Olive Shisana, whose department surpassed all others in the unauthorised spending stakes. Of the total unauthorised spending of R151-million by various departments, the Health Department accounted for R58-million.

While the National Party called on President Mandela to fire Dr Zuma and Dr Shisana, Sapa reports Dr Shisana mounted a stout defence of the spending.

"I expect Parliament to understand that the money was used for delivery and was not fruitless expenditure ... the bottom line is that we're not saying rules are not important, but when it hampers delivery then we have a problem."

The Health Department's unauthorised spending involved several instances of failing to comply with tender board directives, including the R10,5-million for the AIDS musical *Sarafina*.

Although the NP is among parties rebuking the Government for shrinking financial control, it had political control of the two of the departments involved in unauthorised spending – Mineral and Energy Affairs and Environmental Affairs and Tourism – while still in the Government in 1995/96.

The Inkatha Freedom Party had political oversight over the Correctional Services Department, which incurred unauthorised spending of R35-million.

Ken Andrew, Democratic Party spokesman on finance, said the continuing deterioration of the Government's financial management was cause for serious concern. "It is also a scathing indictment of the Government's so-called rightsizing of the public service.

"The ridiculous severance package and early retirement policies pursued by the Government have turned out to be the disaster the DP warned of."

Mandela will keep in Gear

CT(BR) 7/2/97 (49)

Christo Volschenk
ECONOMICS EDITOR

Cape Town — At 11am today President Nelson Mandela delivers his opening address to the fourth session of the first parliament of democratic South Africa.

Commentators expect the speech to contain many issues of interest to local and foreign businessmen. Most importantly, it is expected to remove lingering doubts about the government's ability to implement the growth, employment and redistribution plan (Gear).

A spokesman in Mandela's office confirmed that the president would kick off his speech with a recap of the government's achievements since it took the reins in May 1994, and then move on to the challenges facing the government in the coming 12 months.

On the economic front he may try to get as much political mileage as possible out of the fact that the lowest average annual inflation rate in 24 years was recorded last year. He may also remind the voters that the recent economic upswing was one of the longest in recent decades.

It is not difficult to guess what Mandela will identify as the government's biggest challenges in the coming year. The Afrikaanse Handelsinstituut calls economic growth and job creation the two biggest challenges facing the government on the economic front this year.

Gear will feature prominently in the speech. In fact, Mandela may declare this to be the year in which big strides will be made with its implementation. He may even accept the suggestion of the South African Chamber of Business to appoint a senior minister as co-ordinator.

Analysts will be waiting to see how Mandela handles the issue of job creation because it is widely expected that no new jobs will be created in the formal sector this year.

As a matter of fact, after the economy shed tens of thousands of formal-sector jobs last year, it will do well to just maintain the remaining jobs this year. Any promises on the jobs front will thus be met with scepticism from the markets.

When the government unveiled its Gear plan on June 14 last year it promised to create 252 000 new jobs this year. This promise is certain to be broken — no matter what job-boosting announcement Mandela makes.

Mandela may refer to monetary and fiscal policy and reassure the markets that no directional change is in the offing for either.

But he is unlikely to announce the abolition of more exchange-control regulations. An opening of parliament speech is not the appropriate vehicle for announcements on technical issues such as exchange controls. These announcements tend to be made unexpectedly to avoid market expectations building.

Mandela may, however, reaffirm the government's intention to proceed with the dismantling of the controls as fast as possible.

While he is expected to tread softly when it comes to the sensitive issue of jobs, he will be able to speak with more confidence when it comes to promises on housing delivery. Recent reports have suggested the delivery of low-income houses is gaining momentum.

If he promises progress on that front he will most probably be vindicated.

The high levels of crime have damaged investment and business confidence in the recent past, and businessmen will expect Mandela to commit the government yet again to the fight against crime.

In summary, Gear is expected to feature prominently in Mandela's speech, with implementation and delivery being the key words. The financial markets should react positively to the speech as it will remove fears that Gear is still in danger of being sunk by organised labour.

SA ECONOMY

Industries out of balance

CT 14/2/97 (BR) (49)

Tony Twine

The South African economy has, in the statistical description of its composition, several odd looking imbalances in the contributions of various sectors and industries to its economic aggregates.

For instance, the mining sector contributes only about 8 percent of the gross domestic product, but that 8 percent provides the lion's share of exports — nearly 50 percent, depending on global prices and the physical demand for minerals.

There is very little beneficiation of the considerable mineral output, a strategic weakness which will take time and sizeable capital investments to overcome, but which provides a sensible avenue for a rapid increase in the value added in South Africa.

This inequality between the share of production and the share of export value is so large that it affects the comparative shares of other sectors. For instance, virtually a quarter of GDP comes from the manufacturing sector, but it contributes substantially less to the value of exports.

The South African arms industry has grown into one of the top 10 in the world

There are strong historic reasons for this particular imbalance — during the years of increasing isolation, South African industry was oriented almost entirely towards import displacement, just in case a sanctions stranglehold on any strategic product or groups of products really began to bite. The heritage of those inward-oriented years is still with South Africa.

Even during the 1960s, one of the few embargoes which did begin to bite at a strategic level was that of arms exports to South Africa. During the second half of that decade, the country's major military equipment was mainly west European in origin. Communication and detection equipment all had origins familiar to the military in the Western world.

We all know how that changed over the next 25 years. From virtually nothing, the South African arms industry has grown into one of the top 10 in the world. What it lacks in mass-production capacity is balanced by the wide variety of military hardware which it offers. For obvious reasons, not much was broadcast about the industry during the laager years, and there was little given away in know-how and techniques. But that game has changed and, much to the chagrin of other global players, South Africa has emerged as an exporter of note.

The country's industry was oriented almost entirely towards import displacement

What seems to have upset the global military powers has been the countries with which South Africa has come within striking distance of concluding arms deals. In the headlines over the past year have been Syria (tank-firing control systems), Iraq (a bed for tank turrets) and China (radar systems). Middle Eastern countries, which would have previously been supplied out of the arms arsenal of the Soviet Union, must all be looking for alternative sources of military hardware. They are not likely to be able to buy from America or its Nato allies, so why not South Africa?

A National Party spokesman, who presumably knows what he is talking about, last week pointed to the fact that the arms industry is South Africa's single largest exporter of manufactured goods. Once again, this is one of those proportional imbalances to be found in the economy. Insiders say the defence industry is made up of about 700 individual companies, the majority of which are quite tiny. Its value and volume of production is certainly not in the class of domestic industrial giants like the chemical and motor industries, but it enjoys a disproportional large share of manufactured goods.

Political and diplomatic pressure, couched in terms of morality, is already being exerted on South Africa to select its arms export agreements with greater discretion. But it is arguable whether there is any morality in arms manufacturing or trading whatsoever. Some may go so far as to say that it is a totally immoral business, but the term amoral offers itself as a less prejudicial and realistic alternative. If South Africa does not supply, somebody else will, possibly illicitly. The US, whose legal system apparently attempts to entrench its questionable moral high ground on dealing with arms to Middle Eastern countries in particular, does not have a proud record of containing arms supplies itself. Just ask Oliver North.

Apart from reports that there were three European countries also bidding for the Syria tank-system deal, yet another crept out of the woodwork just as the fuss was cooling down between the US state department and South Africa. But the most recent rumour asks us to believe that an American concern may be bidding as well. Surely not. That would be immoral, would it not?

□ *Tony Twine is an economist at Econometrix financial consultancy*

GOVERNMENT DEBT vs GDP (49)

RIGHTING THE RATIO

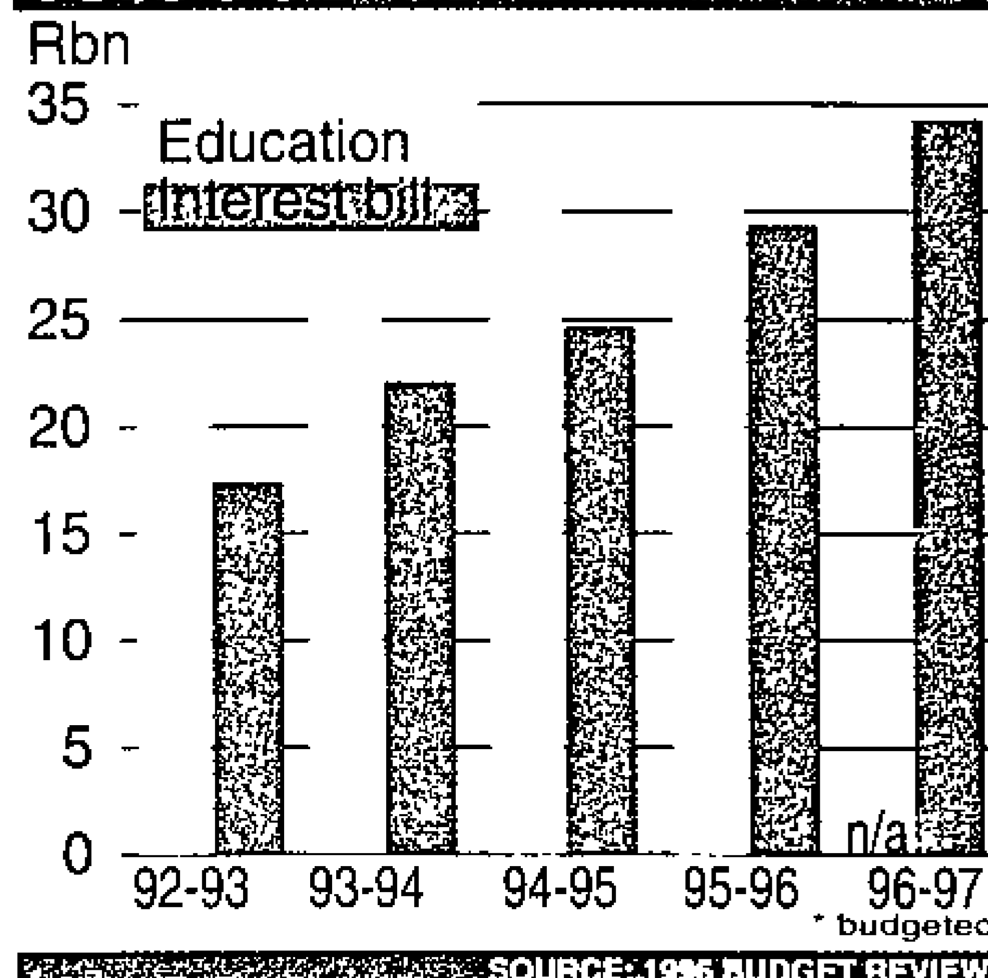
FM 21/2/97

The ratio of government debt to GDP is expected to decline this year after rising steadily for six years

Finance Minister Trevor Manuel told the Société Générale Frankel Pollak Investment Conference in Johannesburg this week he expected the ratio to fall from 58% of GDP in the second half of 1995 to 55% in 1997.

If the target is achieved and the trend maintained it will put the economy on course for sustained noninflationary growth. An early indication of this improvement came when the 1996-1997 Budget was presented last March. It established that government planned to borrow less, in the course of the fiscal year, than the interest due on its outstanding debt

In other words, former Finance Minister Chris Liebenberg saw some hope of generating savings on his primary budget — the difference between non-interest expenditure (R139,2bn in the fiscal year) and total revenue (R144,9bn). If the target is achieved it will be the first primary surplus since 1991. And it will come after primary deficits of an estimated R877,6m last year, R741m the previous year and nearly R18bn in 1993-1994



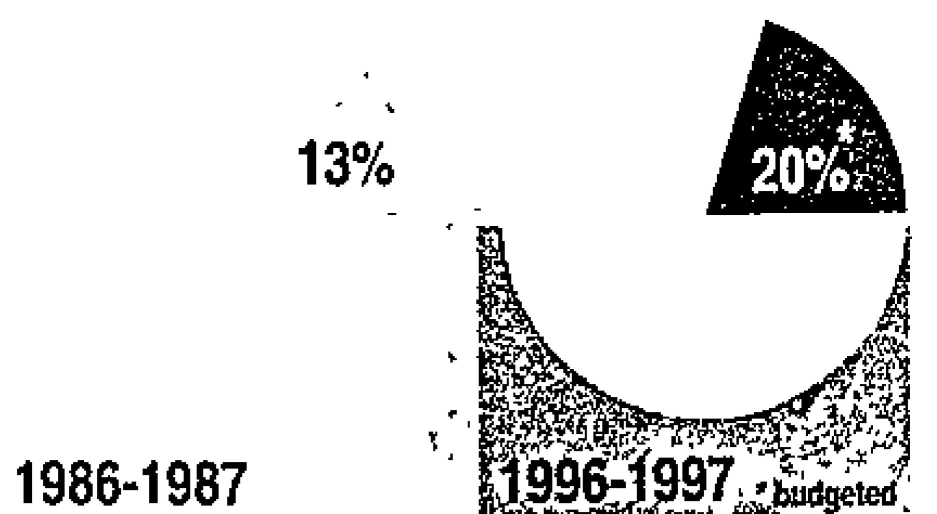
According to the Budget calculation, spending this year will fall to 72% of total spending, from 73,7% in fiscal 1994 This small relative shift between consumption spending and capital spending (which generates revenue) makes all the difference to SA's finances.

If the outcome is in line with the budgeted projection the State will no longer be moving into a situation where it borrows simply to pay the interest on its debt And the threat that debt service will swallow a larger slice of the budget expenditure each year will recede

Ideally, governments should borrow only to cover the cost of capital projects But government has borrowed to fund consumption spending — mainly wages and salaries — for most of the Nineties.

The ratio of debt costs to total expenditure has risen from 4% in 1975-1976 to 8,5% in 1980-1981 and 12,5% in 1985-1986 By 1993 it was 14,8% and by 1995-1996 it was nearly 19% In this fiscal year it was budgeted at nearly 20% (R34,7bn).

If Manuel's projections materialise, this ratio should also start to fall The reversal will probably not come in the current year because of the overhang of past debt and this year's rising interest rates



But the debt reduction process will soon create a virtuous spiral and a lower interest bill will free funds for health, education and other pressing social needs.

Ethel Hazelhurst

PUBLIC SECTOR FINANCIAL MANAGEMENT

DELIVERING THE GOODS

Reforms of cash and public debt management promised by the Finance Ministry last March — then expected to take about three years to complete — are beginning to show results Government has — narrowly — managed to stay within its budgeted R34,4bn interest bill.

Chief public debt director Coen Kruger says better management contributed considerably For example:

- The Finance Department "concentrated on managing the liquidity buffer in a tight band." In other words, the amount of cash on hand was restricted;
- "We've been watching our funding peaks carefully," says Kruger. "There's normally a bit of bunching in interest payment dates, so smoothing those produced savings," and
- Some departments have statutory funds (like the National Housing Fund) invested in the Corporation for Public Deposits Previously all departments earned interest on the surplus funds From the start of the 1996-1997 fiscal year, interest accrued to the Exchequer

Kruger says lags still occur between the time funds are provided to departments, and when they are utilised Departments provide forecasts of cash that they'll require during the month and the Treasury funds according to those projections. If the departments overestimate their needs, Finance has to pay interest on the surplus

"We've come a long way in managing those balances but there are still occasional mismatches," says Kruger

Departmental bank accounts will soon be placed with the private sector The computer systems needed are being developed

At present, each department has an account with the Paymaster-General. Except for a small amount kept as a liquidity "buffer," a zero balance is maintained Money needed to square off accounts at close of business is transferred from the Exchequer account

Moving the accounts to private banks — ultimately incorporating them into the Tax & Loan accounts (TLA) — would mean idle balances would earn interest overnight This might happen, for example, if funds to cover departmental expenditure had been transferred into the account, but the cheque had not yet been cashed

As part of the commercialisation, Finance will also make more extensive use of electronic payment systems to eliminate idle balances It will take over management of the TLA from the Reserve Bank as soon as commercialised banking is in place — the Bank won't be allowed to transfer balances in and out of those accounts without consultation

There could be policy implications because moving money between the TLA and the Exchequer is one way for the Bank to influence the money market

But Kruger says the Bank won't be deprived of the mechanism entirely "Naturally we will give permission if money market conditions dictate it But the Bank also has its portfolio of zero coupon stocks as an instrument "

Adrienne Roberts

Labour calls for a break with the past

THABO LESHILO

Johannesburg — Cosatu, the country's largest trade union federation, the National Council of Trade Unions and the Federation of South African Labour Unions, urged Trevor Manuel, the finance minister, yesterday to break with the past and steer this year's Budget towards job creation and the elimination of poverty.

Sam Shilowa, the general secretary of Cosatu, made the call on behalf of the federations at a National Economic Development and Labour Council discussion. He called for the imposition of a 5 percent levy on companies, for the promotion of public works, a capital-gains tax, the exemption of basic goods and services from VAT and increasing taxes on luxury goods.

He criticised the government's "fixation" with a 5,1 percent gross domestic product deficit target of R28,8 billion. "We don't believe it's a correct position. We are opposed to blind loyalty, to deficit reduction at the expense of job creation and social spending," said Shilowa. He also rejected calls for a speedy removal of exchange controls, saying this was a ploy to enable the rich to move their money out of the country and far from the reach of the taxman.

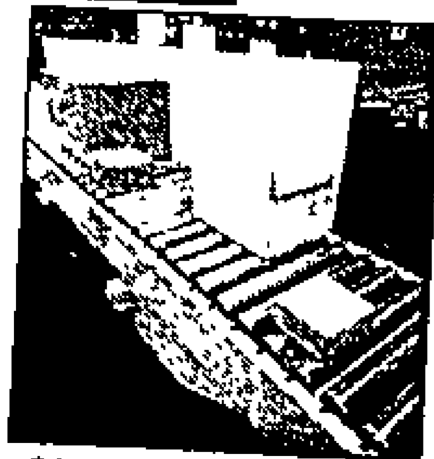
Shilowa said labour should judge the Budget on criteria such as whether it reduced poverty and created more jobs — especially sustainable jobs in rural areas — secured existing jobs and promoted the development of poor provinces.

Dennis Davis, a member of the Katz tax commission, complained that the restructuring of the South African Revenue Service was not moving fast enough. He said it would be difficult to deal with sophisticated taxes such as the capital-gains tax without a properly functioning revenue service.

He said the secondary tax on companies was not a good tax because it was difficult to monitor. The tax on dividends should be scrapped and company tax, which was more difficult to avoid, should be increased to 38 percent.

Davis said it would be difficult to eliminate VAT because it was a "huge revenue spinner". However, the government could decrease the regressive tax to 12 percent and recover the lost revenue by imposing a tax on luxury goods.

ALL CONVEYING REQUIREMENTS



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SA's rating in 'high-risk bracket', says agency

30/7/1997 (49)

Linda Ensor

CAPE TOWN — SA's risk rating had deteriorated to a level of "high risk" in the past year and was unlikely to improve until the ANC's biennial conference in December, an independent rating agency has concluded.

Corporate risk had been heightened by poor economic management and a serious deterioration in the governments of some provinces, corporate research organisation Africa-International Communications (AIC) reported. AIC supplies political analyses to several blue-chip clients.

Using a model developed over the past 10 years which assessed the country's risk profile against 13 weighted variables and drew on the findings of international credit rating agencies, AIC found that SA's risk profile had worsened from being acceptable at the beginning of last year to being high risk at the start of this year.

Apart from economic management, the judicial system, maintenance of law and order and criminal activity had deteriorated with improvements being notched up only in the fields of political violence and constitutional development. Five other indicators had shown a deterioration and four had remained constant.

SA's rating fell from 71 to 83 on a scale on which 49 to 72 points was regarded as acceptable and 73 to 96 as high risk.

AIC MD Stephan Terblanche noted the rating for SA's economic management had fallen from a low-risk four out of 10, to a high-risk eight out of 10, even though its economic policies were regarded as low risk (three). The problem was rather the failure to implement these policies.

Terblanche believed that pressure groups within the African National Congress (ANC) would attempt to delay the implementation of key elements of government policy until the party's national conference.

Intense ideological disputes and power struggles within the party would contribute to the tendency to delay decisions on such fundamental policies such as privatisation and implementation of government's macroeconomic policy. However, there would be countervailing pressures from other factions as well as from business and foreign investors for implementation to be speeded up.

Terblanche said until the national conference, the ANC would "tread water" on many issues which would not be conducive to a positive rerating of the country's risk.

The economy and how to run it, by

Mogoba's men avoid the p-word in their blueprint for reviv.

ARG 17/1/97 (4

THE PAC HAS AGREED TO ENTER THE GOVERNMENT OF NATIONAL UNITY BUT HAS ALSO RELEASED AN ECONOMIC VISION OF THE FUTURE WHICH CONTRADICTS THAT OF THE ANC. WILLIAM-MERVIN GUMEDE EXAMINES THE CONTRADICTIONS – AND THE AREAS OF AGREEMENT

This has been a particularly hot summer for the Pan Africanist Congress Fresh from throwing out its moribund and hard-line leadership in exchange for a more trendy national executive, this week it took the unprecedented step of joining its arch-rival the African National Congress in a Government of National Unity

Now it has released its own macro-economic plan to rival the ANC's Growth, Employment and Redistribution Strategy (Gear)

It is, indeed, a far cry from the days when party supporters would chant "one settler, one bullet" when asked about the PAC's policies

Newly elected party leader Stanley Mogoba, when unveiling the five pillars on which the party intended to build its new policy, lamented that many people did not understand what the PAC stood for

Dr Mogoba conceded that the Achilles heel of the PAC always had been its lack of effective communicating of what it stood for Policy shifts by both the ANC and the PAC had further confused the differences between the two parties, he added

The five key issues, most of which were still being developed, were building national unity, nonracialism, building "ubuntu morality", creating economic justice and addressing the land question

So, on Wednesday, the party took its first step towards Dr Mogoba's vision of national unity by accepting President Mandela's offer to join the Government of National Unity (GNU)

"We have accepted in principle participation in the government," Dr Mogoba said after meeting Mr Mandela at the president's Johannesburg home. No timetable was set

Mr Mandela and Dr Mogoba said they would consult their parties and meet [illegible] to work out a deal

"I don't think it is proper for us to waste our energies as democratic forces by keeping our selves divided," said Mr Mandela, whose coalition cabinet includes the fickle Inkatha Freedom Party

The PAC fought apartheid with the slogan "one (white) settler, one bullet", but its radical platform failed to appeal to voters and it fared miserably in the 1994 democratic election that brought the ANC to power

It fared even worse in the local government elections a year later

The PAC campaigned mainly on a blacks only" ticket and a demand for the return of land taken from blacks since the first white settlers arrived in 1652

It won only five of the 400 parliamentary seats, with 1,25 percent of the vote

The ANC won just under two-thirds of the vote, ensuring it a dominant role in power

Although the PAC failed to win the five percent vote needed to secure it a place in the unity government, Mr Mandela offered to bring it in, but former party boss Clarence Makwetu, who was effectively ousted in December, rejected it

Some commentators say the PAC's move to join the GNU will backfire as it will be forced to go along with the wishes of the ANC.

Political analyst Professor Vincent Maphai said the PAC was more desperate for an alliance than the ANC. "The ANC won the 1994 elections overwhelmingly and does not need an alliance.

"Unity talks have always been the result of mutual weakness

"The ANC fears the next election and does not want the PAC coming with strong left-wing rhetoric that appeals to its electorate.

"Opposition in Parliament is all to the right of the ANC – there is no opposition to the left, which means that any alliance between the ANC and the PAC will not benefit democracy in South Africa."

Professor Maphai said the participation of the PAC in the GNU was a personal victory for Dr Mogoba in his attempts to drag the party back into the political arena

Dr Mogoba stepped down last month as head of the two-million member Methodist Church in Southern Africa, which counts Mr Mandela among its members, to lead the PAC, which he said needed him

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The document, like Gear, stays well clear of using the "p-word", and instead substitutes the word "restructuring" for privatisation

Mr Muendane explains that the restructuring of State enterprises is an important tool in the hands of the Government and should be used to bring about social and economic development and economically empower disadvantaged African people

The party argues that the restructuring of State-owned enterprises must be dictated by prioritised needs and not to "satisfy foreign interests"

The PAC fears that a rush to privatise State-owned enterprises was motivated by international relations needs and was being pursued by those "who care for their immediate and future benefits".

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The party cites the example of Russia, where it says former managers of state enterprises "are today effective and monopolistic owners of privatised state companies".

Togetherness: President Mandela and Dr Stanley Mogoba at the president's Houghton home after the PAC decided to join the G...

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The PAC wants human resource development and affirmative action to be part and parcel of any privatisation plans.

Mr Muendane calls for the speedy restructuring of those State enterprises not economically viable to the State and which can be "easily privatised to promote indigenous African empowerment".

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It suggests what it calls a national programme – similar to the ANC's now almost discarded Reconstruction and Development Programme – to deal with "increasing poverty and unemployment".

The party wants such a programme to be run from the office of the deputy president

Poverty and unemployment are the themes closest to Dr Mogoba's heart

He said in his inaugural speech as PAC president "We must stop being a nation living in fear of its poor. We must unite to give our poor, our unemployed and our unhoused hope for a better life

"Those who do not take part in development are anti African "

The PAC believes that the future of the country's economy lies in the State playing a much bigger role in the economy than set out in Gear

A heavy-handed State participation flies in the face of Gear's harsh deficit reducing measures

"At this historical epoch, the quality of the country's economy depends on a joint contribution between the State and private initiatives," the PAC says in its economic policy document

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conomy and how to run it, by PAC

s men avoid the p-word in their blueprint for revival

ARG 17/1/97 (49)

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percent vote needed to secure it a place in the unity government, Mr Mandela offered to bring it in, but former party boss Clarence Makwetu, who was effectively ousted in December, rejected it

Some commentators say the PAC's move to join the GNU will backfire as it will be forced to go along with the wishes of the ANC

Political analyst Professor Vincent Maphai said the PAC was more desperate for an alliance than the ANC "The ANC won the 1994 elections overwhelmingly and does not need an alliance

"Unity talks have always been the result of mutual weakness

"The ANC fears the next election and does not want the PAC coming with strong left-wing rhetoric that appeals to its electorate

"Opposition in Parliament is all to the right of the ANC - there is no opposition to the left, which means that any alliance between the ANC and the PAC will not benefit democracy in South Africa "

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"At this historical epoch, the quality of the country's economy depends on a joint contribution between the State and private initiatives," the PAC says in its economic policy document

It adds that during a decolonisation period – the party's way of describing the country's present transition - the State is called on to play a much more vigorous role in transforming the economy.

"The State must facilitatively participate in the economy as an owner or co-owner of economic assets which should be used to drive economic development and to promote economic and social empowerment of Africans."

Such a role for the State, it argues, will close the inequality gap between the first and third world sections that co-exist in South Africa.

According to the new thinking in the PAC, "Africans are citizens of Africa, people who belong here, love their country and love their fellow men and women There are, of course, white and black Africans "

The PAC says that as part of the transformation of the country's economy, the "market-guiding role" of the State is critical

The party bases its economic model on the German "social market economy" and is confident that South Africa could emulate the West German post-war economic miracle.

The party wants the private sector to reform and restructure its "racially and gender-based ownership structures"

It proposes to change the racial and gender composition of senior management to reflect the demographics of South Africa and to draw in members of the historically disadvantaged communities

It also wants business to change its shopfloor culture

ANC'S ECONOMIC POLICY

GRUMBLING ACQUIESCENCE FROM RADICAL LEFT

(49) FM 17/1/97

Lamentations over core confusion

After the sense of economic policy drift that seemed to afflict government last year — which many argue was the main cause of the rand's plunge — implementation of its macroeconomic blueprint *Growth, Employment & Redistribution* (Gear), unveiled last June, represents the key challenge of 1997

The question, however, is whether and to what extent the Left — primarily Cosatu and the SA Communist Party (SACP), together with unreconstructed socialists within the ANC itself — will continue to put the brakes on

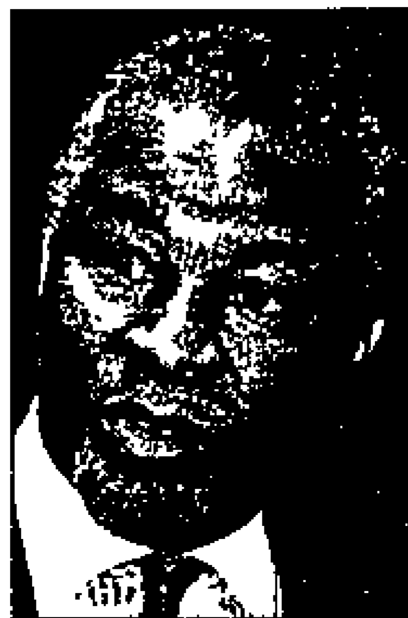
After all, Cosatu's Sam Shilowa has observed that a Gear-type strategy would have been "inconceivable" to the pre-1994 ANC, then still wedded to the Freedom Charter's call for the nationalisation of mines, banks and the commanding heights of the economy

With Gear, the ruling group in the ANC — as represented by Deputy President Thabo Mbeki — is now committed to a strategy that involves privatisation, deregulation and fiscal prudence The latter — which is non-negotiable — envisages a Budget deficit limited to 3% of GDP by 1998, with all that implies for (lower) spending on the ANC's bedrock constituency, the poor and formerly disadvantaged

The Gear programme is described by another union leader — Enoch Godongwana of Numsa — as "a reflection of the conservative consensus" in vogue internationally He maintains that it's "inappropriate" for SA at this stage of its development

Not surprisingly, therefore, there's talk among elements within the SACP of the party cutting loose and contesting the 1999 general election under its own banner instead of the ANC's Within Cosatu, similarly, discontent over Gear has provoked rumblings about forming a separate workers' party

While all this may suggest a parting of the ways in the tripartite alliance, SACP deputy general secretary Jeremy Cronin personally does not believe that it will happen "The alliance will be around for a long time," Cronin says


Thabo Mbeki

A breakaway would anyhow be a huge gamble, given the ANC's political dominance, which is likely to be maintained at least until the next election and beyond — even when Nelson Mandela steps down as President in 1999

Aside from that consideration, the socialist enterprise and the union cause in general seem to have lost their allure with the advent of a popular ANC government. Witness the stream of departures of former unionists (such as Cyril Ramaphosa) to corporate boardrooms, low attendance levels at Cosatu gatherings and union branch disinterest in formulating policy on privatisation And with the deaths of Chris Hani and Joe Slovo, the Left has no charismatic leader to fly the flag A further consideration is that, in practice, differences over policy tend to be related more to the institutional location of individuals than to ideology Trade & Industry Minister Alec Erwin, for example, is a defender of Gear, Godongwana a hot critic Both are SACP men

Enoch Godongwana

But then Gear is also a gamble if it fails to generate 400 000 new jobs a year within three years and deliver a better life to the masses, the social fabric could begin to rip apart

As Mbeki observes in his discussion paper on *The State & Transformation* (basically an exegesis for the Left on why in today's world there's no alternative to the Gear approach to economic management) "When the poor rise, they rise against us all"

It's a point recalled by Deputy Environmental & Tourism Minister Peter Mokaba, an Mbeki ally with strong populist credentials, who claims that the Left agreed with the tenor of the document when Mbeki formally presented it to the SACP late last year As Mokaba (and Godongwana) explain, the real difference between government and its left wing is essentially over means, not ends

"Because we come from the same perspective," says Godongwana, "there is agreement on objectives The difference is over what instruments and tools we use to achieve them"

In line with *The State & Transformation*, Mokaba extols the need for partnerships between government, business and labour in the pursuit of development He says that, whereas those on the Left label this as pandering to big business, "it's in fact more left wing in terms of its objectives It's not the declaration of being left that makes you left To simply declare business as the enemies in the same way as the Soviet Union did is not good SA politics and can never be the ANC's or any developing country's politics To us business, labour and government are partners in development

"The ANC is not and never has been a socialist organisation — that's why the SACP exists," Mokaba says On privatisation, for example, Mokaba says "Indeed, you must get the best deal for workers It's in the interests of us all to ensure that the poor can be partners in the mainstream economy" Privatisation, he adds, won't be implemented on an "ideological" basis Government had "de-ideologised" its approach to development, and foreign policy for that matter

As Mokaba sees it, much of the Left's opposition to Gear is public posturing He's not excited by the communist notion of the "second stage" of the revolution, in which class conflict is supposedly resolved following the democratic revolution The "national question" (race and ethnic conflict) still remains, as reflected by the voting preferences of coloureds in the Cape and violence in KwaZulu-Natal — "which aren't class problems "

"The truth of the matter," says Mokaba, "is that job creation is our primary objective But investable capital is in the hands of people who are not necessarily friends of government If you want them to invest, you've got to make the terrain friendly so that you, too, can achieve your objectives of creating employment and empowering blacks economically In addition, we have a huge debt burden and minimum foreign reserves You need to call on others to invest in order to be able to deliver to your constituency The practicalities of the situation require it, you have in some way to conform in order to transform Mbeki is correct we are neither slaves of the present situation nor free to do as we wish, but both "

Godongwana, who's also a SAPC central committee and politburo member, says "Basically, our view is that the Gear document as it stands — and, in particular, its focus on the deficit reduction target of 3% of GDP — is the incorrect approach

"It will put a squeeze on the delivery of housing, water and basic services to our people We therefore do not accept it "

He says that SA's economy post-apartheid resembles a "post-war European economy" and therefore requires "the State to take the lead in infrastructure development, as a means to kickstart the economy and put people into jobs

"If the State invests in infrastructure, foreign and local investors would also be attracted In this way we'd be crowding in investment The starting point is for us to invest in our own economy

"However, we're not academics We've said to government that the proof of the pudding (apropos Gear) will be in the eating — that we want to isolate key areas for delivery, such as housing, and if the Gear approach cannot meet these targets, the strategy must be revisited

"The key issue to us is the massive social backlogs and the extent to which the macro-economic framework is likely to hinder or fast-track the process of overcoming them Budget cuts in various areas of social expenditure are not likely to help matters If that proves to be the case, it will mean that government has taken short-cut measures by focusing on the deficit, which is not high by international standards What's so magical about a 3% deficit?"

Godongwana also says that the unions are not advocating large-scale consumption expenditure but spending on infrastructure

As to government's assertion that the plan was "non-negotiable," he wryly points out that "our co-operation will be needed" for the plan to work

Though he says that Cosatu and government have been discussing Gear since last August, he won't be drawn on what action — if any — the unions might take if the divide could not be bridged "We're still engaged in rational debate, which should be allowed to take its course I'm optimistic that we'll agree "

When *The State & Transformation* was presented by Mbeki to the SACP early last month, the party engaged with it quite vigorously, says Cronin The SACP's core problem, he says, is the way in which it conceptualises the relationship between the democratic State and capital

"It fudges the difference between capital as a physical resource and the very small, powerful white class which owns that capital and therefore controls enormous resources in SA " While this class could not be wished away, the SACP would like to see its power whittled down.

Jeremy Cronin

"Capital doesn't have to mean the private sector" (as the document implies), Cronin says

"Half the time it says that the State is fundamentally there to represent the interests of the historically oppressed, but half the time it sees the State as a neutral entity between capital and labour and talks of a 'golden triangle' — whatever that is — between the three This is the core confusion "

Cronin believes that the new democracy "cannot be stabilised unless we address the persisting inequalities in power and privilege in this society Hard questions must be asked about who makes key economic decisions Unless this reality is confronted, we won't be able to proceed," he says

The SACP's other concern is Gear's "dependency on an external factor — private sector investment " While the computer model may project a sudden economic upturn in five years, says Cronin, "the concern is that the plan creates expectations which may not be fulfilled at all "

Government's job was not merely to create an investor friendly climate but also to take a "far more active role' than outlined in Gear

Discussions between government and its left wing over Gear are continuing, despite government's claim that the policy is non-negotiable The discussion will be taken further at a four-day *legotla* of the ANC's national executive committee, scheduled for January 16-19

"There has to be continual discussion and debate while the plan is being implemented," says Cronin, adding that talks so far have given the SACP a better understanding of Gear

"We now have an appreciation of the problem around Budget deficits and understand the need to look at it "

On restructuring State assets, Cronin says "In broad terms, government's approach to privatisation is acceptable "

But Gear's proposed national social agreement "clearly can't be non-negotiable, though it remains unclear precisely what's intended "

Cosatu's proposed "reconstruction accord" between the alliance, aimed at implementing the RDP, could tie into this pillar of Gear

The SACP favours the concept of a "developmental State" as distinct from a welfare State, says Cronin It accepts that there can be no return to a command State, yet the SACP believes that there's a need for a "strategic developmental State" which would play a "catalysing role" around key developmental objectives

Based on statements by Cronin and Godongwana, the Left is not pitching itself against Gear in a massive way The political space to do so is, anyhow, limited Instead, the Left will try to modify and relate to the strategy in specific ways — for instance, tackling the implications of spending cuts and endeavouring to have priorities set

The time for a radical alternative is past The Left has little choice but to acquiesce in Gear ■

FINDING THE FIGURES BEHIND THE FACTS

(49) FM 17/1/97

Planning for D-Day

Electorates are notoriously and irrationally demanding Expectations are usually focused on the annual Budget when people want lower taxes, more government spending and a lower deficit from the Finance Minister

The demand for these mutually exclusive outcomes, from the people who vote parties into power, makes drafting the Budget an agonising exercise for those responsible

Finance Minister Trevor Manuel, who has had more than his share of agony since he took over from Chris Liebenberg last April, has a trickier job than most The transition from centralised budgeting to a form of fiscal federalism — which involves the provinces — has created new pitfalls in the budgetary process

In previous years, departmental budgets would have been negotiated with the Ministers of State Expenditure and Finance But the change in the relationship between central government and the provinces has altered this

About 65% of spending is made through the nine provinces and allocations are made to each based on a formula devised by the Fiscal & Financial Commission

Total government expenditure was decided in September last year but details of how the money allocated to them is to be spent are being submitted only now So the Treasury is unable to break down the amounts allocated to the provinces, either functionally or departmentally Finance DG Maria Ramos says the process will be completed by the end of the month But the lag revives concerns about the managerial capacity of the provinces (*Leading Articles* January 19 1996)

Ramos does not see any need for concern "Some provinces have teething problems but others have done an excellent job And we have spent eight months building up lines of communication with them We have started reorganising, bringing together in one department regional, provincial and national planners This is just the beginning of a process "

The problems of incorporating provincial budgets is exacerbated by a shortage of skills on most tiers of government

In 1996, the Department of Finance lost its director-general, Estian Calitz He has been replaced by Ramos, his former deputy She is eminently suited to the job, though lacking in experience But there is a limit to the load a DG can carry and, as yet, no deputy has been appointed Candidates for the job are still being interviewed "Two deputies will be appointed by March," says Ramos

Maria Ramos

Gill Marcus

Trevor Manuel

A huge gap opened on another front when Gill Marcus was promoted to Deputy Finance Minister — from her former job of chairing the Joint Standing Committee on Finance Now, her replacement, Zingile Dingani, has been appointed MEC for Finance in the Free State and the post is again vacant This leaves an unhealthy vacuum at a vital level of decision-making

Apart from the empty high-profile positions, there is a shortage of skills throughout It isn't easy to attract the right people to replace those who have left because of the rigidly structured pay scales within the civil service (except at the SA Revenue Service which is allowed to offer productivity incentives)

No allowance is made for shifts of demand in the marketplace so the private sector can easily outbid government

A measure of the problem is that the Finance Department is negotiating with the IMF to allow its former financial planning deputy director, Murto Wickens, to return temporarily "to help with induction of new economists," says Ramos Wickens left early last year to go to the statistics department of the IMF in Washington

Ironically, logistical problems are mounting just as government is coming to terms with the realities of financial planning — for the first time in 15 years

Government (for most of that period synonymous with the National Party) has been dissaving since about 1982 — in other words, spending borrowed money on current consumption instead of on capital projects Dissaving, according to Eskom finance director Willem Kok, rose from breakeven in 1982 to R5bn in 1990 and R23bn in 1993

And, since the late Eighties, it has been accumulating debt at an exponential rate The cost of servicing it — at a budgeted R34,4bn this fiscal year — is nearly 20% of total government expenditure

After the Budget deficit peaked in 1993-1994, at 9,8% of gross domestic product, former Finance Minister Derek Keys managed to slow the spending spree Dissaving began to fall and the deficit before borrowing fell to 5,8% in fiscal 1995, rising to 6% in fiscal 1996 and dipping to a budgeted 5,1% for the current year

But government debt continued to rise because of, among other things, the momentum created by the ballooning inter-

est bill By March, the end of this fiscal year, it will be approaching R300bn, perilously close to the internationally accepted danger zone of 60% of gross domestic product for developing countries

Kok says "If the maturity profile is calculated at present value, using a 10% discount rate, it becomes clear that 46% of government debt in real terms matures before the end of the year 2000"

Willem Kok

This situation is essentially the legacy the new government inherited in 1994

However, the ANC went on to make its own mistakes Not, as expected, by populist spending The Reconstruction & Development Programme has been integrated into government's macroeconomic strategy

Recent and current financial planners understand the need to contain spending and the Budget deficit within certain limits But government failed to anticipate the devastating effect of de-skilling on departmental management So eager were ANC officials to rid themselves of all vestiges of the apartheid government and anyone associated with it that they seemed not to distinguish between those who would obstruct the transition process and those whose qualifications would smooth the process

So, at this crucial moment in the economic reform programme, the process is being threatened by a shortage of people qualified to draw up and implement the financial guidelines for the fiscal year which starts in April

A further and related problem is that the early retirement and retrenchment programme throughout the civil service has been costly The cost is proving way above government expectations for two reasons because the number of people who applied for the severance package before the July deadline exceeded expectations and/or because of a mistake in the calculations

Peet Strydom

It is unfortunate that government's misjudgment on this score is undermining the budgeting process and the efforts of the country's financial planners

Manuel may not be well versed in the ways of financial markets but he has shown a strong sense of pragmatism, in his previous portfolio of Trade & Industry and in Finance He has granted people knowledgeable in this field the latitude to get on with their jobs

Marcus quickly gained the confidence of the business community and the financial markets And Ramos has played the leading role in establishing Finance's debt and cash management strategies

If they can solve the logistics of the moment, they should be able to reassure nervous financial markets about the direction in which they are moving, particularly if they cancel the mounting rollovers

Rollovers — funds which have been voted but, because of delivery problems, not spent — have fortunately not been spent willy nilly as was the practice in the Eighties and early Nineties The recently implemented debt management programme means money can be drawn down only when it is needed This slows the rate at which debt is built

Dave Mohr

The decision to allow rollovers under the new dispensation was sound in that, previously, departments made a point of spending their yearly allocation and the fourth quarter of each fiscal year saw a splurge of spending When allowed to roll over funds, they spent more prudently

But now the practice is complicating financial planning The unspent amounts allocated to departments are not money in the kitty They will have to be taken either from future tax revenues or raised on the financial markets, incurring a further interest cost and driving up the astronomical levels of real interest rates

The practice is being monitored carefully to see if the money is actually needed and government has been reported to be considering cancelling R5bn of the estimated R12,5bn in rollovers

Whatever the Finance Department achieves, the deficit will still be considered too high because international norms are tightening Says Old Mutual's Dave Mohr "Deficits over 1%-2% are becoming unacceptable (in the developing world)"

Government does have some things going for it in the next fiscal year though

One is that inflation is likely to be higher than the estimates made in September, when expenditure was locked in Planners had not expected the further depreciation of the rand in the second half of the year and the subsequent pressure on inflation So spending growth may even be negative in real terms And, on the revenue side, it will reap the benefits of inflation

This is an unfortunate outcome for taxpayers and, if it persists, will erode growth prospects But it will help government meet its deficit target in the coming fiscal year

Another plus, says economics professor at Wits and RAU Peet Strydom, is that transition spending was a one-off cost and will start to tail off

A big dent was made in SA finances by the integration and rationalisation of the former homeland administrations and the additional debt this brought with it There has also been the cost of setting up new regional authorities Much now depends on the capacity and accountability of the provinces

Strydom argues that, though the deficit before borrowing is used as the single important measure, there are other criteria by which the fiscal process should be evaluated

"The size of the deficit tells you nothing about the way government is financing the deficit Government could produce only a small deficit — but monetise it That would be very damaging"

The proportion of government debt monetised (through bank borrowing) is generally low Most of the borrowing requirement is raised on the capital market This is some consolation

But it's going to be a long, hard slog Says Ramos "It will take time to build the skills needed to take us into the next century But I am confident we can"

Budget day, on March 12, should set the scene And it would be helpful if — along with a sound Budget — a total package which clearly supports government's macro economic plan is forthcoming ■

ANC sets deadlines for implementing macroeconomic strategy

(49)

BD 22/1/97

Reneé Grawitzky

MINISTRIES had been given proper targets and deadlines to implement government's macroeconomic strategy this year, reaffirming the ANC's commitment to the policy, the party's economic transformation head Tito Mboweni said yesterday.

The ANC's national executive committee had committed itself at the weekend to ensuring the policies were implemented systematically. Details of the plan to implement strategy would be fleshed out by President Nelson Mandela when he opened Parliament next month and during Finance Minister Trevor Manuel's budget speech in March.

Labour market flexibility, exchange controls, infrastructure development, budget deficit targets, tariff policies, state asset restructuring and job creation would be critical in implementing the strategy, Mboweni said.

It appears that labour market flexibility remains an unresolved issue.

Mboweni said the ANC did not conflate flexibility with deregulation of the labour market. A programme of action had to ensure flexibility was coupled with labour security.

The labour market commission report, released in June to guide the drafting of a policy, proposed far-reaching recommendations to ensure a regulated, but flexible labour market.

A committee established by the labour ministry to review the recommendations had completed its report which was expected to be considered shortly by cabinet. Sources said the review committee had endorsed the main thrust of the commission's report.

Mboweni said the labour department had made recommendations to Deputy President Thabo Mbeki. Such recommendations would also deal with the question of a conference to discuss job creation, but Mboweni emphasised that job creation initiatives should not be put on hold until this had been organised. Spatial development programmes such as the Maputo corridor development had the potential to create massive employment.

A programme of action would be launched to tackle human resource development. On state asset restructuring, Mboweni said a clear signal had been given at the weekend meeting that this process should be speeded up.

The ANC did not see any divergence between the programme of action to implement the macroeconomic strategy and the reconstruction and development programme. Mechanisms to meet targets would have to be dealt with while interested parties such as trade unions would be consulted.

Macroeconomic plan not a one-man show

(49)

Finance Minister Trevor Manuel has staked his credibility on meeting his deficit targets. Greta Steyn argues that he should not lose sight of other aspects of government's macroeconomic strategy.

BD 24/1/97

FINANCE Minister Trevor Manuel faces the financial markets' acid test on credibility this year when it comes to implementing the macroeconomic strategy But Manuel may find that passing muster with the markets, although extremely important might not be all that is required of him

It is common cause that the most important economic issue for the financial markets is the implementation of the macroeconomic strategy for Growth, Employment and Redistribution (Gear) A crucial point about Gear is that it does not depend only on Manuel for its success as a package

He is capable of delivering on only a limited part of the programme — the fiscal deficit targets and exchange control relaxation He can encourage other aspects of the programme, even lean on colleagues — but results are not guaranteed.

On the things that he can deliver, Manuel is likely to perform impressively Not for nothing has he staked his credibility on a sound deficit performance; he refers to it in almost every public comment and it is inconceivable that he will try to find excuses for failure It is almost a foregone conclusion that the deficit targets will be met Of more importance will be will the figures be believable?

The markets will be watching for "Chinese accounting" and/or wishful thinking Government sources say Manuel will be able to take the deficit for the 1996/97 fiscal year below the budgeted 5,1%. The question is how?

He will be able to reach or better the deficit in the current year through a combination of luck and sheer determination. He had luck in the form of a small revenue overrun — about R2bn — and unspent money Of the latter, the "surrenders" of cash from previous fiscal years can make a difference to the deficit of up to R3bn The huge "rollovers" from previous fiscal years — projects for which the cash has not yet been raised — will not make a difference to the deficit unless they are spent

Manuel has apparently decided that about R5bn of the rollovers will not be spent.

His determination to control spending has apparently earned him the nickname "Mr No" in government circles and will have no small part to play in keeping the deficit within limits

With the overall outcome an almost foregone conclusion, the focus will be on the fine print when the adjustment budget is delivered in Parliament next month

Nevertheless, if this year's targets are met, Manuel will have gained much in the credibility stakes. Those sceptics in the markets who believe the deficit targets are over ambitious might begin giving him the benefit of the doubt. Unfortunately for Manuel, there is still likely to be some carping about the accounting — some economists will argue that the Reserve Bank's forward cover losses should be added to the deficit, as well as that the discount on government stock should be reflected as part of interest expenditure But these are likely to be small voices and the overall reaction — if the sales job is effective — should be positive.

Manuel is then expected to make presentations to the financial markets on February 20 to ram home the achievement of the 1996/97 fiscal year and build confidence for the next year Full marks to him for taking the decision to face the "amorphous entity" (his famous description of the market) He has picked a good time to do so. The way things stand now, the capital market is a bull market waiting to happen

An economist who conducts weekly surveys of the major fund managers' views, Equisec's Dawie Roodt, in the second week of this year found that on a one-month view, 94% of respondents were bullish and on a six-month view, 100% Long bond rates have subsequently pierced key levels, and the latest survey showed 94% bullish on a six-month view — still overwhelmingly positive

Those views could reverse or intensify over the next couple of months, and Manuel, his achievements and his ability to market his achievements will have no small role to play in the outcome

How will he achieve the next year's deficit target of only 4% of GDP in a year that the interest bill is set to rise 20% and GDP and revenue are likely to slow down?

Documents that have been leaked reportedly talk of a 2% cut in real expenditure, which might seem over ambitious to the markets but given his reputation for obstinacy, not impossible If he relies heavily on extra income from improved tax collection, he might also be accused of wishful thinking — despite evidence of improvements at the SA Revenue Services Those questions and answers will become clearer as the budget draws closer

On fiscal policy, at least, it seems that Manuel is already halfway there But reaching the targets will not be enough, he will have to convince the markets that his assumptions are credible and that they do not have to worry about the fine print

On exchange control relaxation the picture is more murky than on fiscal policy. Manuel's second favourite refrain, after the deficit, is that SA is following a gradual programme of exchange control liberalisation and that a big bang is not on the cards Some economists, though, like Deutsche Morgan's Gordon Smith, have argued that excessive rand depreciation will eventually push government into a situation where it has nothing to gain by putting off total abolition

People who had faith in gradualism, such as ING Barings's Hania Farhan, were saying towards the end of last year that it did not work as a strategy and that government should realise this. Others, like Morgan Stanley's Beth Mandel, think it is a Hobson's choice between gradualism and a big bang — the lack of foreign exchange reserves mitigates against a big bang, but the postponement of action casts a permanent cloud over the rand.

At times last year there were more market players in favour of a "big bang" coupled with an International Monetary Fund facility than against. But the rand's relative strength this year in the face of a rampant dollar seems to have given the gradualists a bit more ammunition.

People might accept that Bank governor Chris Stals and Manuel will not "jump without a parachute" (Stals's metaphor) but they will have to take some further action — no later than the Budget.

With any luck, the current strength in the rand and capital market will facilitate a move.

Even if Manuel passes the fiscal and exchange controls tests with flying colours, it will not mean that Gear is being fully implemented It is already clear that the proposal to speed up tariff reform to compensate for the protective effects of the rand's depreciation has been discarded. The move was regarded as necessary to help take the burden off monetary policy in fighting inflation.

Even though trade liberalisation is Trade and Industry Minister Alec Erwin's duty, Manuel might find he will have to explain the omission He is, after all, in the driving seat

Erwin's department also has responsibility for tax incentives, an early report back is required to get a feel for how successful these initiatives are in encouraging investment and job creation

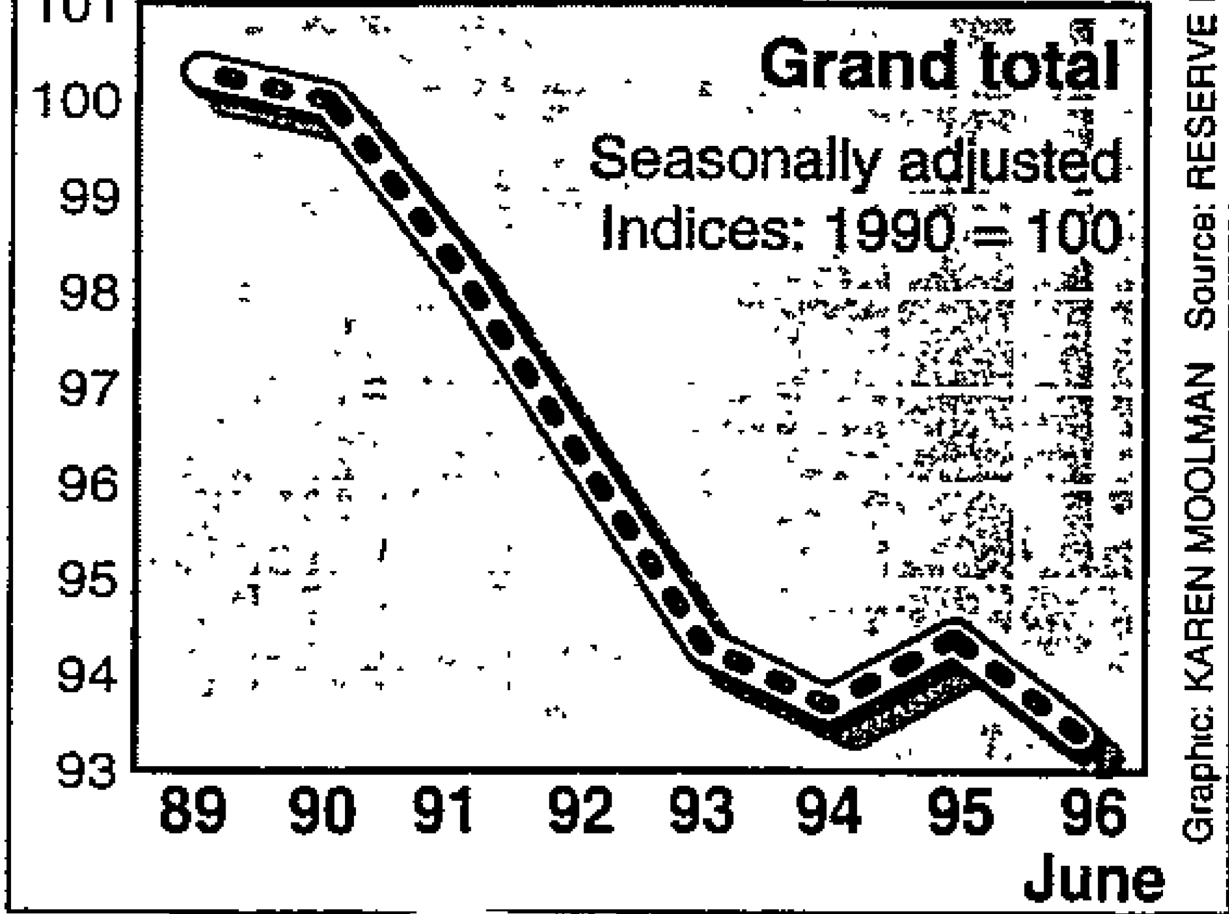
The one aspect of Gear which is likely to fail miserably and which Manuel will find extremely hard to explain is job creation According to the strategy, employment growth in the nonagricultural formal sectors of the economy should average almost 3% for the five years from 1996

The strategy projected formal employment growth of 1,3% last year — but employment actually fell. In the strategy, growth itself accounts for only about one-third of the new jobs envisaged. "Some 30% of the increased employment, . . and more than half of the new formal private sector opportunities, will have to arise from institutional reforms in the labour market, employment enhancing policy shifts and private sector wage moderation."

Labour market reform is a controversial issue which immediately raises the prospect of esoteric debates between "left wing" economists and those that follow the "Washington consensus"

Attempts to begin discussions on the social accord to underpin labour market reform and wage moderation ran aground last year as labour made known its opposition to Gear Suggestions such as a low wage rate for entry level workers and trainees have not been debated. But there are tentative signs that these issues are again on the table

Manuel on his own cannot ensure that employment grows at a rate close to that foreseen in Gear Government, labour and business will have to work together to find ways to reach the employment targets, otherwise the sought-after applause from the markets will have a hollow ring



ECONOMY — GENERAL

1998

A wealth of lessons from few resources

(49)

ST 4/1/98 (BT)

AFRICAN ECONOMIES

By THABO KOBOKOANE

BY DRAWING on lessons learned by its sub-Saharan neighbours, SA has the capacity to make the transition to an investment rather than resource-based economy, according to Zimbabwe-based economist Anthony Hawkins.

In his study titled Economic Policy Performance in Africa: What Can South Africa Learn, Hawkins says one of the lessons is that although structural adjustment is necessary, it is not a sufficient condition in itself for self-sustained economic growth.

Hawkins suggests that African countries accelerate their investment in people, skills development and institutional capacity-building while also investing in infrastructure.

"Over the past 20 years, economic growth has become increasingly associated with new technologies, rather than dependent on raw material and energy," says Hawkins. He warns that a lack of public-sector investment in infrastructure and in people will inhibit private-sector investment and growth.

Hawkins says sub-Saharan Africa's failure to globalise has led to its dismal economic performances since the mid-1970s. Policymakers, who were preoccupied with macro-economic issues, lost sight of some fundamental prerequisites for sustained economic growth in the new post-Uruguay Round world order. These included the concept of competitiveness and the reality that competitiveness arises at enterprise rather than national level.

"Government must seek to create an enabling environment, but the choices of what to make, sell and how and where to do it must be left to individual entrepreneurs," says Hawkins.

Government intervention in the economy is successful where it is carried out in close co-ordination with the private sector within a framework of a market-driven economy, he says. "Economic policy responded to the problems and needs of private enterprise rather than seeking to impose solutions dreamed up by politicians and bureaucrats."

Another lesson is that the longer privatisation is delayed, the heavier the burden on the taxpayer and economy.

Prospects of early rate cut subside

THE disappointing growth in money supply and in demand for credit by the private sector in November could indicate that there may be little likelihood of a cut in interest rates in the first quarter of 1998, writes **MARCIA KLEIN**.

Preliminary Reserve Bank figures released this week show that SA's money supply grew 17.86% in November, up from October's growth of 16.86% (revised from a preliminary 17.09%). Private sector credit growth was 14.36%, a modest increase from a revised 14.27% in October.

Both money supply and credit extension figures are critical factors for the Reserve Bank in determining monetary policy.

Money supply, or M3, includes coins and bank notes in circulation, deposits, equity investments and investments in national savings certificates issued by the post office savings bank.

The data released this week compares with economists' forecasts of money supply growth of 16% and private credit growth of 14.9%, according to a Reuters consensus poll of economists.

The economists said the growth in money supply was a little disappointing, particularly as October's figures had also been worrying. They said it was now unlikely that there would be a cut in interest rates in the first quarter. However, the growth in credit extension was marginal and off a low base, and should not delay a rate cut.

Gear leaves SA's poor in the lurch

Sowetan 5/1/98. (49)

By Lybon Mabasa

THE Mafikeng congress of the African National Congress finally placed that organisation in the ranks of those who do not believe that addressing the urgent needs of black people is of utmost importance.

The adoption of the economic policy, the Growth Employment and Redistribution (Gear) programme, means the organisation is now committed to policies that place economic growth above social and political needs.

There is a great need to examine Gear in order to understand what it has in store for ordinary people. We also have to establish the differences between Gear and the Reconstruction and Development Programme.

The driving force of the RDP was to try and establish economic parity of some sort, and was premised on the fact that black people were for many years excluded from mainstream economic participation.

It was therefore people-driven – which is not the case with the newly adopted Gear. This policy is premised on the need for economic acceptance in the global village.

It is dictated by what is accepted as good in the international marketplaces. It does not seek to immediately address the disparities and imbalances in our country.

IMF applause

Gear is one of the few economic policies in the world that has been applauded by the International Monetary Fund and World Bank. As a matter of fact, it has all the elements of a policy coming from their boardroom.

With a policy akin to structural adjustment programmes, there is no need for the IMF-World Bank to immediately demand more.

Gear emphasises the need for economic growth, which is commendable. However, the conditions demanded for such growth are completely unacceptable.

Black people and the poor in general are expected to accept "austerity measures" imposed on them by the government they voted into office. Meanwhile the rich live in excessive wealth.

The Government sees growth only through rampant privatisation, stringent streamlining and other measures they believe will attract overseas investors.

"The black elite has joined its white counterpart in the looting of wealth"

Lybon Mabasa is national chairman of the Black National Conference of Review.

However, the flipside is that all those things are possible only if one postpones delivery to black people by many years and only if black people accept massive job losses.

Gear represents the first overt shift of the ANC to promoting a free market economy. They have designed a policy that relies exclusively on market forces to drive the economy.

Since that approach is historically inimical to a strongly organised labour force, one wonders what is in store for it. A disempowered working class would naturally be in no position to offer opposition.

The argument that says only open and free market economies – that is, capitalist economies – are capable of growth is both unscientific and sterile.

On the balance sheet, the greatest capitalist countries experienced economic growth for an elitist minority, while the overwhelming majority face naked hunger, poverty, unemployment and disease.

The socialist bogey has lost its potency in the face of Somalia, Algeria, Bosnia, Zaire, Burundi and a host of other countries (both developed and developing).

Yet it is actually the capitalist system that has created unprecedented homelessness in India and triggered off ethnic, tribal, racial and religious wars.

It has, for its own ploys, divided countries into what they call "useful" and "useless" regions.

The economically viable areas which are able to serve and service foreign interests are developed, while the rest of the country and the majority of its people are left in poverty with little or no infrastructure.

Sovereignty

The Gear policies will in fact transfer the economic sovereignty of our country to the international institutions of big capital, the IMF and World Bank.

This is done under the pretext of the normalisation of relations between our country and the international community. The Gear message is clear: all will be well in good time.

However, what the authors of that policy are not saying is what will happen while the poor and unemployed wait for the growth of the market-inspired economy to create employment and wealth.

The landless, poor, unemployed, illiterate and disease-stricken cannot wait much longer for some indefinite future, when those accountable today might not even be there to account.

There has to be a strategy based on real material conditions to meet the immediate needs of the poor.

It is true one cannot create employment or redistribute non-existent wealth, but similarly it is grossly unacceptable to see the country spend millions on public relations exercises, sport and dubious consultancies.

The black elite, some in government, have joined their white counterparts and white society at large (assisted by countries with strong currencies) in the unbridled looting of the country's wealth and resources.

Gear is user-friendly to big business and international financial institutions, who will invariably benefit from it. But for the majority of black people and the working class, it is geared to create the hardest times conceivable.

We are being betrayed by our own votes.

Economists find new bogeyman to blame for gloomy outlook

CT (BR) 12/1/98 (49)

Christo Volschenk
ECONOMICS EDITOR

Cape Town — South Africans have grown accustomed to economists telling them that the economy would not perform at its full potential because of outside forces.

In the early 1990s the Iraqi invasion of Kuwait sent oil prices sky-high and economic growth down. In 1992 a drought in southern Africa chipped almost 1 percentage point off real growth; in 1993 and 1994 the mysterious third force, political uncertainty and the looming general election kept growth in check.

Last year the rand crashed and sent interest rates soaring, once again chipping away at growth.

At the beginning of 1998 economists are again warning that an outside force could cause the local economy to grow at below full potential this year. This time around the threat comes from southeast Asia.

Economists expect the turmoil in southeast Asian financial markets to knock up to 1 percentage point off world economic growth this year.

Jac Laubscher, the chief economist at Sanlam Asset Management, expects growth in the US to be cut this year by 0,5 percentage points to 2,5 percent and world growth by 1 percentage point to 3,5 percentage points.

Lower world growth would mean less exports, weaker commodity prices and higher imports from southeast Asia, where falling exchange rates had made exports competitive.

Add to that the dismal performance of the gold price (every $10 an ounce drop in the gold price chops 0,1 percentage point off real gross domestic product growth) and the threat of El Niño, and it should be clear why economists are not ecstatic about prospects this year.

That was the bad news. The good news is that they still expect economic conditions to be better this year than last.

A poll of eight economists conducted on Friday produced a consensus for real GDP growth this year of 2,2 percent, from about 1,7 percent last year.

South Africans will also experience the rare occurrence of an economy accelerating while inflation falls — every finance minister's dream.

The poll produced a consensus for an average inflation rate this year of only 6 percent — far below last year's expected average of 8,5 percent.

The economists expected interest rates to be cut at least twice by 1 percentage point each time, to leave the prime lending rate of banks at 17,25 percent at the end of the year from the present level of 19,25 percent.

The not-so-good news was that the deficit on the current account of the balance of payments is due to soar to about R11 billion from just below R6 billion last year, mainly because of the east Asian turmoil and a stronger local economy.

Economists expect the local economy to start picking up its head from the middle of the year and, consequently, they said, imports should start climbing shortly afterwards.

The net effect of all these forces would be to cut the trade balance dramatically this year and to double the deficit on the current account.

Until recently some economists were expecting the rand to hold up well in the face of the east Asian crisis.

But not any more. Most economists polled expected the rand to depreciate this year by more than the inflation differential.

The most pessimistic view came from Herman van Papendorp, the chief economist at SMK Securities, who said the rand would depreciate 8 percent against the dollar, falling from R4,87 at the beginning of the year to R5,25 at year-end.

With an expected inflation differential between the US and South Africa of about 4 percentage points, Van Papendorp's 8 percent devaluation forecast was double the differential.

The consensus view was for the rand to depreciate to about R5,20 by the end of the year.

Only Dennis Dykes, the chief economist at Nedcor, expected more than two rate cuts this year. He forecast three cuts of 1 percentage point each.

Dykes was also the most pessimistic about the current account.

He expected the deficit to grow to almost R13 billion from just below R6 billion last year.

Outlook for the economy in 1998

Forecasters	Real GDP growth	Average inflation	Rand/dollar at end of year	Current account deficit	Prime* at end of year
Francois Jansen *Boland Bank*	2,3%	6,9%	R5,15	R11,5bn	17,25%
Sandra Gordon *Syfrets*	2,2	6,0	R5,10	R11,0bn	17,25
Dennis Dykes *Nedcor*	2,1	6,0	R5,18	R12,7bn	16,25
Henry Flint *Mathison & Hollidge*	2,3	6,9	R5,15	R6,5bn	17,25
Herman van Papendorp *SMK Securities*	2,3	6,0	R5,25	R9,0bn	17,25
Dave Mohr *Old Mutual*	2,0	6,0	R5,20	R12,0bn	17,25
Johan Rossouw *Huyshamer Stals*	2,2	6,0	R5,20	R10,0bn	17,25
Jac Laubscher *Sanlam*	2,0	6,0	R5,20	R12,0bn	17,25

**Prime currently at 19,25%*

Cosatu to fight Gear

M+G 16-22/1/98(49)

Sechaba ka'Nkosi

The African National Congress's biggest alliance partner, the Congress of South African Trade Unions (Cosatu), will spend most of 1998 campaigning against the ANC's lynchpin policy

At the centre of the looming confrontation is an assertion by senior ANC leaders in Mafikeng during its conference last month that its Growth, Employment and Redistribution (Gear) strategy is now the party's official policy

Yet, Cosatu argues, there was no debate or official position adopted on Gear by conference delegates. Most Cosatu heavyweights view this as a slap in the face, as the ANC has been fully aware of their problems with the policy, and orchestrated a campaign to confuse its membership on the alliance's exact stance on it

The trade union federation said that while it is still willing to assist the ANC in the run-up to the election next year, assistance could be conditional on the ruling party's willingness to enter into *bona fide* negotiations with its allies — Cosatu and the South African Communist Party — on fundamental policies

So angry is Cosatu that its leaders swung into action this week, blaming the government and Gear for almost every crisis in the country — from health to the ongoing dispute between the Ministry of Education and teacher unions, to jailbreaks and the failure by the Eastern Cape government to pay pensioners. Cosatu also said Gear was responsible for the many job losses last year and the ban on overtime pay for public prosecutors

Says its assistant general secretary Zwelinzima Vavi: "It is very insensitive of the government to fail to deal with the Eastern Cape crisis because with such high unemployment, pensions become the only means of survival for most families in the province

"Our view is that because of the emphasis on budgetary restraint, poverty in the depressed provinces is likely to become even worse this year. That is why it would be very immoral for Cosatu not to speak out on such issues."

Cosatu insists the debate on macro-economic issues was deliberately avoided at the conference because it could have exposed policies that are not working and needed reviewing.

A crucial alliance summit next month is expected to be a highly contested affair among the three partners, and could set the agenda for their relationship through the year and possibly into the elections One of Cosatu's key demands about this meeting is that those areas which were left unfinished during the alliance summit in October last year must be concluded, and agreements must be reached on some of the contentious issues.

Coupled with that, the federation wants the ANC to give undertakings (on behalf of the government) that it will be willing to open all its policies for review by the alliance so that programmes that have failed can be replaced

Without such engagement, Cosatu says it will again refuse to take part in any negotiations that will be organised under the auspices of Gear, including the proposed jobs summit scheduled for June The alliance summit is likely to be preceded by Cosatu's national executive committee meeting on February 10 and 11, which will draw up Cosatu's plans and agenda for the year

Cosatu warns that its programme of action could include the mobilisation of millions of unemployed and poor people on to the streets to force a review of ANC strategy

Vavi says there is general satisfaction on the overall performance of the ANC-led government since 1994 and the way in which the government has handled the restructuring of the market But it is still Cosatu's view that Gear has failed to deliver to the majority of the poor in South Africa

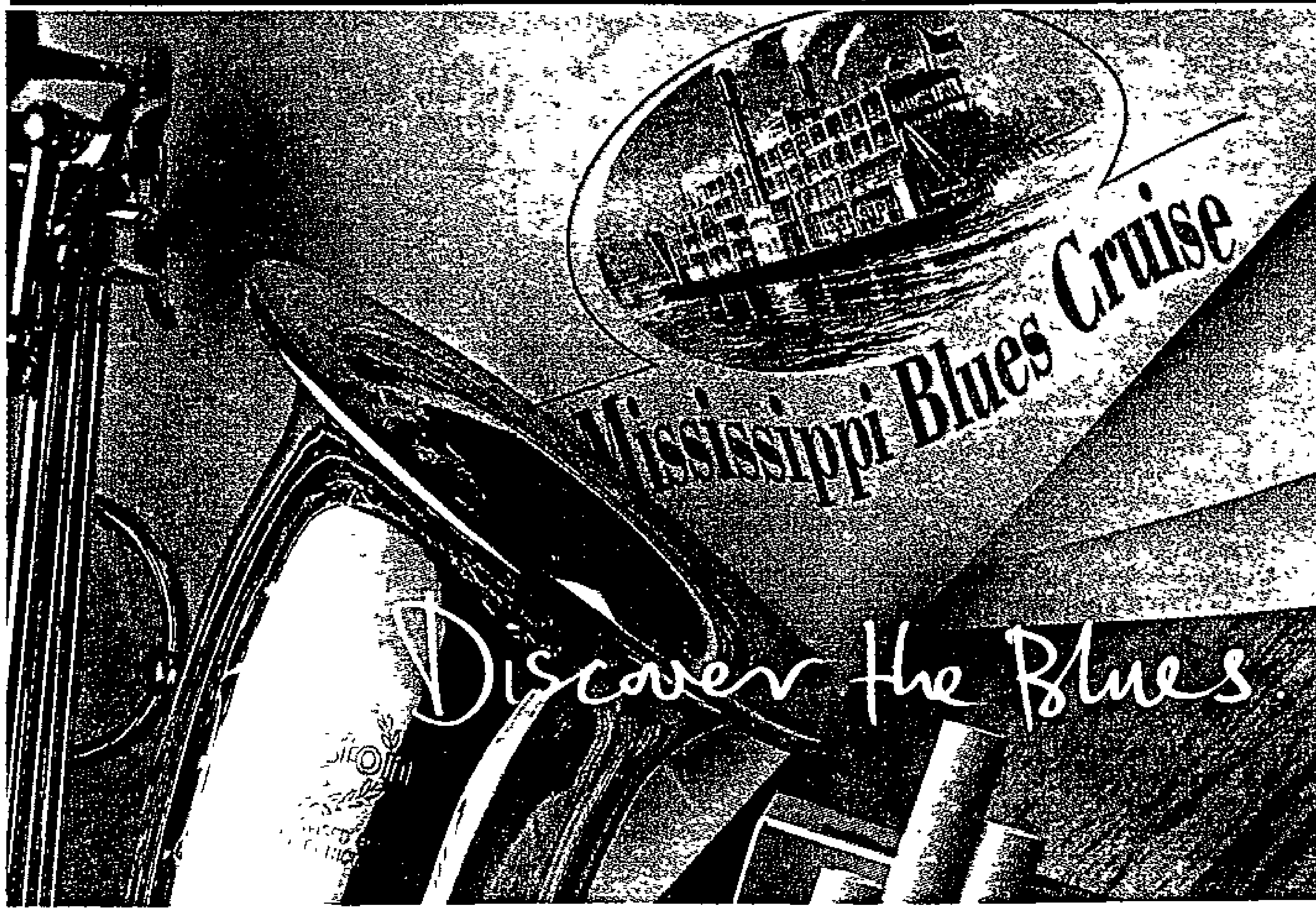
"In economics you don't just make a list of wishes and hope that if you pronounce it often enough it will turn into a reality You work policies around the reality you are faced with at the time Any macro-economic reform programme that fails to deliver jobs and decent salaries to the poor is wrong It must be overhauled The poor and the unemployed cannot afford a policy that will take up to 20 years to deliver to the poor," says Vavi.

The federation wants a meeting with President Nelson Mandela, Deputy President Thabo Mbeki and Finance Minister Trevor Manuel to discuss reviewing Gear and the crisis in social upliftment programmes

Zwelinzima Vavi: 'Immoral for Cosatu not to speak out'. PHOTO: RUTH MOTAU

YOUR SMOKE CAN HARM THOSE AROUND YOU

11 mg tar 1,0 mg nicotine As per Government agreed method



Government policy leaves business cold

ECONOMIC SURVEY

By SVEN LUNSCHE

SA's TOP executives are taking an increasingly pessimistic and critical view of government economic policy, suggesting that closer co-operation ahead of the job summit later this year will be difficult.

However, a survey by Unisa's Bureau for Market Research among the top 100 JSE-listed companies also shows that the country's leading executives are relatively optimistic about economic prospects this year.

They are forecasting growth of 2.6%, average inflation and rand exchange rates of 8.1% and R5.03/$US respectively, and a decline in prime rate to 18% by the end of the year.

Their feelings about the political situation are evident in responses to government business policies.

While the business community is still widely behind the growth, employment and redistribution strategy, 92% of those questioned believe government is missing the targets set out. More worryingly, two-thirds of executives detect a "new racialism" in government decisions. Increasingly, policies entrenching race consciousness and "selectionalism" are being formulated.

Needless to say, the executives see little progress on the anti-crime front, with a majority arguing "it will lead to large disinvestment".

Trade and investment policies are also being criticised. According to the survey, the executives do not foresee that SA's six-year tax holiday for new manufacturing investment will attract large volumes of foreign and local capital, or that the proposed SADC common market will yield many benefits to them.

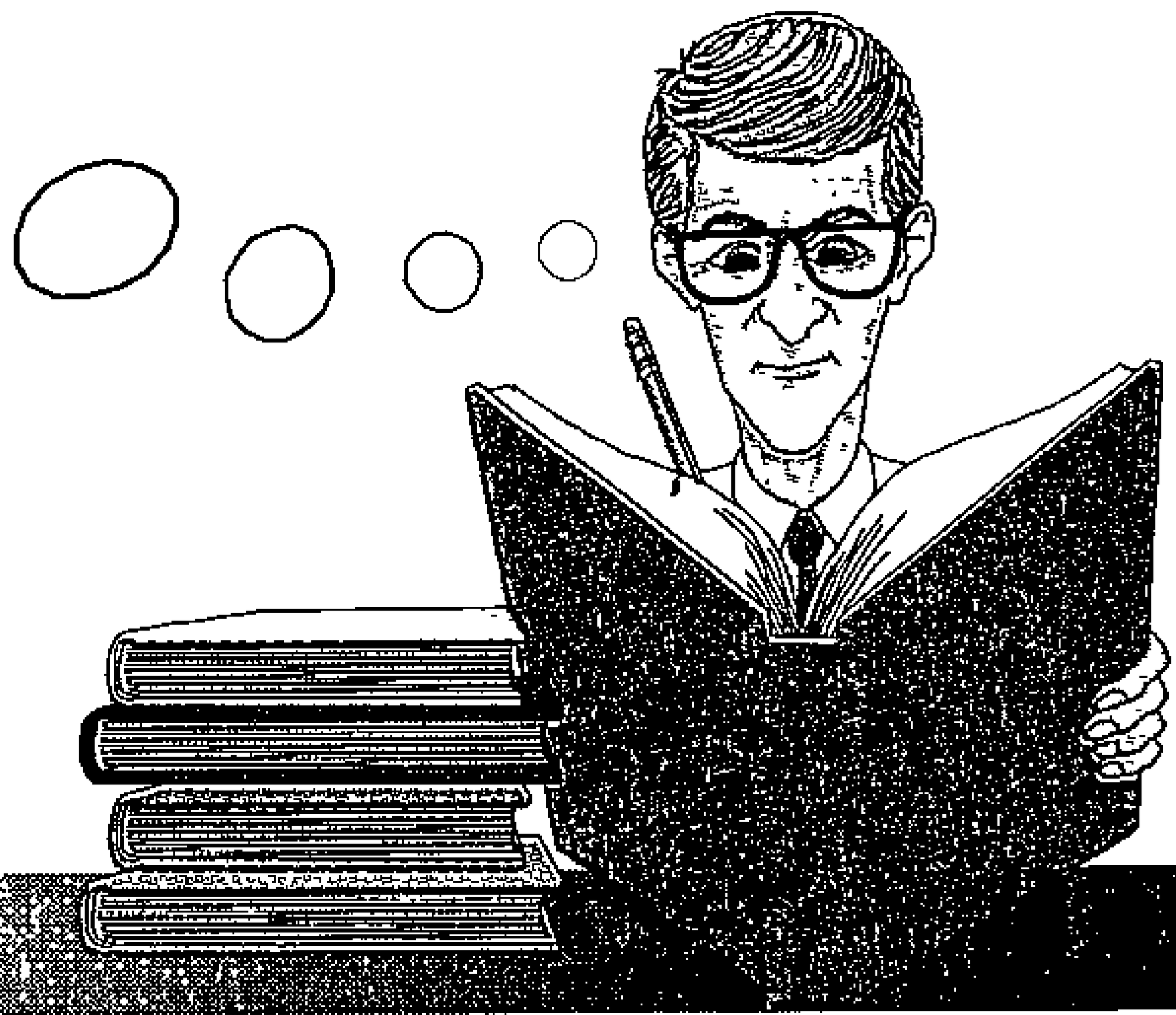
Through Nedlac, business, government and labour are trying to seek consensus on the agenda for the government's job summit later this year.

However, the executives' responses to questions about labour policy suggest that attitudes are unlikely to soften. More than three-quarters believe that the Basic Conditions of Employment Act will have a detrimental effect on job growth, a claim contested by labour and government.

The government this week made some concessions to business by postponing the promulgation of the Act to allow for an assessment of its impact on small businesses.

Despite the recent market volatility the executives remain optimistic about the performance of JSE equities.

For 1998 they expect the industrial index to improve by 10%, boosting the overall index to a 9% growth rate.



EXECUTIVES' FORECASTS FOR THE ECONOMY IN 1998

ECONOMIC VARIABLE	MEDIAN
Economic growth rate	2.6%
Inflation rate	8.1%
US dollar/rand exchange rate	R5.03
Prime overdraft rate	18%
Gold price	$338
Percentage up potential of the JSE	
• All gold index	4%
• Industrial index	10%
• All share index	9%

Graphic FIONA KRISCH Source BMR, UNISA

The gold index is forecast to rise 4% as the executives expect the gold price to firm to $338 — a $40 rise on its current low levels.

● The business sector's overall optimism on the economy is not shared by Sanlam Asset Management economist Jac Laubscher. In his economic and investment preview for 1998, Laubscher says he expects the economy to grow by a mere 1.6% this year. This forecast is at the lower end of expectations by most private-sector economists.

Laubscher ascribes the projected poor performance to a continued slump in consumer spending, especially over the next six months. Gross domestic expenditure is forecast to improve by a mere 1.8% over the year.

However, Laubscher says spending will pick up in 1999, with GDE expected to improve by 4%. This in turn will boost the economy by 3%.

Laubscher is very bullish on inflation, expecting an average and year-end rate of 6%, with the rate declining below 5% in mid-year. The lower rate will allow the Reserve Bank to cut prime by one percentage point in the first quarter and by another point around mid-year.

All in all, economy is in pretty good nick

An upgrade in SA's international credit rating by Standard & Poor's could be affected by the flak ratings agencies took in the wake of the Asian crisis. However, the country should pass most of the crucial tests, writes economics editor **Greta Steyn**

(49) BD 29/1/98

RESERVE Bank governor Chris Stals sometimes uses humour to avoid answering a tricky question. When asked about the chances of SA's international credit rating being upgraded, he quips. "The folks from Standard & Poor's are known to be very moody."

This pun on the name of one of the ratings agencies, Moody's, illustrates an important aspect of credit ratings — they are to some extent based on the subjective views of analysts. Quantitative analysis obviously plays a big role, but the analysts' subjective impressions of political and policy developments are a crucial part of the decision.

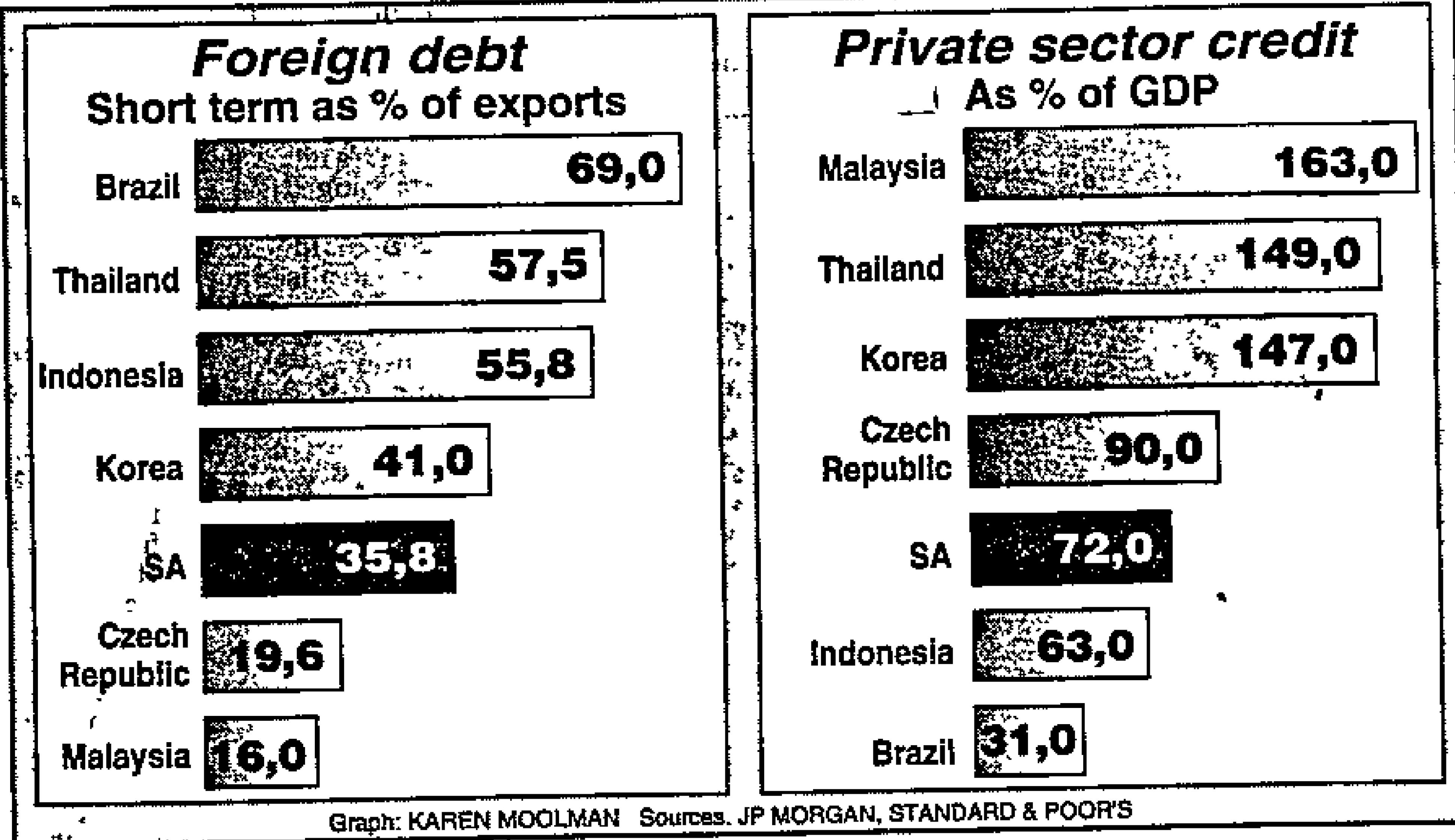
Guessing a ratings agency's decision about a country is tricky, to put it mildly, but markets always try to anticipate important events. SA's markets are at present trying to anticipate S&P's views on SA's international credit rating, which are expected to be released soon.

An upgrade in SA's international credit rating by S&P to "investment grade" from the present "speculative grade" could be the trigger for substantial capital inflows into the country SA already has an investment grade rating from Moody's and Duff & Phelps, but the fact that it is still rated speculative by S&P counts against the country

Much has been made of the fact that the Asian crisis could reduce SA's chances of getting a ratings upgrade from S&P. The agencies are said to have been embarrassed by the fact that the Asian economies until very recently passed their health checks with flying colours. They have been forced into dramatic downgrades, and some market players argue that they will want to avoid that in future by being ultracautious.

To answer the question whether the Asian credit downgrades have a bearing on SA, one needs to look at the criteria used to arrive at a credit rating

S&P divides all the factors that contribute to the risk of sovereign default into eight categories — political risk; income and economic structure; economic growth prospects, fiscal flexibility; public debt burden; price stability; balance of payments flexibility; and external debt and liquidity.



Graph: KAREN MOOLMAN Sources. JP MORGAN, STANDARD & POOR'S

The last category was important for east Asia, and one in which the ratings agencies slipped up badly.

It is common cause now that they placed too much emphasis on the Asian countries' low public external debt, and not enough on the ticking time bomb of the private sector's short-term forex liabilities. When the bomb explodes, the state picks up the tab When the state has to step in to prevent the banking system collapsing, private foreign debts become the government's problem. As Martin Wolf put it in the Financial Times: "Almost any large-scale international borrowing, even by non-banks, threatens economic stability if it becomes big enough to threaten the currency. It cannot be ignored by policy makers"

S&P does take into account the "importance of banks and other public and private entities as contingent liabilities of the sovereign" when looking at external debt and liability. However, the agency obviously should have paid more attention to this aspect of the Korean and Thai economies. Ideally, the agencies should have detected the fragility of their banking systems and the threat posed by heavy foreign borrowings earlier on, and reflected that in their credit ratings.

It seems the agencies have learnt a lesson and are not about to repeat the same mistakes

In a paper published in December when the East Asian banking crisis was erupting, S&P examined the issue of financial system stress and sovereign credit risk.

One gets the impression from reading the paper that "leverage" has become something of a buzz word and that the strength of the banking system is crucially important for a sovereign credit rating. Asset price inflation also seems to be an important part of the equation.

The conclusion can be drawn that not only foreign borrowing by the private sector, but domestic credit to the private and public sectors will become more important factors in arriving at a sovereign credit rating.

That does not mean that a highly leveraged economy cannot be rated investment grade, as much depends on the strength of its banking sector Hong Kong is highly leveraged and has experienced excessive rises in property prices. Nevertheless, its financial sector is well-capitalised and prudently managed and S&P says this should minimise the need for government intervention.

S&P says in its paper on the issue: "The level and rate of growth of leverage in an economy are key determinants of the likelihood of stress in financial [illegible]ms, strong and weak alike [illegible] in credit growth, corporate and household indebtedness, asset-price inflation, and external funding of financial institutions are key indicators of leverage."

Financial sector management and regulation, the pace of change in the regulatory and operating environment, the degree of macroeconomic volatility, and the extent of moral hazard and information deficiencies within the country play a role in S&P's determination of the banking system's vulnerability to stress.

A vulnerable banking sector is less of a problem, S&P argues, if government's finances are healthy enough to provide enough flexibility to cope with problems in the banking system.

The east Asian crisis can have a bearing on S&P's rating of SA in that the agency is likely to scrutinise certain aspects of the economy more closely — the country's banking system, international and domestic leverage, asset markets and government finances. How does SA stack up?

S&P estimates that, in a worst-case scenario, the SA government's potential liabilities from banking problems could be between 7% and 14% of gross domestic product This compares with more than 30% of GDP for China, the Czech Republic, Hong Kong, Japan, Korea, Malaysia, Thailand and Taiwan. Not surprisingly, it does not name SA as a potential problem child in its assessment of banking systems.

Foreign investment bankers believe SA's sound banking system is one of its best assets. They are not overly concerned that the country is relatively highly leveraged judged by its ratios of private sector credit to GDP and government debt to GDP.

What about foreign debt? According to statistics provided by JP Morgan, SA's short-term foreign debt is about 36% of exports, compared with about 58% in Thailand, 56% in Indonesia and 41% in Korea. It consists mainly of trade finance, which JP Morgan's Peter Worthington describes as "naturally self-refinancing". No question here of foreign debts being used to fuel asset price bubbles.

SA usually gets flak for its lack of forex reserves, but S&P is likely to be impressed by the sharp rise over the past year The level of the reserves should be judged also in the context of the country's low foreign indebtedness.

One area of foreign finance where SA must be faulted is the central bank's huge exposure in the forward currency market. The last available figures put the Bank's exposure at $16,7bn at the end of October At that time, its forex reserves net of short-term foreign borrowings were $3,8bn.

The Bank provides forward cover with a view to protecting the rand — a market intervention disliked by most foreign investors

The Bank does not have to match its forward currency commitments with forex assets, unlike commercial banks. This naked position is a "contingent liability" for the state — one which surely has not escaped S&P's notice.

On the whole, though, SA is likely to pass most of the tests that the east Asian economies failed. That does not mean that there are no problems. SA needs to keep a close watch on credit growth and to monitor foreign borrowing by the private sector, while the central bank has to make more progress in getting out of the forward currency market. Government finances also need to be managed better. Needless to say, crime has to be reduced, something which S&P is also likely to have noticed.

Even if the SA economy needs to cut down on its cholesterol and get more exercise, it should pass its health check. But there is no way of reading the mood and guessing whether S&P will agree

Asian crisis puts 7,6% of SA GDP at risk

(44) BD 29/1/98

Samantha Sharpe

CAPE TOWN — The portion of SA's gross domestic product (GDP) at direct risk from the economic crisis in Asia was limited to only 7,6%, SMK Securities economist Herman van Papendorp said yesterday.

The figure, calculated as SA's share of exports to the emerging market regions and Japan multiplied by the share of exports in GDP, quantifies the effect of the crisis in terms of its effect on export demand.

Van Papendorp said the results confirmed SA's direct exposure to the difficulties in Asia and Japan was limited — in line with that of developed countries, excluding Canada — and much less than that of a similar commodity-based economy like Australia.

However, he warned there were also indirect repercussions which could have a more pronounced effect on the world and on the domestic economy.

This was because of the complex linkages across the global economy and dynamics of economic behaviour both within and between various nations.

Van Papendorp said the share of SA's GDP at indirect risk from the recent crisis in Asia was estimated at 14,7%, which with the 7,6% share from direct risk translated into a total risk exposure of more than 22%.

This meant that for every 1% drop in global GDP, SA lost about 0,2% in terms of its own domestic growth.

"The biggest negative indirect impact on SA exports will come through the European Union," Van Papendorp said. "Although Europe has a small exposure to Asia, the large contribution of its exports to GDP and its strong indirect interlinkages to the rest of the globe inflates its dependence on the Asian turmoil.

"Despite the fact that we do not expect SA export volumes to be too severely hampered by the Asian problems, the impact on export values could be much greater (with) the disinflation/deflation phenomenon ignited by the Asian difficulties having pronounced negative implications for commodity prices.

"As our exports are mainly commodity based, a subdued volume impact could be grossly exaggerated by commodity price declines. This would severely erode SA's trade balance."

Van Papendorp also said pressures on SA's current account deficit resulting from the crisis in Asia and from other factors could catapult the current account deficit to more than 2% of GDP during the next two years.

"Should any factors (foreseen or not) derail the inflow of capital to the domestic economy, this will put upward pressure on local interest rates, delay a rebound in economic growth and limit the downward potential for inflation," he said.

Share of GDP at direct risk from:

	Japan	Asia	Latin America	Emerging Europe	Total
US	1,2	2,2	1,8	0,2	5,4
Canada	1,4	1,6	0,4	0,1	3,6
Germany	0,6	1,9	0,5	2,5	5,6
UK	0,8	2,5	0,4	1,2	5,0
European Union	1,0	2,3	0,6	1,7	5,6
Australia	4,0	8,6	0,3	0,5	13,3
SA	1,3	5,4	0,7	0,2	7,6

Graphic: KAREN MOOLMAN Source: RBCDS, SMK SECURITIES

Homelands' debt still bedevils govt finance

Greta Steyn

THE old homelands' debts are still casting a pall over government's finances, forcing the finance department to raise extra money from the financial markets to fund the borrowings.

The weekly three-month treasury bill tender was increased to R1bn from R800m on Friday as government started building up cash balances to fund homeland debt and other pressures on its cash flow in the near future.

The auditor-general has verified about R1,1bn in short-term debts belonging to the homelands which central government has to take onto its books, over and above the R13bn added to the public debt in 1996.

Last year's budget mentioned that government would have to take over the debt once the auditor-general had identified and verified the amounts involved. Despite government's awareness of the debt at the time of the budget, it is nevertheless going to result in government's short-term borrowings exceeding the budgeted projections.

Coen Kruger, finance director of asset and liability management, confirmed that government would end the fiscal year with about R1bn more short-term borrowings on its books than the R2bn originally budgeted. "There is no need whatsoever for concern over this, as it is a dynamic situation which is subject to change. It is a question of cash-flow management. At the moment we are building up cash balances to meet increased requirements over the next few months."

BD 2/2/98

Analysts like Mandela's tone

(49) ST(BT) 8/2/98

OPENING OF PARLIAMENT

By MARCIA KLEIN

FINANCIAL markets failed to react to President Nelson Mandela's speech at Friday's opening of Parliament, but economists welcomed the government's first public commitment to cutting the bloated bureaucracy

Mandela, and later in the day finance minister Trevor Manuel, announced imminent talks with public-sector unions to effect retrenchments.

Manuel did not provide details but said: "What is clear is the fact that the president said there was no room for equivocation on this matter. We've got our battle orders to get this thing in line."

Mandela, in a speech that many believed detailed the priorities of heir-apparent Thabo Mbeki, also reiterated government's intention to stick to its budgetary targets.

Mandela said the proposed shedding of jobs in the 1.2-million-strong public sector would go some way towards eliminating overspending by provincial governments, estimated at up to R2 5-billion.

In his reaction, Old Mutual economist Dave Mohr told Reuters: "It's encouraging that there has been no change in the direction of government policy and that he said he was staying with the targets."

Whether the government remains as strongly committed to

LEADERSHIP TEAM . . . Nelson Mandela and Thabo Mbeki

job cuts as the 1999 elections approach remains to be seen but economists feel that Manuel has little choice but to implement retrenchments if he is to achieve his budget deficit targets.

They also point out that the ANC government has added 100 000 civil servants to the bureaucracy since it took office in 1994, with the numbers coming down only over the past few months.

Cosatu took the news surprisingly well. The trade union's general secretary, Sam Shilowa, responded cautiously: "All of us are worried about unemployment and job losses. We don't believe he has declared war on us," Shilowa told Reuters.

The government has been battling with significant spending overruns in the provinces and Manuel will give details on how spending will be brought down when he presents his Appropriations Bill on Friday.

The finance department has consistently said it would not bail provinces out of their overspending problems. Provinces have complained of their inability to cut staff.

In his speech, Mandela said there had been some commendable but limited savings from better cash-flow management and some reduction of staff in certain departments and provinces. But "put in simple terms, we need to cut spending on personnel".

Mandela said job cuts in the public sector need not necessarily lead to increased unemployment. "For instance, retrenchment packages that include investment capital and tender obligations on the part of government can in fact help expand the job market, especially in depressed rural areas."

He spoke at length about the strides which the SA economy had made. Inflation was coming down, productivity was increasing, exports were up and various incentives had attracted more than R7-billion in investments. Investments of about R77-billion had also been attracted through almost 400 projects related to spatial development initiatives such as the Maputo Corridor.

GROWTH, EMPLOYMENT & REDISTRIBUTION

Being in the wrong place when the buck stops

Manuel's rolling Budget can set the record straight

A comparison of government's original economic targets, set out in the Growth, Employment & Redistribution (Gear) scenario published in 1996, with the probable outcome in 1997, shows it is off course (see table)

Some of the assumptions were revised in December, when Finance Minister Trevor Manuel announced the introduction of a three-year rolling Budget for 1998-1999 But the implications for the original goals are not clear and people tend to look to the original framework when making comparisons.

This shows, for instance, the predicted creation of an additional 252 000 jobs in the year As it turned out, 62 000 jobs were lost in the formal sector in the first six months.

Other targets are in doubt because assumptions have proved incorrect. Public sector wage growth is roaring ahead Private savings, as a percentage of GDP, is probably lower than the 19,2% recorded in 1996 And private sector fixed investment is lagging expectations.

Should these failures be seen as the responsibility of Manuel? Not all of them. But he is to blame for creating false expectations Governments take the credit for positive economic developments during their term of office, and they have to take the blame when things go wrong.

Both credit and blame are usually unreasonable because good economic policy is long term and, unless a government has been in power for more than one term, the chances are it is collecting kudos or criticism due to the previous party in power.

With that in mind, governments should be careful about setting short-term goals

Manuel made a strategic mistake when he announced the Gear framework. Though it was described as medium term, with the year 2000 as its bottom line, it included a year-by-year breakdown of results.

As some of the objectives were contradictory in the short-term, he set himself up for failure in the early years

One way to measure the success or failure of Manuel's strategy is to decide what problems he should have anticipated, in 1996, and what could realistically be described as unexpected

In the case of unemployment the answer is a bit of both The root of the unemployment problem is one that many countries share the rate at which the cost of employment is rising is outstripping the rate at which the income it generates is growing

Manuel was being too bold in predicting substantial employment growth so early in the medium-term framework Employment creation is a longer term outcome of stable economic policies so benefits will not be seen for some time And, even then, they will be hard to measure because some of the growth will be in the informal sector

But, to be fair, there was an unexpected event which contributed to the employment problems In 1997 a financial crisis in Asia spilled over into other emerging markets

This called for tight monetary policy at a time when it could reasonably have been expected to relax. The need to shore up the rand because global investors were losing faith in emerging markets, has kept interest rates at far higher levels than was expected in 1996 (see page 54)

One of the Gear "model characteristics" was a real Bank rate — the nominal rate with inflation stripped out — of 5% But, in the event, the real Bank rate was heading for 10% in December Now the 2,9% GDP growth rate targeted for 1997 is likely to turn out to be less than 2%

The lower GDP growth reduces the likelihood the Budget deficit target can be reached First, because it means lower tax revenue. Second, on simply arithmetical grounds achieving the ratio requires a smaller deficit in absolute terms. So events have already moved the goalposts for the first two years

This does not necessarily mean the failure of the strategy in the medium term It simply pinpoints the problems of reconciling medium-term objectives with short-term outcomes

By 2000, the pieces may well have come together, assuming the crucial parts of government policy are kept in place. Meanwhile, Manuel must set the record straight When he introduces his Budget next month he will have an opportunity to change the timeframe of economic planning and revise the Gear targets

Ethel Hazelhurst

Trevor Manuel . . . set himself up for the sucker punch

MONITORING THE GROWTH, EMPLOYMENT & REDISTRIBUTION SCENARIO

Model characteristics	Forecast for 1997	Probable outcomes for 1997
Fiscal deficit % GDP	4,0	4,3
Real govt consumption % GDP	19,5	21,7 (1st 3 quarter)
Private sector wage growth %	1,0	*3,1 ‡3,6
Govt sector wage growth %	0,7	*-0,6 ‡2,5
Real effective exchange rate % change	-0,3	-0,7
Real Bank rate %	5,0	Nearly 10 in Dec
Real govt invest growth %	2,7	#4
Real public corp invest growth %	5,0	#0,7
Real private invest growth %	9,1	#3,4
Real nongold export growth	8,0	†12,0
Results		
GDP %	2,9	Less than 2
Inflation %	9,7	8,6 av. 6,1 in Dec
Employment growth %	3,0	-3 ‡-1,7
New jobs	252th	-62 000 Jan-Jun
Current account deficit % GDP	2,0	Probably 1,5
Gross private savings % GDP	21,0	Probably lower than the 19,2 in 96
Govt dissavings % GDP	2,3	#3,5

* Quarter 1 '97. Quarter 1 '96. ‡ Quarter 2 '97. Quarter 2 '96.
† Half 1 '97. Half 2 '96. # First 3 quarters '97.

Gear growth trends 'may be realised'

(49)

Roy Cokayne ET(BR) 12/2/98

Pretoria — Productivity growth trends implied by the government's macroeconomic growth, employment and redistribution (Gear) strategy might be realised, Jan de Jager, the chief economist of the National Productivity Institute, said yesterday.

This was estimated on past trends in productivity, based on the projected growth in output, employment and investment.

But De Jager said Gear's "terrible shortcoming" was that it did not set targets for productivity.

Growth trends were important because they would influence the competitive capacity of the economy in the long term, which was one of the main objectives of Gear, De Jager said.

The institute's productivity guidelines to ensure Gear's objectives were achieved, or even exceeded, involved four core values that drove productive behaviour and had to be shared by the company's employees.

These were:

□ Every employee – management as well as labour – should have an entrenched focus on the market and should be fully committed to their tasks to ensure their output was truly acceptable to the receipt of the output;

□ All employees should at all times want to maximise the utilisation of their own time and of the capacity resources that each employee personally controlled;

□ Managers and workers should have a systemic view of their company, thus ensuring that the collective effort of the employees would exceed the sum of the individual efforts; and

□ Trust and willingness to share relevant information were prerequisites for productive behaviour.

De Jager stressed the link between competitiveness and productivity.

He said that the institute had identified four factors of competitiveness from the World Competitiveness Report that were closely related to productivity.

These factors were science and technology, government, management and people.

"The people factor is one which South Africa needs to improve a lot. It is possibly also the one factor that will need the longest time to accomplish noticeable results," De Jager said.

"Furthermore, South Africa occupies the 46th and last place for people measures like skilled labour, brain drain, economic literary, harassment and violence at work places, and the values of society (which are hostile to hard work, tenacity and loyalty)," he said.

De Jager said South Africa also occupied the second- and third-last positions in other important productivity-related matters like pupil-teacher ratio, unemployment, illiteracy and the education system.

Gideon Skhosana, the general manager for productivity awareness at the National Productivity Institute, said one of the most important reasons for South Africa's low productivity was the country's failure to adopt a productive, work-ethic mind-set.

Sunday Times Business Times
February 15 1998

Government's spending is all awry, says FFC

ST (BT) 15/2/98 (49)

The Financial and Fiscal Commission has found that money is eaten up by salaries instead of going to services, writes SVEN LUNSCHE

TWO United Nations welfare organisations have criticised government's spending patterns on basic social services.

A report by the SA Financial and Fiscal Commission (FFC) for the UN Development Programme and UN Children's Fund shows that SA spends 22.5% of its Budget on basic services — primary education and health care, nutrition, water and sanitation.

This is above the 20% norm recommended by the UN, but the agencies argue that too much of this is devoted to current expenditure on salaries and administration.

The report, released on Friday, carries weight as its drafters, the FFC, also determine the guidelines on how government funds are distributed between national, provincial and local governments.

The FFC warns that there is little scope for shifting resources from the economic and security sectors of government to social services. Instead, if additional funds are required, the government should consider alternative means, such as an education tax and hospital user fees.

A breakdown of the spending on primary education shows that current expenditure is around 95% of the total basic education budget. While this covers teachers' salaries, it also includes the cost of the various provincial education departments.

"This means that unless current spending is reduced, fewer resources will be available for the provision of buildings and equipment to increase access to better quality education for the country's poor," the report says.

The UN warns that the teacher salary component needs to be cut either by reducing wages in real terms over five to ten years, using less qualified teachers, or increasing class sizes.

None of these are popular measures and in order to implement them the report suggests replacing the current system with provincial bargaining forums. The report rules out charging user fees for primary education as many pupils come from poor families.

"The burden of increased funding will therefore fall increasingly on private households who have the ability to pay. This can be achieved by disbursing more resources to the poorer provinces and assisting poor households in particular. Beyond user charges," says the FFC, "it is almost certainly necessary for the education sector to seek alternative sources of funding.

'Unless spending is cut, fewer resources will be available for school buildings and equipment'

"One option is the raising of an earmarked national or local tax for education or some specific aspect of education."

On health care, the report shows that two thirds of the health budget is devoted to personnel costs, while pharmaceutical and other supplies make up 20%. Despite the government's commitment to non-hospital primary care, such as clinics, only 11% of the department's funds were channelled in this direction.

The FFC recommends developing a social health insurance system, user fees and reducing subsidies for non-essential services and training.

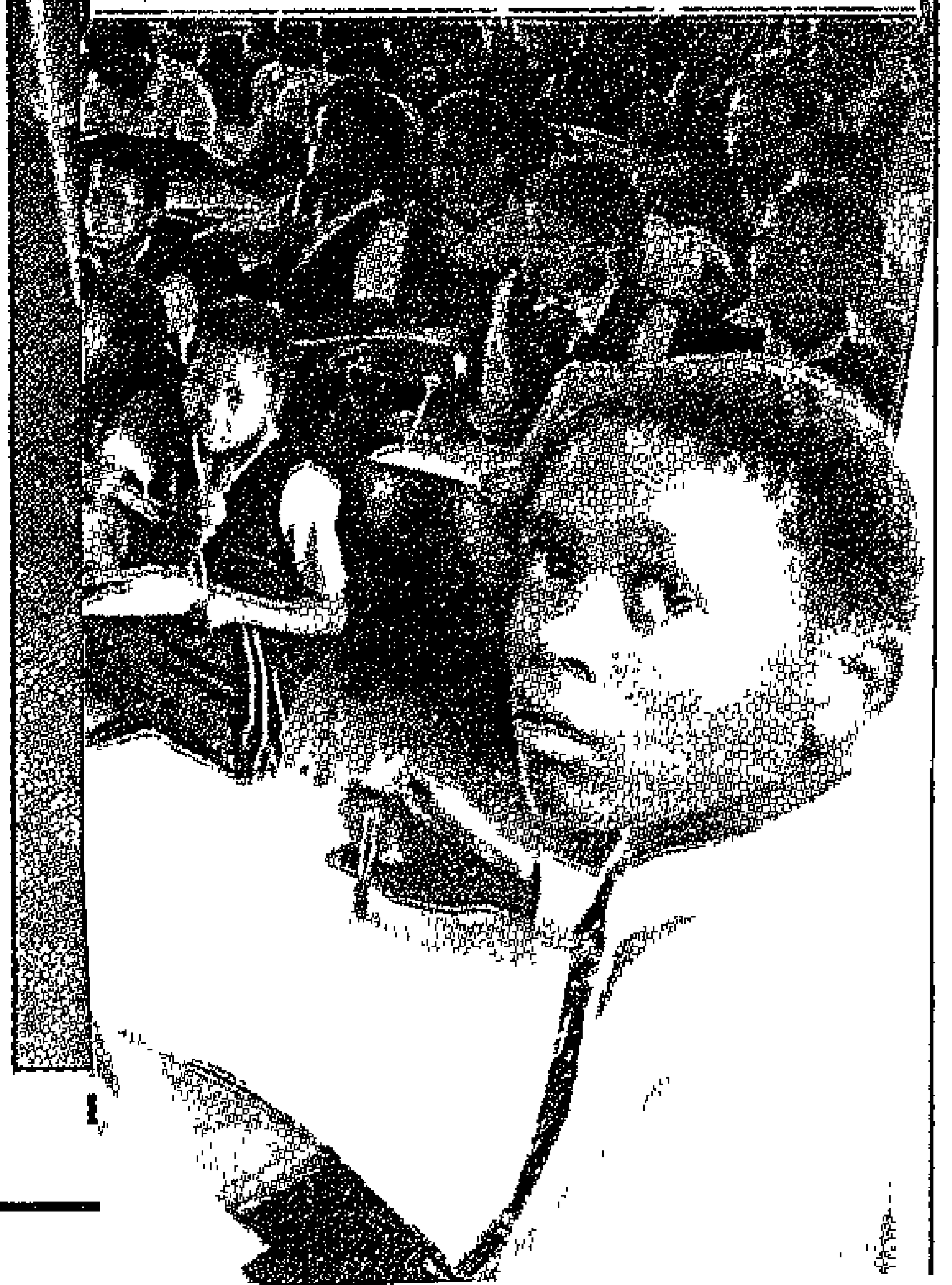
Management of health services could be improved by decentralising control to hospitals and health districts.

The report notes that an effort must be made to direct spending at the poorest section of the population. In education the poor receive only 40% of educational resources, although they comprise 53% of the population. The richest 12.5% receive almost twice their share of total resources, namely 23.4%.

SA'S SOCIAL SERVICES

BASIC SOCIAL SERVICES	BUDGET EXPENDITURE 96/97 (R-bn)	% OF TOTAL BUDGET
Basic education	17.6	10
Basic health	3.5	2
Water and sanitation	0.9	0.5
District hospitals	2.8	1.5
Social welfare	14.9	8.5
TOTAL	**39.7**	**22.5**

Graphic FIONA KRISCH Source FINANCIAL & FISCAL COMMISSION



Public Protector Selby Baqwa

ANC's Gear can't set itself in motion, say opposition parties

(44) Star 9/2/98

By Jovial Rantao
Political Correspondent

Cape Town – The ANC came under heavy attack from opposition parties yesterday for being half-hearted about the implementation of its Gear macro-economic strategy and for pandering to the whims of its Cosatu and Communist Party allies.

During interpellations, National Party leader Marthinus van Schalkwyk – who displayed an ANC 1994 election poster promising "jobs, freedom and peace" – argued that the Government had not created but, on the contrary, had destroyed jobs.

Van Schalkwyk said the economy had shed 71 000 jobs in the non-agricultural sector in 1996, and between September 1996 and September 1997 had shed a further 116 200 jobs in the formal sector.

"The Government must accept that they're not creating jobs. If we continue with Gear in this manner then it will go the same way as the RDP," Van Schalkwyk said.

The DP's Ken Andrew urged the Government to pay serious attention to Gear, which he warned would soon be "dead as a dodo". He said the policy was being sabotaged by ANC ministers and alliance partners. He also attacked Labour Minister Tito Mboweni for raising the cost of labour.

In reply, Deputy President Thabo Mbeki said Gear was on track to achieving its objective of transforming the economy – from one characterised by low growth, high inflation, periodic balance of payments difficulties and huge disparities in income and access to service, to a fast-growing economy with stable prices in which opportunity and infrastructure were equitably shared.

"Economics is an imprecise science, so the Gear should not be judged on a set of projections made at a point in time but on the extent to which there is evidence of the structural transformation of the economy," Mbeki said, adding that there was considerable evidence to suggest that the economy was undergoing the transformation envisaged.

He expected a decline in the level of inflation, a development that would be good news for investment and the long-term stability of the currency.

Mbeki said the improved competitiveness of South African companies was evident in their ability to adjust to the depreciation of the rand during 1996 by sourcing imports from different markets and not passing on the impact of the depreciation in price changes that were to the detriment of consumers.

CAPE TIMES
THURSDAY, FEBRUARY 12, 1998

Reschedule R311bn debt, urges PAC

(49)

JOVIAL RANTAO

CT 12/2/98

THE Pan Africanist Congress has called on local creditors of the Government, who were owed the bulk of the R311 billion in national debt, to suspend the servicing of the debt to allow the State to spend funds accrued from the move in social services.

Speaking during a debate on President Nelson Mandela's speech, PAC MP Patricia de Lille urged Government to ask its local creditors — the Public Investment Commission, Old Mutual, Sanlam, Liberty Life, Southern Life and Norwich Life — to reschedule the debt for three to five years.

De Lille said such a move would release at least R40bn which could be used in job creation initiatives, housing programmes and to promote massive social and infrastructural investment programmes through direct community participation, public works programmes and small scale labour intensive contracts.

PATRICIA DE LILLE

"If these institutions could, in the interest of the advancement of our people and of nation building, release the State of the interest of this debt, they would be doing an invaluable service to the people of SA. We call on Government to dedicate serious energies to considering options through which the debt may be rescheduled," she said.

In the 1997/98 budget, the Government set aside R39bn to debt servicing.

De Lille blamed the National Party government for the high national debt.

"The NP government, aware that changes were imminent in SA, began to make plans to ensure that the old apartheid employees would continue to benefit from the new Government. They changed the old 'pay as you go' pension system to a 'fully funded scheme', financed by a massive injection of government funds.

"Total government contribution to that fund until 1996 was R66bn. To raise this money, government sold bonds to the Public Investment Commission (PIC), an office in the Department of Finance.

"In simple terms then the government sold these bonds to itself. Last year the PIC earned R10-billion in interest from the Government. This means the government is not only lending money to itself but it is also using taxpayers money to pay itself enormous interest. As a result PIC now sits on an enormous pile of money, R136bn," De Lille said.

Gear is a slap in the face of labour

Programme criticised as serving interests of financial capitalism

By Maria van Driel

IN DECEMBER the African National Congress conference tacitly accepted the Government's Growth, Employment and Redistribution strategy.

In response Congress of South African Trade Unions (Cosatu) deputy general secretary Zwelinzima Vavi said a macro economic strategy that did not deliver was wrong and that it was immoral to support Gear.

Indeed, even the tacit acceptance of Gear is a slap in the face for Cosatu and the labour movement in the light of the federation's recent congress decision to reject Gear.

For the South African Municipal Workers Union (Samwu) which organises the local government, Gear will have a major impact on service delivery.

For the labour movement as a whole the Mafikeng conference raises critical questions about relations with the ANC. In the labour movement Gear has been criticised for being a neo-liberal programme that serves the interests of financial capitalism.

Neo-liberalism is the response of capital to the crisis of overproduction. The neo-liberal agenda therefore focuses on deregulationary measures to ensure the free flow of capital to areas and countries that are profitable, that is where labour is cheap.

Taxes for capitalists are reduced and enormous pressure exists to cut state expenditure and sell state assets to the private sector. Privatisation is therefore at the heart of neo-liberalism and is an attempt to solve the global economic crisis of capital.

For this reason enormous pressure is exerted on the South African Government (and most Third World countries) from financial institutions such as the World Bank and the International Monetary Fund to privatise.

Privatisation has been adapted to the South African context. Here privatisation plays on the notion of black empowerment, giving the impression that it is addressing the legacy of apartheid.

But the motives are twofold – a few strategically placed black faces are useful to access Government contracts and, more importantly, to co-opt workers and the union movement into joint ventures with the private sector and thus defuse any potential anti-privatisation sentiment.

Regulatory role

Often, though, concerns about privatisation focus nationally on Telkom, the SABC, Sun Air and so forth. Yet privatisation is quietly eroding the local state.

A brief overview will illustrate the complexities and the different forms of privatisation.

Concessioning: Bulk services such as water are concessioned to multinational companies for 20 to 30 years. The state cedes all control and only plays a regulatory role. All rights are ceded to the company to, among other things, maintain, provide water and set the tariffs.

Contracting out or outsourcing: This is a common form of privatisation, where the Government buys the service from a private company who runs it for a particular time.

Outsourcing occurs, nationally, across service sectors, including refuse removal, roads, security, catering, meter reading in water and electricity and the health services.

Cosatu leader Zwelinzima Vavi ... It is immoral to support Gear.

> **"While some unions lack clarity on the public sector and its role, others have bought into the process through their investment companies, with the result that privatisation is spreading"**

Often contractors subcontract, drawing on the mass unemployed in communities who are prepared to work as casuals. These have appalling working conditions, which affect the service and enrich the contractor.

Joint ventures: These are mooted as partnerships between the local authority, the council and the workers on the pretext of black empowerment, but are merely an attempt to co-opt workers.

Leasing: This is where a service or resource previously held is leased from the private sector. This includes vehicles or management services (currently a proposal in the Johannesburg Fire Department).

Leasing is also used as an incremental approach to privatisation to bypass anti-privatisation opposition. In Gauteng Emergency Medical Services, the ambulances were leased, accompanied by the general running down of the service.

Some specialist services and training of staff for these services have been abandoned. Now there is pressure to privatise the ambulance service.

Reducing funds: Privatisation is induced through reducing funds to public bodies to force them to seek private funding. All services in all local authorities are affected nationally. The funding crisis is particularly marked in South Africa's biggest city, Johannesburg.

Increasing user charges: This forms part of the commercialisation process of preparing the service for privatisation. Tariffs are set according to private sector principles.

Gains to the private sector are twofold - politically the local authority takes responsibility for the tariff increases, and this also sets financial benchmarks for the service.

But Gear's impact must not be measured in financial terms only, as its political implications are far-reaching. Gear has the potential to fragment and destroy the entire fabric of society.

Neo-liberalism atomises people and individualises problems and its sources. This fragments the working class (and the middle class) and undermines the working class' capacity to struggle.

Various unions have responded to privatisation differently. Most have been unable to respond consistently and to prevent the dismemberment of society and the fragmentation of the working class that results.

This is largely due to unions not taking clear political positions but rather a case by case approach. Much of this can be attributed to the National Framework Agreement which accepts privatisation.

While some unions lack clarity on the public sector and its role, others have bought into the process through their investment companies, with the result that privatisation is spreading.

Samwu has been consistent in its total rejection of and opposition to all forms of privatisation.

Central to Samwu's approach is the unity of the struggle against privatisation and the reform of the public sector. This approach is based on political opposition to neo-liberalism, Gear and privatisation.

A firm political grounding resting on strong workplace organisation allows the union tactical flexibility in responding to privatisation.

The union's preparedness to enter into negotiations is underpinned by a preparedness to struggle as we understand that only with such a preparedness to struggle will negotiation yield positive results.

Political compass

This approach is in contrast to adopting a "flexible" approach to privatisation, which does not anchor the union or the struggle politically.

With no political compass this inevitably leads to supporting one form of privatisation or another. This undermines the struggle for public sector reform as it disperses the broad resources necessary for such reform.

There are three elements to Samwu's approach. These are developing a vision for the kind of public sector we want, developing an emergency plan to transform the service in the short term and developing a long-term plan to transform the service.

In the light of the struggle against neo-liberalism, Gear and privatisation and the struggle for public sector reform we need to ensure that this is reflected in the upcoming Cosatu Platform.

The Platform was decided on at the Congress in 1997 in order to include a list of demands pertinent to the living conditions of the working class. The labour movement needs to struggle for this with the 1999 election in mind.

It is important that Cosatu maintains its political convictions regarding its rejection of Gear and does not pander to the ANC.

(The writer is Samwu's national anti privatisation coordinator. The article is written in her personal capacity.)

Key questions remain over fiscal policy

Finance Minister Trevor Manuel is trying to push the art of the possible to new limits, writes economics editor **Greta Steyn**

(49) BD 16/2/98

If it looks like a bale-out and smells like one, then the chances are that it is one. But Finance Minister Trevor Manuel disagrees.

He is emphatic that the extra R1,5bn in cash going to the provinces is no bale-out. He insists that he has kept his fiscal promises, and that he will continue to do so. Is he right?

Manuel staked his credibility on delivering a deficit of 4% of gross domestic product (GDP) this fiscal year.

The outturn of 4,3% is close enough for him to claim victory. But it is too early to start celebrating, as there are still many unanswered questions.

The first question to be answered is how credible the 4,3% figure is. The jury is still out on that one. Early indications from cash-strapped provinces like KwaZulu Natal were that the extra allocation might not be enough. The provinces could overshoot the new spending limits by raising finance from banks, or selling state assets.

The provinces' further use of overdrafts and privatisation proceeds could spoil Manuel's respectable figures. This extra finance must be added at the end of the fiscal year to arrive at the "true" deficit.

An encouraging sign is the sharp fall in provinces' overdraft debt last month after reaching an ominously high R2,8bn in December. The debt has dropped substantially to R1,6bn.

Give Manuel the benefit of the doubt for now, but bear in mind that there is a distinct possibility of further overspending this fiscal year.

The second question to be answered is what the outlook is for further deficit reduction.

The outlook for fiscal policy depends on the reasons for the provinces' problems. A number of factors could account for the cash crunch. They are mismanagement; profligacy; unrealistic budgets that result in underfunding, teething problems and the hangover from apartheid's homeland policies.

The question also needs to be asked whether the constitutional system is not to blame.

Is there an economic price to be paid for a political system that devolves power?

The explanation for the provinces' problems lies in a combination of these factors. Mismanagement is undoubtedly a big issue. In some provinces, unqualified people with little experience have been managing huge budgets, with adverse consequences. Controls and systems were not up to scratch.

The signals from the finance department are that lack of management capacity is the biggest headache. Hence Manuel will compel provinces to recruit qualified financial managers for the big spending budgets like education and health.

The hangover from apartheid and the previous government's inadequate systems are compounding the management problem. Finance director-general Maria Ramos points out that financial management systems — to the extent that they existed at all — were not designed for the new decentralised system. "Government is a big animal and it takes time to teach it new ways," she says.

Systems are being cleaned up and an effort is being made to bust two types of "ghosts" — the fraudsters claiming welfare payments to dead pensioners and the would-be provincial employees with no real job to do.

Ramos says problems relating to the homeland governments keep cropping up. "It is like taking wallpaper off, and discovering layers and layers of paper underneath. . on a wall that needs a bit of rebuilding."

This fiscal year was the first in which the new provinces ran their own budgets. The change was difficult, as there was no proper base year to use for calculating budgets. As a result, budgets were not quite realistic. Moreover, there was not enough money to implement the education policies set by central government.

Financial problems triggered a clamour for extra cash from the provinces, creating a sense of crisis. But it seems that some regional governments were playing games. Worried that they might end up with crumbs while other provinces grabbed the cake, some provinces substantially exaggerated their fiscal problems. It seems clear that if there is no punishment for overspending, there will be an incentive to overspend.

The struggle to contain government spending

Provincial overdrafts - the big problem (Rbn; J F M A M J J A S O N D J, 97–98)

Actual versus budgeted spending (%; Budgeted / Actual; Fiscal years 92/93 93/94 94/95 95/96 96/97 97/98)

Graphic: KAREN MOOLMAN Source: RESERVE BANK & FINANCE DEPARTMENT

This competition between the provinces for funds is an inherent part of the system, and one that works against fiscal discipline. It was one of the reasons why huge overspending — about R4,5bn — seemed on the cards in December.

Manuel is dealing with this problem in an ingenious and politically astute way. He is making it very difficult, and even embarrassing, to get an extra slice of the cake. Additional cash depends on meeting stringent conditions and entering into difficult negotiations with central government. Conditions agreed on will be published in the Government Gazette. The conditional nature of the extra cash helps justify Manuel's claim that this is not a bale-out. It is not a question of a simple handout that sets a precedent for future years and causes all the provinces to jump onto the bandwagon. Manuel has made it clear that this is not a bandwagon that one would want to join. So, even though the extra R1,5bn to the provinces might look like a bale-out, on closer inspection it does not smell or taste like one.

The excruciating difficulty in cutting the deficit this fiscal year suggests that a semi-federal system in emerging markets works against fiscal discipline. Experience in Latin American countries confirms this suspicion.

An economist at the Inter-American Development Bank, Ernesto Stern, says that the more spending is decentralised and taxation powers are not, the greater are the incentives for regional governments to overspend.

This view also comes across strongly in research by the International Monetary Fund. "Arrangements that assign all or most taxing powers to the central government are undesirable. By separating spending authority from revenue-raising responsibilities, these arrangements obscure the link between the benefits of public expenditures and their price, namely, the taxes levied to finance them. Thus, they do not promote fiscal responsibility," writes Teresa Ter-Minassian of the IMF's fiscal affairs department. She argues that each level of government should have its own sources of revenue to complement transfers from central government. Personal income tax is an example of a tax that could be collected at provincial level, she argues.

So would the solution be to go ahead and immediately devolve taxation powers to the provinces? Government is already working towards that eventual goal. Modern economic theory suggests that it would be part of the solution. But one shudders to think what could happen if the creaking tax collection system was devolved to provinces with a manifest lack of management capacity.

In the longer run, the devolution of taxation powers is part of the solution. But in the short term, the most important approach is taking a tough line against provinces that fail to meet budgets. Attaching conditions to extra finance is not enough. Limits have to be placed on bank borrowing and they must be enforced stringently.

SA has only one half of its decentralised fiscal system in place — spending — while revenue remains in the hands of central government. As a result, the economic arguments in favour of decentralisation are negated. The provincial system of government will therefore continue to make Manuel's task more difficult. The system contains a bias towards overshooting spending targets.

The flawed economics of the political system is not enough reason to replace the deficit targets in the growth, employment and redistribution (Gear) strategy with higher ones. Neither are the management issues and the teething problems. But when these problems are combined with the lack of economic growth, one wonders whether Manuel should press ahead regardless.

The deficit cuts in the Gear were based on high real rates of growth that are no longer feasible. Government is using lower growth rates for its budgets. It now seems as if even those downward revisions will have to be adjusted again. Each downward adjustment in GDP makes it more difficult to get to the targeted deficit as a percentage of GDP. Manuel is obviously placing a lot of faith in beefing up tax collection, and in his ability to keep the provinces in line.

It is a question of the art of the possible. Manuel is trying to stretch that art to new limits.

Manuel pounces on agriculture's R450m

BD 17/2/98 (49)

Greta Steyn

FINANCE Minister Trevor Manuel found about R450m in extra cash in a special agricultural account to help bring down his deficit this fiscal year.

Finance officials confirmed that Manuel had used the money from the agricultural credit account to help finance overspending. The account is managed by the corporation for public deposits, which controls government's short-term cash balances.

Officials said the money, which had accumulated in the account over a number of fiscal years, had come from the agricultural budget. A spokesman for finance director-general Maria Ramos, Jennifer Wilson, denied that the cash was a one-off financing item which could not be added to the revenue totals.

Economists said that if the money was reflected as a one-off financing item — rather than as revenue — it would be similar to privatisation proceeds, and it would not help to produce a lower deficit.

Wilson said government was legally entitled to transfer surplus funds in the agricultural credit account to the national revenue fund. "This is not a once-off. We could make these transfers every year," she said.

Another official said it was similar to transferring money from one spending vote to another. In any event, it was such a small amount that it made little difference to the deficit as a percentage of gross domestic product.

Before Manuel took over, government came under fire for counting the proceeds from oil sales and privatisation as revenue. The decline in the deficit due to the once-off sale of state assets was seen as a "smoke and mirrors" trick, and Manuel promised to put an end to these manoeuvres when he took over.

The adjustment budget released on Friday also showed that government was helped by savings of almost R821m. In addition, only R1,2bn was spent on rollovers in expenditure from the previous year's budget. The amount is small, given that a huge R9bn of last year's budget had not been spent at the end of the fiscal year. Government decided to cancel a large portion of spending budgeted for in the past but not yet executed. It wanted to avoid the figures building up and giving departments and provinces a licence to go on a spending spree. At the end of this fiscal year, the rollover of funds was estimated at R3,6bn.

The figures showed justice and police were the central government departments that overspent most.

Justice saw unforeseen and unavoidable extra spending of R213m, mainly as a result of legal aid, while the police needed an extra R200m for medical aid shortfalls. SABC losses added R235m to government's spending bill while the post office added R106m.

Gear strategy on track, Mbeki says economy

'Dynamic' masterplan aims to transform SA

(49) ARG 19/2/98

The Government was on track to achieving the objectives of its Growth, Employment and Redistribution economic strategy (Gear), Deputy President Thabo Mbeki said in Cape Town.

"It (Gear) is designed to transform the economy from an economy characterised by low growth, by high inflation, by the periodic balance of payments difficulties and huge disparities in income and access to services," Mr Mbeki told Parliament yesterday.

"I'm confident that we are well on our way to achieving these objectives.

"Gear should not be judged on a set projection made at any particular point in time as we are dealing with a dynamic situation," he said.

Mr Mbeki said one of the most important achievements of the policy was its success in bringing down inflation.

"Crucial to improved confidence and investment in South Africa is the achievement of price stability," he said.

"Inflation was projected to be eight percent in 1997 and 9,7 percent in 1996," he said.

"Inflation has fallen below those expectations and is expected to fall further during the current year."

But Marthinus van Schalkwyk, leader of the opposition National Party (NP), said the Government was failing to create new jobs, one of Gear's key components.

"The Government is not creating jobs, they are destroying jobs," Mr Van Schalkwyk said.

"The level of jobs in South Africa is now at the 1981 level," Mr Van Schalkwyk said.

Ken Andrew, finance spokesman for the Democratic Party, agreed: "South Africa is suffering the pain of fiscal discipline without the gains of economic growth or job creation," he said.

Mr Andrew said the trade union allies of the ANC and other ministers were wrecking the Gear programme by introducing protective labour legislation.

"Gear is being sabotaged by ministers in the cabinet and by the political allies of the ANC," he said.

"The Gear strategy has to be implemented as a package or it will fail," Mr Andrew said. – Sapa

Gear 'going same way as RDP'

CT 19/2/98 (49)

JOVIAL RANTAO

THE ANC came under heavy attack from opposition parties yesterday for being half-hearted about the implementation of its Gear (Growth, Employment and Redistribution) macro-economic strategy and pandering to the whims of its Cosatu and Communist Party allies.

National Party leader Mr Marthinus van Schalkwyk — who displayed an ANC 1994 election poster which promised "jobs, freedom and peace" — argued that the government had not created jobs but had destroyed them.

Van Schalkwyk said the economy had shed 71 000 jobs in the non-agricultural sector in 1996; and, between September 1996 and September 1997, had shed a further 116 200 jobs in the formal sector.

" ... If we continue with Gear in this manner then it will go the same way as the RDP," Van Schalkwyk said.

The Democratic Party's Mr Ken Andrew urged the government to pay serious attention to Gear, which he warned would soon be as "dead as a dodo".

Andrew said the government's macro-economic policy was being sabotaged by ANC ministers and alliance partners. He attacked Labour Minister Tito Mboweni for raising the cost of labour.

In reply, Deputy President Thabo Mbeki said Gear was on track in achieving its objectives of structurally transforming the economy from one characterised by low growth, high inflation, periodic balance-of-payments difficulties and huge disparities in income and access to service, to a fast growing economy with stable prices in which opportunity and infrastructure were equitably shared.

"Economics is an imprecise science, so Gear should not be judged on a set of projections, but on the extent to which there is evidence of the structural transformation of the economy," Mbeki said.

He added that there was considerable evidence to suggest that the economy was undergoing transformation in the manner in which the Gear policy envisaged.

Mbeki said there were expectations that there would be a decline in the level of inflation, a development that would be good news for investment and the long-term stability of the currency.

"Although we have not achieved the growth targets set out in Gear, the lower-than-expected GDP growth must be seen in the context of increased price stability and improved export performance. ... The economy stands well equipped for future growth," he said.

Mbeki added that the continued decline of formal-sector employment was of crucial concern.

STATE FINANCES

Free Manuel from his federal albatross

Inept provincial governments are becoming a national disaster

Financial management at provincial level has been so poor that Finance Minister Trevor Manuel has been forced to dip into his disaster fund

Overall expenditure for the current fiscal year is coming in at R2,8bn over the R186,7bn estimated by Manuel in March last year.

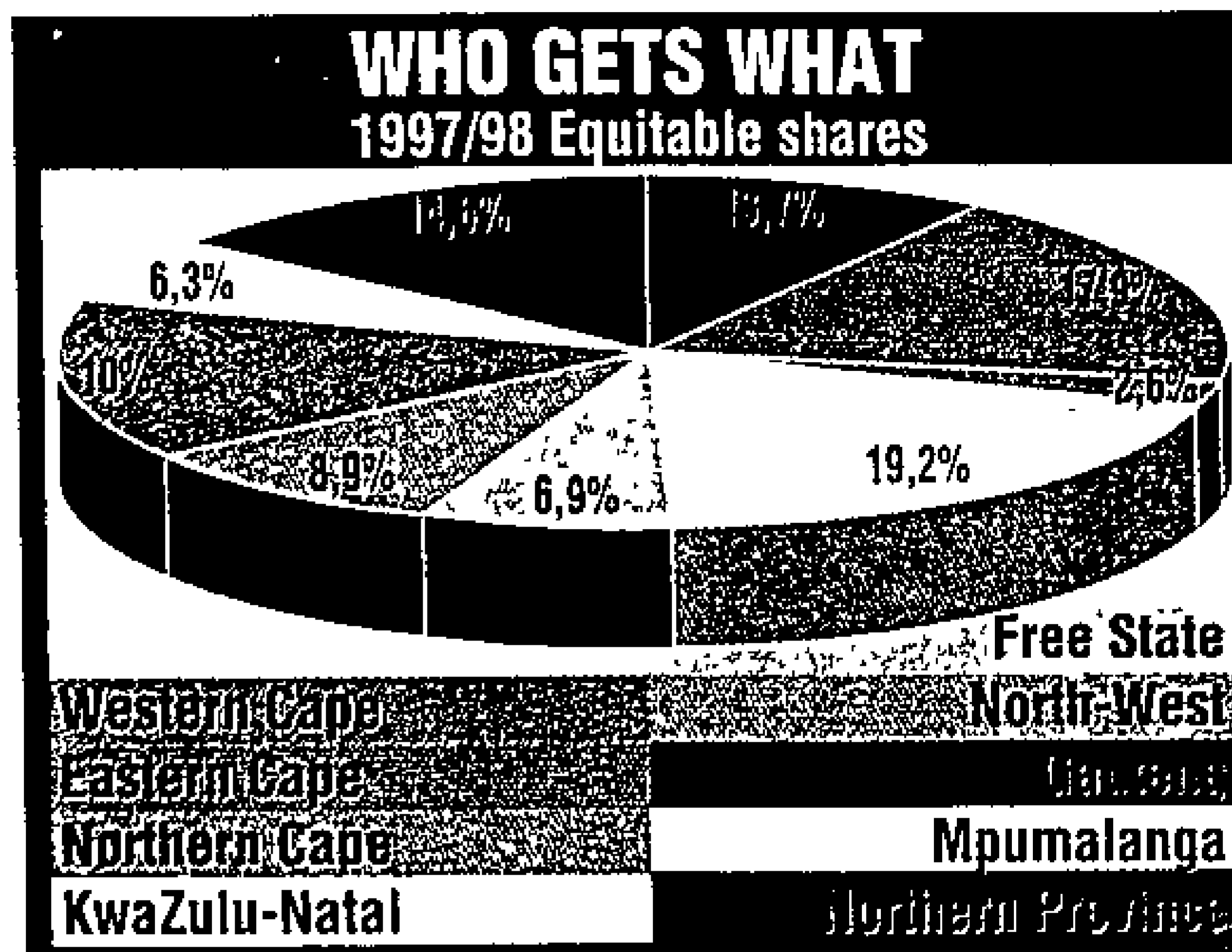
More than half the overshoot — R1,5bn — came in the shape of a provision for the provinces, Manuel explained when he introduced his Adjustment Appropriations Bill last Friday

In addition, provinces received R580m from the R2bn contingency reserve — a fund set aside in the 1997/1998 Budget to "deal with any costs arising from unforeseen natural or other disasters"

So more than R2bn has been added to the original R80,8bn allocated to the provinces in the Budget.

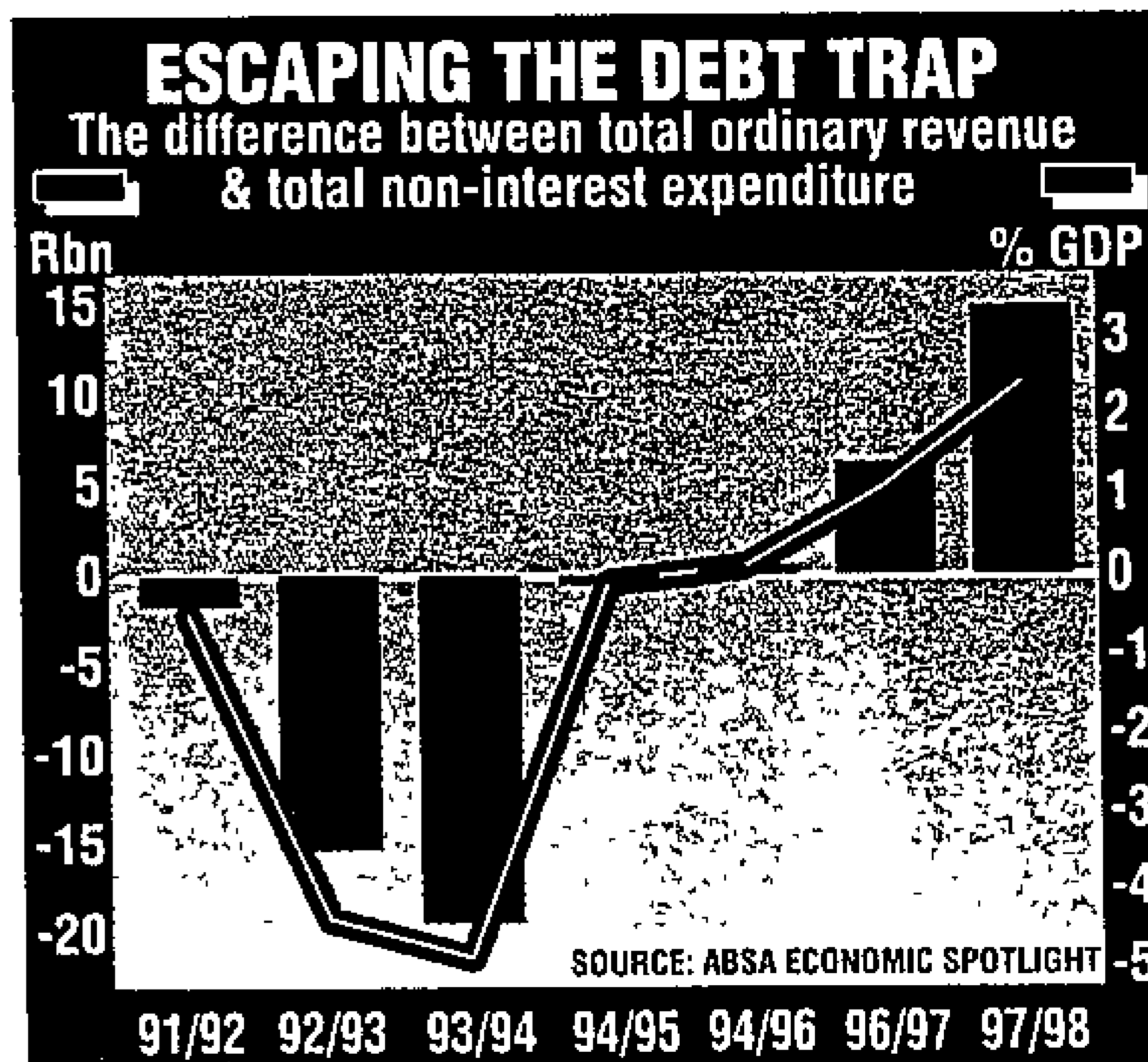
But this may not be enough. There is the threat of "burgeoning overdraft facilities that provinces have negotiated with commercial banks," says the Standard Bank Economics Division "Together these facilities could be in the region of R2,5bn.

"The overdrafts are unauthorised borrowings which are probably unconstitutional since borrowing is only allowed for bridging purposes The likelihood then is that overspending has been in the region of R5bn, or 0,8% of GDP "



SOURCE: MEDIUM-TERM POLICY STATEMENT

If this estimate is correct, the R1,5bn Manuel has put towards meeting provincial needs will not go far "Overspending in the Eastern Cape alone is probably about R1,5bn," says Standard Bank.



SOURCE: ABSA ECONOMIC SPOTLIGHT

Provinces, of course, are in the hot seat because they are assigned the labour-intensive functions education, health and social welfare And University of Cape Town Budget Project director Iraj Abedian argues that to bash the provinces is to miss the real point "What has remained by and large out of the debate," he says, "is the technical root causes of the phenomenon "

He blames the underlying institutional arrangements (personnel and wage-setting arrangements) and the budgeting system. "No government, national or provincial, has much latitude to manage service delivery and retain financial control."

Meanwhile, the provinces must take the responsibility for whatever has gone wrong — and there seems little justification for the shortfalls. Excess spending did not go to pay teachers, doctors and nurses adequately for their skills and demanding jobs They have had to stand aside while money was funnelled to ghost workers, dead pensioners and relatives of provincial officials The losers in those provinces have been schoolchildren, the ill, the elderly and people living below the breadline

Apart from fraud, corruption and sheer mismanagement, there are other factors at work Manuel explained "where the exercise involved the amalgamation of more than one bantustan administration, we are still living with the problems of varied financial management systems and governments bloated by supernumerary staff "

Manuel sees the problem as one of transition but he perceives the dangers "It is widely recognised," he told parliament, "that one of the factors that can seriously undermine the success of a Constitution such as ours, which assigns the largest share of public expenditure to the provincial governments, is the lack of institutional capacity "

This problem has raised its head just as government shows signs of coming to grips with the cost of servicing outstanding debt — largely attributable to the previous administration

Only a start has been made This fiscal year, as it has for many years, the interest bill of R39,6bn dwarfs most other allocations in the Budget

To put this sum in perspective, it is the equivalent of 6,2% of GDP and the biggest single allocation after the transfer to the nine provinces

CAPITAL vs CURRENT

1997/1998	Rm	% OF GDP
CURRENT EXPENDITURE	174 084	28,0
Goods and services	93 308	15,8
Remuneration of employees	73 773	11,9
Interest expenses	38 550	6,2
Current transfers	24 703	4,0
Business (subsidies)	6 890	1,1
Households	17 560	2,8
Foreign countries	151	0,0
Transfers to general government institutions and funds	12 523	2,0
CAPITAL EXPENDITURE	14 839	2,4
Acquisition of fixed capital assets stock land and other assets	9 396	1,5
Capital transfers	1 377	0,2
Business	1 296	0,2
Purchases of shares in and loans to institutions	116	0,0
Transfers to general government institutions and funds	3 950	0,6

Source: Department of Finance 1997 Budget Review, pp B59-B61

SOVEREIGN RATINGS

Brighter outlook

As Asian jitters rear their head again, SA heard good news this week when international rating agency Fitch IBCA put the country on a positive rating watch.

A final decision on whether the current BB investment rating will be upgraded will be announced within four to six weeks, says SA IBCA deputy MD Mark Young.

SA sits two notches away from investment grade, which is BBB-. Weak economic growth remains a primary concern because of its failure to make a dent in the country's high unemployment ratio.

Fiscal progress, however, was pinpointed as a positive Fitch IBCA noted that SA now has tighter targets for fiscal policy "despite continuing problems with overshooting and continuing concerns about controls at the provincial level".

The markets are eagerly awaiting the Standard & Poor's SA sovereign rating because it is generally viewed as the most influential in global markets.

Sharon Wood

Without the budgeted allocation for interest payments, the budgeted deficit of R24,8bn would have been a surplus of R14,8bn, or 2,4% of GDP

Absa's *Economic Spotlight* explains· "If the primary balance (ordinary revenue vs noninterest expenditure) is positive, and larger than the interest bill, government is generally paying interest out of tax income and has tax income left to redeem part of the debt that falls due in the current year

"If the primary balance is positive, but smaller than the interest bill, at least part of the interest bill is tax-financed.

"If the primary balance is negative, government is borrowing to finance interest "

This was common practice until the 1995/1996 fiscal year (see graph) And, in the year ending March 1994, the primary deficit reached a peak of R19,4bn, which amounted to nearly 5% of GDP

Each year thereafter the situation improved. The Finance Ministry has made progress in dealing with this debilitating legacy from the previous administration.

And it expects to do better The Medium-term Budget Policy Statement, published in December, provides for a R24bn deficit in the coming fiscal year (3,5% of GDP), R22,8bn (3%) the next year and R25,3bn in 2000/2001 This last figure does not represent retrogression — as a percentage of GDP it remains 3%. It is based on assumed GDP growth of 5% that year.

So there's light at the end of that particular tunnel

In the long term, there is a third issue which needs to be debated

Abedian questions whether the distinction between capital and consumption spending is always valid

The conventional distinction between the two is that capital spending is productive and eventually pays for itself, while day-to-day spending simply keeps the wheels of government turning

It's easy to see Abedian's point What does SA need most empty classrooms or qualified teachers? Empty clinics or trained paramedics? In each case personnel are more likely to make a contribution to the country's productivity

But there are dangers in scrapping the traditional distinction, says Standard Bank "Government dissaving is calculated by subtracting capital spending from the Budget deficit. Without this as a guideline it will become harder to judge the performance of the Finance Minister

"The inherent discipline associated with capital spending — in terms of the required rate of return — will enhance fiscal discipline "

Budgeting is a multifaceted problem. But if one point comes across clearly it is that fiscal federalism is not likely to work in SA. And to expect Manuel to meet deficit targets and social goals while he is shackled to the provinces may be too much (See *Current Affairs*, page 36)

Ethel Hazelhurst

Feel kn

Upper Class

Relax with an onboard massage. There's also hand zone therapy and manicures, just to ensure we attend to you

ANC support for Gear a slap in the face for Cosatu, unionist says

(49)

Reneé Grawitzky BD 23/2/98

THE tacit support for the growth, employment and redistribution strategy (Gear) at the recent African National Congress (ANC) conference was a slap in the face for the Congress of SA Trade Unions (Cosatu) in the light of its earlier decision to reject the strategy, a trade unionist said.

This argument is put forward by a SA Municipal Workers' Union (Samwu) official in the latest SA Labour Bulletin. However, Cosatu general secretary Sam Shilowa argues in the same edition that resolutions taken at Cosatu's congress last October had an impact on the ANC conference.

Shilowa said the ANC conference emerged with a position on Gear similar to decisions taken at a number of meetings between the ANC and its allies last year. "No macroeconomic policy should be cast in stone and the existing policy must be opened up for debate in the ANC at branch, regional and national level," he said.

Debate on Gear, he said, focused less on strategy than on what ANC policy should be. Discussion in commissions which dealt with macroeconomic transformation revealed that all the alliance partners were "at one in saying that we need to agree on a transformatory agenda".

Cosatu, he said, must take forward the debate on what the ANC's overall policy should be to ensure that differences between Cosatu and the ANC be resolved ahead of the elections.

"This will require compromises on both sides, not so much to reach a short-term election pact, but to ensure that our long-term relationship is not based on squabbling about macroeconomic policy."

Samwu official Maria van Driel said the basis for labour's rejection of Gear was that it served only the interests of capital and put pressure on government to cut expenditure and sell off state assets.

In SA, she said, the language of privatisation was moulded to fit in with the local situation and was being punted as the best route to black empowerment, "creating the impression that it will address the legacies of apartheid". While public attention was being focused on the privatisation of organisations such as Telkom and Sun Air, "privatisation is quietly eroding the local state", she said.

She said Samwu adopted a political response to privatisation to prevent the fragmentation of the working class. Most unions had accepted the National Framework Agreement promoting privatisation which "immediately compromises their position".

A number of unions also bought into privatisation through their investment companies and this served to hasten the process, Van Driel said.

Fiscal commission calls for flexibility on deficit targets (49)

Greta Steyn BD 27/2/98

THE financial and fiscal commission has criticised government for the speed with which it has gone about its deficit-reduction plans.

It has called on government to be more flexible over the deficit targets in the growth, employment and redistribution (Gear) strategy. It has also argued that there are flaws in the way in which revenue will be divided between provinces and central government over the next three fiscal years.

The commission, which has the job of advising government on provincial finances, outlined its ideas in a document on the 1998/99 Budget allocations handed to Finance Minister Trevor Manuel earlier this year.

The document said the big salary increases negotiated for public servants in 1996 had created the wrong environment to press ahead with a substantial decrease in the deficit. "The result has been cuts in capital spending and general overspending by government.... The overexpenditure is far more worrying in the context of a substantial decline in capital spending."

The commission said there should have been a practical time frame to allow the public service to improve information and management systems.

It suggested alternatives to government's approach to Gear. There were a number of possibilities: slowing down the pace of deficit adjustment, raising additional revenue from privatisation, and changing the way in which the state pension fund was financed. It said "realistic alternatives" to the funding of pension funds had to be proposed. It agreed, however, that the deficit should be reduced and the level of public spending be contained.

To solve the problems of large-scale persistent overspending, the commission suggested that a once-off adjustment be made to the base figures used for budgeting.

The commission was highly critical of the creation of a special "reserve" in the next Budget, as it would have far-reaching effects on provincial budgets.

According to the medium-term policy statement, the reserve will have a contingency component and a policy component, and will total R5bn in the next fiscal year. The policy reserve will

Continued on Page 2

Deficit (49)

BD 27/2/98

Continued from Page 1

be allocated on Budget day, and was created to enable government to "meet specific policy priorities without compromising the budgets of other services". Provinces and local government were also in line for allocations.

The commission said the allocation of the policy reserve would alter the way in which finance was allocated between the tiers of government, changing the outcome resulting from applying the formula for dividing revenue.

It was unclear whether the reserve would be allocated on a project basis — such as a school-building programme — or to functions in line with government priorities (for example, education). "It is unclear who will fund the carry-through costs of additional operating expenditure from this reserve."

"If it (the reserve) is to be used to fund the legitimate overspending, then the base for the (allocation) formula should rather be recalculated. If this reserve is to be allocated on the basis of bids from departments or provinces, it may have adverse consequences on equity, where well-organised provinces take up the lion's share of the reserve and little expenditure takes place where it is needed most."

The commission argued that the reserve should form part of national government's share of total revenue, rather than be "top-sliced" off the revenue pool before the division between central government and the provinces.

The commission also said it saw inconsistencies in government's budget plans. Government planned to increase spending on education, health and welfare — all provincial functions — at a faster rate than the overall Budget. However, at the same time, it wanted to hold stable the division of revenue between central and provincial governments. "It is unclear how these alternatives are to be reconciled, as it is unrealistic for this additional expenditure to be met just from savings in other provincial functions."

NP calls on govt to clarify policy on Gear

Wyndham Hartley BD 25/2/98 (49)

CAPE TOWN — Government has been told to clarify who is in charge of economic policy in the country — Finance Minister Trevor Manuel or African National Congress secretary-general Kgalema Motlanthe — because of recent "contradictory" statements on government commitment to the growth, employment and redistribution (Gear) targets.

National Party leader Marthinus van Schalkwyk expressed concern yesterday that important announcements were being made on the Gear targets by Motlanthe, who was not even a member of Parliament, let alone a cabinet minister.

Van Schalkwyk's statement that "there are red lights flashing" follows a statement by Motlanthe at the weekend that Gear targets were flexible and could be reviewed, while Manuel said the targets were not up for review.

Van Schalkwyk said developments at the weekend and on Monday followed the categorical assurance to Parliament last week by Deputy President Thabo Mbeki that Gear was on track "notwithstanding strong evidence to the contrary".

"What is needed now is certainty and stability, clarification about who is in charge of formulating and implementing economic policy, and the status of Gear. Furthermore, government should immediately take the country into its confidence about its commitment to Gear targets," Van Schalkwyk said.

SA begins to reap the fruits of consolidation

(49) CT(MR)26/2/98

CHRIS STALS

At the beginning of 1997 the Reserve Bank predicted a year of consolidation. Time was needed to recover from the shocks of 1996, when foreign capital inflows suddenly subsided and left the overall balance of payments with a R5 billion deficit.

In the process, the country's official foreign reserves declined to the extremely low level of less than R14 billion and the rand's average effective exchange rate depreciated by 23,2 percent

Monetary policy, tightened considerably during the course of 1996, had to remain restrictive throughout most of 1997 The Reserve Bank's lending rate to banking institutions, raised to 17 percent in November 1996, was retained at this level until late in October 1997

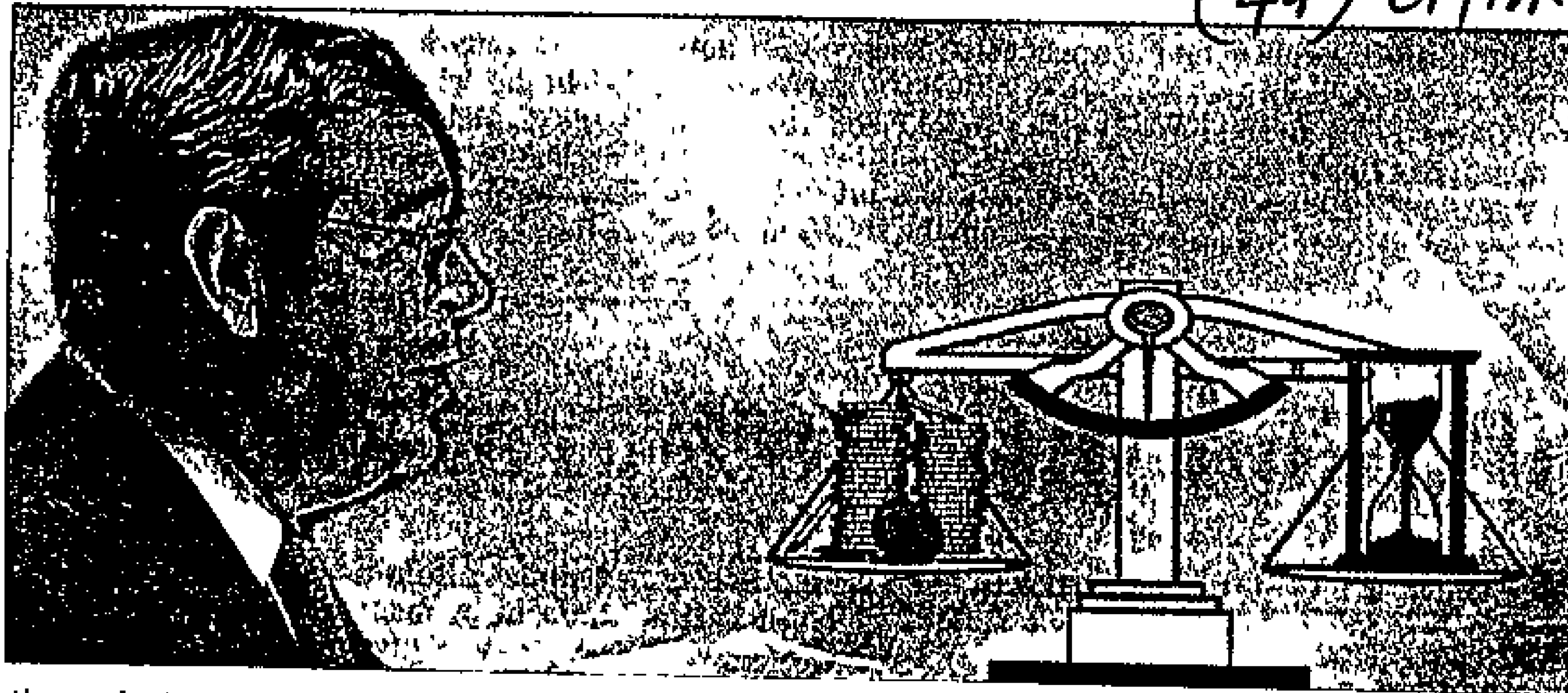
Market interest rates — such as the prime overdraft and mortgage lending rates of banking institutions that are closely linked to the Bank rate — therefore also remained relatively high.

The high rates reflected a continuing high demand for credit against the background of a further marginal decline in overall domestic saving. Total bank credit extended to the public and private sectors increased by 16 percent over the year.

There was, however, some slowdown in the rate of increase in bank credit extension to the private sector, from 17 percent in 1996 to 14 percent in 1997.

A refined version of the definition of bank credit extension to the private sector, excluding local authorities, indicates a growth of only 12,4 percent over the 12 months to December 1997

The Reserve Bank remains concerned about the high level of bank credit extension in South Africa over the past three years Bank credit extension is the main source of money creation, and the increase of 17 percent in the M3 money supply last year raised the level of the total money supply to gross domestic product to 60,2 percent in the fourth quarter of 1997, compared to 56 percent a year earlier.



With a low income velocity of circulation at this stage, there is always the danger that idle money can easily be activated in spending on real goods and services.

The almost explosive increases in volumes in the financial markets, for example, may have contributed significant amounts to both bank credit extension and monetary supply

Total turnover in the secondary bond market increased by 41 percent in 1997 to an aggregate amount of R4 269 billion. The number of shares traded on the JSE almost doubled from 1996 to 1997, whereas the total value of transactions increased by 77 percent to R207 billion

Less spectacular increases were registered in the markets for derivatives and foreign exchange. Financial market operators obviously needed more cash against inflated turnovers.

No central banker should ever become complacent about excessive increases in bank credit extension and money supply. Even if such increases do not have any visible effect on real spending or inflation, the excessive amount of money, once it has been created, can easily be redirected at some inopportune future time into spending on goods and services.

What is of even more importance is that excessive growth in the banking sector, relative to real economic growth, can lead to a systematic decay in the soundness of the financial system Ample evidence of the dangers of persistent excessive expansion in the financial aggregates can be found in the recent frustrating experiences of many countries in southeast Asia.

Last year's excessive increases in bank credit extension and money supply did not prevent the restrictive monetary policy from supporting the restoration of overall financial stability Equilibrium was restored in real economic activity because of a significant slowdown in the growth rate of gross domestic expenditure After increases of about 6 percent in 1994 and 1995, total demand increased by 2,5 percent in 1996 and 1,5 percent in 1997.

With growth in total domestic demand more or less in line with modest increases in total production, the current account of the balance of payments returned to a more sustainable deficit during the last six months of 1996 and the first nine months of 1997. Preliminary indications are that the deficit widened again in the fourth quarter of 1997, although the deficit for the year as a whole remained well below the R10 billion level.

Another very encouraging development last year was the return of investor confidence and a substantial increase in the net flow of capital from the rest of the world. After slumping from R19,2 billion in 1995 to only R3,9 billion in 1996, the total net inflow of capital through the balance of payments recovered again to R20,2 billion in 1997. The net inflow of long-term capital amounted to about R30 billion, which was partly neutralised by a net outflow of R10 billion in short-term funds

The surplus on the overall balance of payments enabled the country to increase its net gold and other foreign reserves by R11,5 billion from the end of December 1996 to the end of December 1997. The total gross foreign reserves held by the Reserve Bank and the rest of the banking sector amounted to R36,6 billion at the end of 1997, the equivalent of about 10 weeks' imported goods and services.

Two important beneficial macroeconomic results flowed from last year's frustrating consolidation process. Because of the improvement in the overall balance of payments situation, the rand exchange rate became much more stable. Were it not for the Reserve Bank's substantial net purchases of foreign exchange, the rand could have appreciated quite as strongly last year.

The average weighted value of the rand against the currencies of South Africa's major trading partners declined by 0,3 percent from December 31 1996 to December 31 1997 The average level of the rand's effective exchange rate throughout 1997, compared with the average level in 1996, showed a depreciation more or less equal to the inflation differential between South Africa and its major trading partners

The more stable exchange rate also reduced the demand for forward cover in respect of South African residents' outstanding foreign exchange commitments The net oversold forward book of the Reserve Bank declined from $22 billion at the end of 1996 to less than $15 billion at this stage

South Africa also succeeded last year in arresting the inflationary pressures created by the rand's 1996 depreciation The rate of increase in consumer prices, measured over a 12-month period, accelerated from 5,5 percent in April 1996 to 9,9 percent in April 1997 But during the rest of last year, the rate of increase in consumer prices drifted back down to 6,1 percent in December 1997. On a seasonally adjusted annualised basis, the rate of inflation declined to 4,1 percent in the fourth quarter of 1997

Against this background and the progress made towards reaching overall financial stability, it is understandable why the turmoil in the international currency markets after the Asian crisis had only a limited effect on South Africa It hit our markets just when the country had more or less completed painful adjustments to restore equilibrium after its own crisis of 1996 Apart from the downward adjustment of prices in the equity market, the contagion from the currency problems in Asia appears to have been limited here

South Africa therefore finds itself in a much more comfortable financial situation now than a year ago.

☐ *Chris Stals is the governor of the Reserve Bank This is an edited version of a speech he delivered at an investment conference in Johannesburg on February 24*

SDIs 'contribute to economy'

(49) Sowetan 27/2/98

SOUTH Africa's spatial development initiatives (SDIs) were contributing to a restructuring of the economy akin to an industrial revolution, President Nelson Mandela said yesterday.

Speaking at the West Coast investment conference in Saldanha, he said that, like other SDIs, the West Coast was an area with under used economic potential which offered favourable conditions for sustainable export-oriented growth and job creation.

A partnership of the private and public sectors was central to the Government's strategy for growth and development, and this was what gave the conference such significance

"A partnership of all sectors of society has been the driving force behind all the achievements of our young democracy," he said.

"In order to fully reap the region's economic and development potential, that spirit of partnership is needed in every sphere.

"We will need it in the short term as much as in the long term, for as we seek the benefits of sustainability, we have also to deal with immediate challenges."

The initiative's success was critically dependent on private sector investment and those who invested there over the next few years would help take South Africa into the global economy.

Mandela said the West Coast was, like most parts of the country, an area whose people had been neglected.

In one of the ironies of history, apartheid planners had invested in the infrastructure but not the people of the region, more concerned with grandiose plans to draw coloured people away from Cape Town than with uplifting those who lived on the West Coast.

The legacy of this was still felt today, he said.

Business opportunities worth about R27 billion will be on offer to more than 500 local and international delegates at the three-day conference, which is being held at the Saldanha Military Academy

It was officially opened by Western Cape Premier Hernus Kriel on Wednesday night. – *Sapa.*

(49) FM 27/2/98

STATE EXPENDITURE

Booby traps for the Budget

Too many deals; too little information

Government is getting some things right.

Cash and debt management systems, put in place last year, are reducing the cost of State debt (*Economy & Business* February 20) The new SA Revenue Service is improving revenue collection. The R162bn budgeted revenue target for the current fiscal year depended heavily on these improvements being realised. Commissioner Trevor van Heerden confirmed this week that the target will be achieved, despite a slowing in the economy. And the budgetary process is becoming more transparent.

Two things are still going seriously wrong, however One is the overshoot on budgeted expenditure The other is the lack of information about expenditure, which makes it difficult to pinpoint weaknesses in spending priorities

University of Cape Town Budget Project director Iraj Abedian argues this is not caused by a lack of political will or even of administrative capacity "It is due to the absence of a coherent system."

He says government did not have enough information when it put together its first Budget — for the fiscal year 1994/1995. Estimates were therefore based on the budgeted amounts for the previous fiscal year But this was unrealistic for a number of reasons, he says.

"The mistake will be perpetuated," says Abedian, "because the expenditure monitoring and management system is hopelessly inadequate."

Abedian argues also that a number of other arrangements make it difficult for Finance Minister Trevor Manuel to achieve the fiscal targets.

One is the nonretrenchment deal negotiated for civil servants before the 1994 election. This was followed by costly voluntary severance packages.

And, thirdly, wage and salary increases of up to R11,3bn/year were negotiated in 1996, for the next three years, on the basis that 300 000 workers would be cut from the staff of 1,2m in that period.

The job cuts are not taking place but the increases in remuneration packages are. This is another example of internal inconsistency in government policy. Government cannot promise all things to all people, even in an election year. **Ethel Hazelhurst**

MOZAL

Bubbling in the melting pot

Fears that the east Asian currency and market uncertainty may have put paid to Billiton's US$1,3bn, Maputo-based aluminium smelter, should shortly be laid to rest.

"We're expecting an imminent decision on the final resolution of the project equity split. This should include details of the financing package, the various parties' equity stakes in and loan commitments to the project," says a Billiton spokesman.

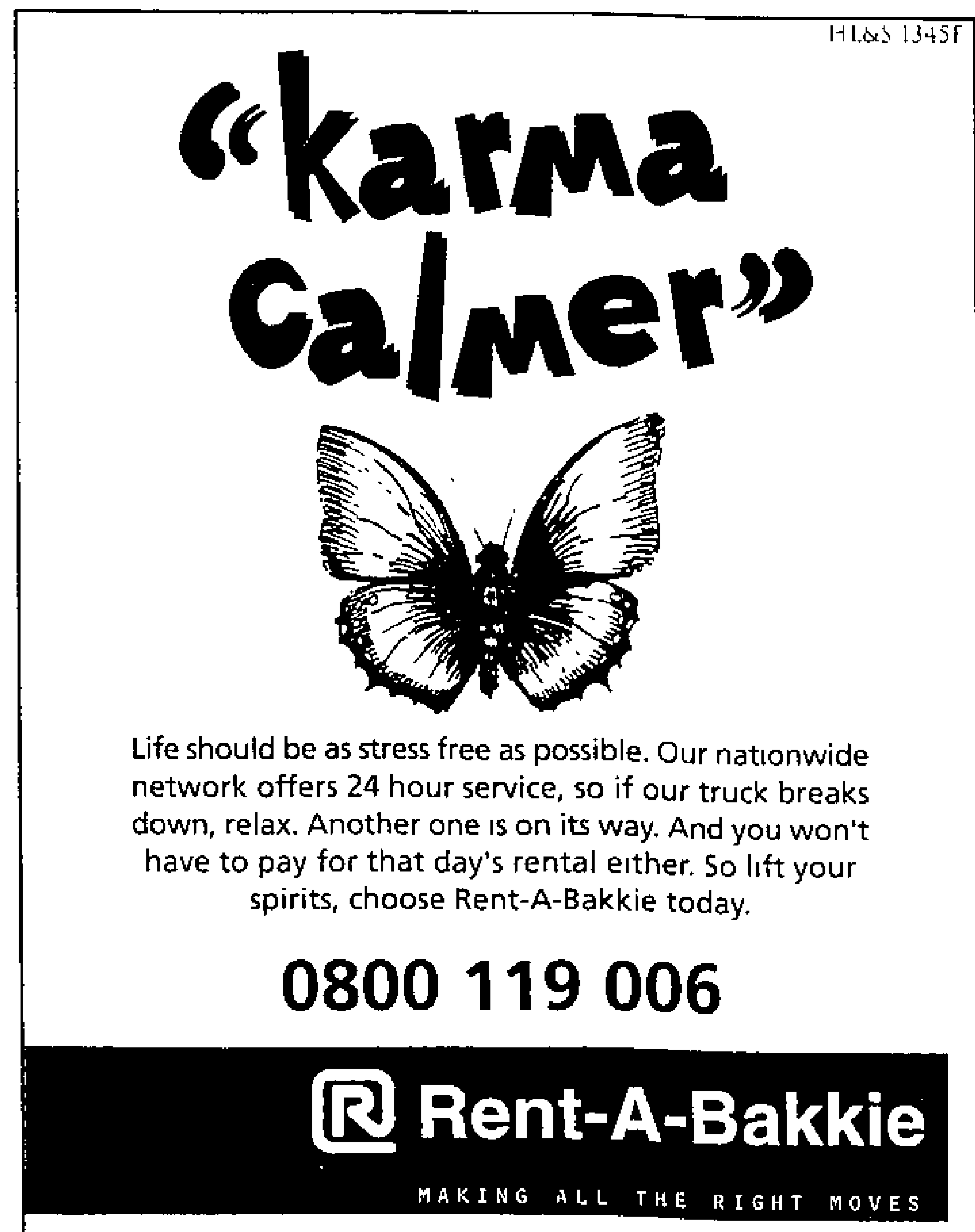
Apart from the World Bank's International Finance Corp — already on board with a $120m commitment — both Alusaf/Billiton and the Industrial Development Corp (IDC) want to take equity in the project, with the IDC also providing loan financing. But Billiton has also been looking for a $250m offshore equity commitment to make the project fly However, depending on the prognosis for the plant's first phase, 245 000 t/year aluminium output, it's quite possible that Billiton might decide to increase its own equity stake

Billiton's Marc Gonsalves confirms that the board "has approved the project in principle, with final loose ends now in the process of being tied up". Once the green light is given, it will take 31 months to complete the project

The metals giant is also awaiting the end-March auction by the Venezuelan government of the $2,5bn State-owned CVG Aluminium assets.

CVG consists of four companies — a 6 Mt/year bauxite mine, a 2 Mt/year alumina refinery and two aluminium smelters.

Success in the bidding for even part of CVG, coupled with Mozal will firmly entrench Billiton as one of the world's top aluminium players **Arnold van Huyssteen**



Gear strategy needs hot-shot 'salesman' to make it work

(49) ARGUS 27/2/98

ERIC MEIJER

The problem with Gear, the Government's macro-economic strategy, is not its economics, which are sound, but its lack of political saleability.

The Government has never made clear enough that the strategy is as much about correcting South Africa's past policy disasters as it is about creating an economic framework for the future.

The African National Congress Government inherited a financial mess of spectacular proportions: yawning budget deficits, inflation, a massive and growing national debt, entrenched mass unemployment, wasteful and inept provinces and bantustans, and inefficient industries hiding behind a high wall of trade protectionism.

Gear was aimed at correcting those problems by a combination of fiscal discipline (reducing budget deficits and thus debt servicing costs), labour market flexibility and opening of the economy by reducing trade barriers and currency restrictions.

A strongly anti-inflationary monetary policy of very high interest rates from the Reserve Bank was assured. Privatisation of state businesses was also a priority.

This strategy, which was formulated by a group of Reserve Bank and academic economists, was intended to replace the ill-fated RDP, which was reassigned to individual government departments. Probably in a misguided attempt to make the radical new strategy media-friendly, its inventors called it Gear – an acronym of growth, employment and redistribution.

Trevor Manuel

What the group neglected to emphasise, and what the Government has not properly articulated, was a sense of urgency. The economy had infected wounds and they had to be cut away. Gear was the surgeon's instrument, and there was no effective economic anaesthetic.

The name error was further compounded by naively publishing highly-optimistic job creation and economic growth forecasts, giving away hostages to fortune, and a gaping goal mouth for political opponents: Growth? Low. Employment? Fallen. Redistribution? Invisible.

So, has Gear succeeded at all? As a tough structural adjustment programme, which is what Gear is, it has succeeded admirably. The budget deficit is under control, inflation has been comprehensively tamed, and exports are booming. Privatisation appears finally to be getting started in earnest. Currency restrictions are mostly gone and financial markets are coming quickly up to world class. Not bad.

Simultaneously, however, South Africa is signally failing to produce the promised jobs. Why not? One reason must be business's fear of restrictive labour legislation.

Employers are more likely to shed labour when faced by burdensome conditions than they are to create jobs.

Legislation like the Labour Relations Act, the Basic Conditions of Employment Act, and the Employment Equity Bill does appear to curb the employment creation that could be expected from South Africa's 2% growth rate

Another reason is automation Industry is investing in new equipment that uses less labour.

Realistically, the labour flexibility plank of the policy is probably a lost opportunity, unless an extremely confident Government can dilute the labour legislation after the next election.

Deputy President Thabo Mbeki has never been rated as a great speaker. His defence last week in Parliament against Marthinus van Schalkwyk's attack on government economic performance justified that reputation. The NP leader scored a string of goals against the Government, while Mr Mbeki's defence was to mumble a string of economic cliches.

Government and leadership are about taking tough decisions, not hitting arbitrary "targets"

He should should have been robustly chastising NP economic ineptitude and defending his own policy.

Similarly, Finance Minister Trevor Manuel looks like losing his common touch. Given the chance in Parliament this week to ram home the Gear message, he passively ducked the question.

He should be out selling Gear to the country and to the alliance partners for once and for all

The message they need to get across is this: Gear is about fixing the malign neglect of the past.

■ *Eric Meijer runs the Centre for Economic Literacy, a consultancy.*

ANALYSIS

Gear's failure has given SA 'a government of broken promises'

The African National Congress has failed to meet macroeconomic-policy targets, preferring instead to pander to the labour and Communist Party elite it considers crucial to its election success, writes National Party leader Marthinus van Schalkwyk

BD 3/3/98 (49)

BASED on the normative economic model that the National Party (NP) developed, the growth, employment and redistribution strategy (Gear) is fundamentally a sound policy framework that can lead to economic growth if implemented with vigour and commitment.

In theory, Gear espouses economic values that are known to have created prosperity in some of the most successful countries. These values include the belief in a market-driven economy, as well as excellence, merit, productivity and rewards.

Since being accepted as government policy, a limited number of successes with Gear have been achieved. Government has reduced inflation to below the 9,7% target for last year and is allegedly only about 0,3% off target with the reduction of the fiscal deficit as percentage of gross domestic product (GDP) for last year.

However, the ANC government has been less successful in achieving the desired economic growth rate that it set itself for 1997. The forecast for GDP growth was 2,9% — but despite favourable circumstances, all indications are that the growth rate for last year was below 2%.

The bottom line is that in order to eliminate absolute poverty, create jobs, and provide quality education and health care in SA, it is not enough to meet only some of the Gear targets. Gear is a broad strategy, and implementation is required on all fronts if progress is to be made.

At the most fundamental level, the reason for the ANC's failure to meet the targets is that it has never made Gear's underlying philosophy its own. The Mbeki school formulated a good policy, but never accepted ownership of the philosophy behind the policy. Nor has it been able to sell it to its alliance partners. The result is that Gear has not been implemented as an integrated strategy addressing policy on a broad front.

What is to be blamed for the failure is thus not only a lack of expertise and experience, but also the absence of the political will required for decisive implementation. The ANC is unwilling to take unpopular decisions necessary to maintain growth. In practice, Gear has been sabotaged by the labour department and Cosatu.

Labour Minister Tito Mboweni said in Business Day of June 27 1997: "We need to ask ourselves whether we need to promote any form of employment." What is clear is the department does not face the daily hardship of the millions of unemployed.

VAN SCHALKWYK

That the ANC has not made Gear's underlying philosophy its own, is illustrated by the spate of recent labour-employment legislation. The new bills serve only to raise labour costs, and companies are not creating new jobs, but rather rationalising. The ANC government is shooting itself in the foot. It seems Gear targets that used to be non-negotiable have suddenly become negotiable and are subject to the ANC government's accommodation of the demands of the working elite in Cosatu.

The recent and planned labour-employment legislation undermines the country's ability to take advantage of globalisation opportunities. It negatively affects labour costs and, by implication, our international competitiveness. Estimates are that, when compared with our major trading partners, unit labour cost in SA increased 7,5% faster than the average during the 1990s while the increase in labour productivity was 60% of the average. The World Bank recently estimated that labour costs in SA would escalate a further 3% as a result of the Basic Conditions of Employment Bill.

As a result of the failure to implement Gear, government is fast becoming the government of broken promises. Promises held out by Gear and general ANC statements on job creation have failed dismally. The challenge lies in creating jobs not only for the 4,2-million unemployed, but also for the 450 000 new entrants into the labour market every year.

In his state of the nation address to Parliament on May 24 1994, President Nelson Mandela promised "government is determined forcefully to confront the scourge of unemployment, not by way of handouts but by the creation of work opportunities". Gear placed the creation of jobs on the top of its priority list. It had projected the creation of 126 000 jobs in 1996, 252 000 in 1997 and 320 000 in 1998. By 2000 Gear envisages 409 000 new jobs a year.

However, according to the Central Statistical Service (CSS), the economy shed 71 000 jobs in 1996 in the nonagricultural formal sector. It said between September 1996 and September 1997, overall employment in the formal sector dropped by another 116 200. Instead of employment growth of 3% — the Gear target for 1997 — we experienced negative growth of between 1,7% and 3%.

Others calculated the average fall in employment to be 2% for last year and forecast a 1,5% drop for this year. If we take a longer-term view, between 1989 and 1996 the drop in the level of employment in the formal non-agricultural sector was 7% — in other words, one in 14 jobs no longer exists.

Although Deputy President Thabo Mbeki has argued "it is possible that official CSS estimates miss segments of the economy in which job creation has been robust" — for example the informal sector and small, medium-sized and micro-enterprises — it is ironic that it is precisely in these sectors that the ANC's employment legislation will be destroying the most jobs.

In the run-up to the 1999 election one can only hope government pays more attention to making sure its mechanisms remain well oiled, and less time greasing the palms of those elite labour interests and communist party allies it considers vital to its election success.

SA 'coping well with change'

BUSINESS REPORTER (49) 4/3/98

South Africa's economy is not doing badly compared with those of other countries in transition, says Wesgro economist David Bridgman.

Dr Bridgman, who is chief executive of the Western Cape's investment and trade promotion agency, told a breakfast meeting of the province's business leaders that Russia's economy had declined by 25% after its political and economic changes.

"We have managed a 2% to 3% growth in the same period. We have experienced a fundamental transition," he said.

But the Government had to review its employment and training strategies, reduce causes of skills flight and improve management of society, he added.

Dr Bridgman called on the business sector to strengthen links with African countries, enhance productivity and develop a culture of training.

The world watches as SA scales the deficit hurdle

(49) CT (BR) 5/3/98

RAYMOND PARSONS

The annual Budget, which reflects the government's political concerns and economic policy objectives, is always of significance to the business community.

It is an exercise in political economy influencing the business environment in areas such as taxes, interest rates and the exchange rate.

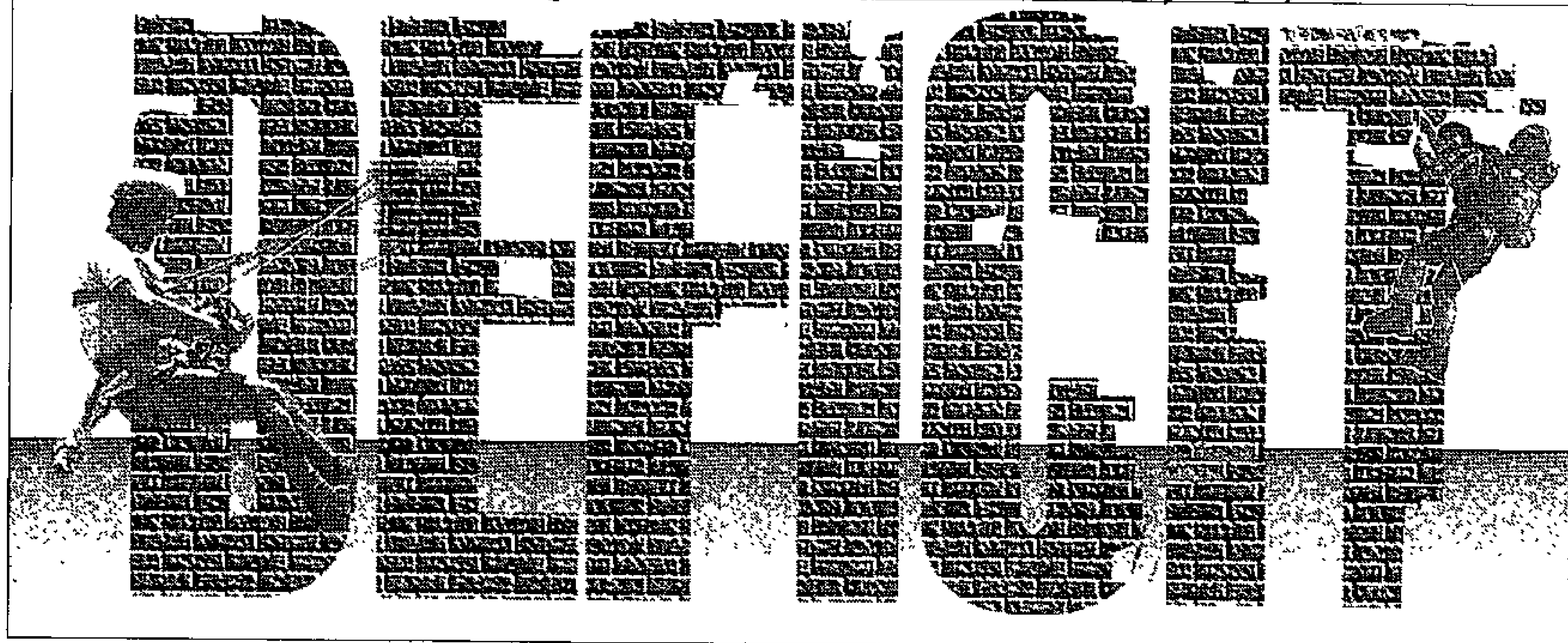
This year is no exception. The 1998 Budget speech on March 11 will give an overview of the government's spending plans for the next three years. So it ought to give a powerful indication of where priorities lie, especially in a year in which President Mandela has put the emphasis on jobs, jobs and jobs.

How large should state spending be? The instinctive answer of many on the left is: as large as we can get away with; on the right: as little as we can manage. But actually, in a modern economy the answer is driven by other realities.

Since the publication of the growth, employment and redistribution (Gear) strategy, the government has committed itself to a reduction in the fiscal deficit. There has been significant progress in this regard.

From a deficit of 5,6 percent of growth domestic product (GDP) in 1996-97, the government is now aiming for a deficit of 4,3 percent of GDP for 1997-98. Given that our deficit soared to 8,5 percent of GDP in 1993-94, the improvement is commendable.

☐ But why does the fiscal deficit attract such attention in the business community? Firstly, and perhaps most importantly, are international perceptions.



South Africa is an open economy; it relies on the foreign sector for trade and capital inflows. The country therefore remains vulnerable to international investor perceptions — a fact we were reminded of in 1996 when we experienced a sharp devaluation of the rand as investor perceptions turned against us.

International evaluation of countries rests on a number of factors. Significant among these is a commitment to fiscal prudence by the authorities. Hence fiscal deficits need to be seen as sustainable and affordable.

The recent east Asian crisis is a testimony of the need to pursue sustainable policies. Investor jitters sparked by the Asian crisis left South Africa relatively unaffected, since our fundamentals were seen to be sound and appeared to be moving in the right direction.

The 1998 Budget must help maintain that perception, for as an emerging market we are still under the spotlight.

☐ Secondly, a reduced fiscal deficit helps to limit state debt. If a government consistently spends beyond its means, it incurs greater levels of debt which, like personal debt, has to be serviced. The interest bill on state debt currently absorbs over 21 percent of the state budget. This proportion is excessive in relation to other priorities.

☐ Thirdly, reducing the deficit will help to lower interest rates further in 1998. The capacity of business to function efficiently and in a manner that adds to wealth and job creation is influenced by the overall impact of the government and its economic policies.

Part of this impact also includes the country's tax regime. In many ways a higher tax burden discourages local as well as foreign investors. Given the need to encourage greater business activity to lead to higher levels of employment and growth, the tax regime needs to be investment-friendly.

The government is committed to reducing the tax burden so that it constitutes no more than 25 percent of GDP. The current level is at 26,6 percent of GDP. International research suggests that, on average, countries achieve maximum growth when the government takes no more than 19 to 20 percent of GDP in taxes.

While business accepts that focused government expenditure is necessary and can enhance the private sector's productivity, taxation beyond a certain level is a drain on the private sector.

The commitment to fiscal discipline is important, but it needs to be coupled with effective and well-designed institutions. The medium-term expenditure framework (MTEF) is a major advance in the institutional structure of fiscal management.

The three-year rolling budget allows for more efficient planning by departments and provinces. This year, for the first time, provinces had to develop and administer their own budgets. Some did rather badly. As the provinces adapt to the new framework, the MTEF provides a mechanism for financial management and fiscal discipline.

The absorption of RDP projects into the main budgets of departments and provinces allows for making the crucial areas of health, education and law enforcement high priorities — necessary if the government is to achieve its delivery commitments.

Reducing the deficit does not imply a failure to address social needs. Indeed, for the reasons given above, sound fiscal and monetary policy is the only way that delivery goals can be achieved in a sustainable and meaningful way.

From the perspective of business, the Budget speech must build confidence while the business mood has been described as vulnerable. In the year ahead it is important that the government displays fiscal prudence and that its expenditure plans are focused and well-directed.

Continued fiscal integrity plays a major role in shaping perceptions of the South African economy.

☐ *Raymond Parsons is the director-general of the South African Chamber of Business and the overall business convenor in the National Economic Development and Labour Council*

CT (BR) 5/3/98

SA ranked seventh in Africa poll

(49)

STAFF REPORTER

Johannesburg — South Africa ranked last for government regulation of hiring and firing, labour regulations, unions and strikes and crime prevention in the World Economic Forum's Africa Competitiveness Report for this year, which was released here yesterday.

It also ranked last for the availability of investment protection schemes and scored poorly for monopolistic market dominance.

Last month an executive summary of the report compiled by Jeffrey Sachs, a Harvard economist, was released. It placed South Africa in seventh place in a field of 23 African countries. Mauritius, Tunisia, Botswana, Namibia, Morocco and Egypt were placed ahead of South Africa.

However, in a national competitiveness balance sheet, South Africa's assets outweighed its liabilities. South Africa scored highly for an open trade regime, banking and finance, education and welfare and the rule of law. Its highest scores were for infrastructure.

Revitalise parliament to breathe life into fiscal policy

ET (BR) 6/3/98 (49)

ZWELINZIMA VAVI

The current fiscal and monetary policy of the country is best be described as a successful operation with dead patients.

For capital, the operation has been successful in that corporate taxes declined from 35 percent to 12,5 percent between 1976 and 1995. The tax ceiling has been put at 25 percent of gross domestic product (GDP). In the eight years before the 1997-98 Budget, taxes on individuals have been increasing at an average of 17 percent.

In the view of the working class, however, the patient is dead. Unemployment is rising, with thousands of workers losing their jobs — last year alone no fewer than 116 000 workers lost jobs. Now there is talk of carrying through one of the Growth Employment and Redistribution (Gear) plan's dictates of slashing 300 000 public-sector jobs by year 2000. This crisis will worsen standards of living of the poor.

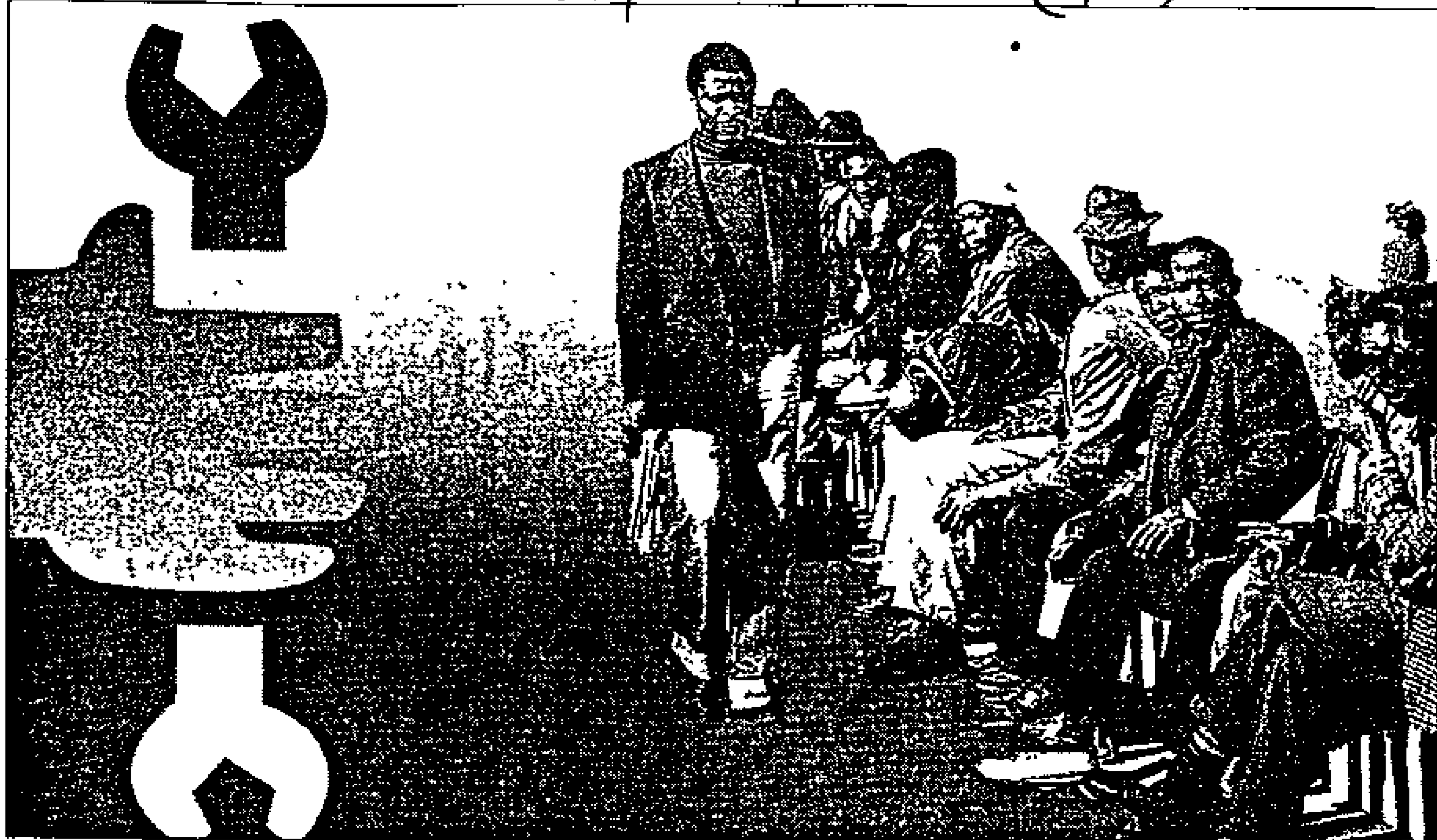
The income redistribution has not taken place on the scale envisaged by the Reconstruction and Development Programme (RDP). While historic progress has been made in water provision, health, telecommunications, workers' rights, education transformation and land redistribution, poverty is still widespread.

Next week, the finance minister will be delivering his Budget speech in parliament. The poor will be looking at whether the social deficit created by years of apartheid misrule will be addressed. The working people will be crossing their fingers that there will be real redistribution of income and wealth. The homeless will be hoping the Budget will provide them with decent houses instead of smaller-than-matchbox houses.

The unemployed will expect more concrete steps on job creation. Teachers, nurses and doctors, and provincial health ministries will all be expectant. The list goes on. Will the Budget, for the first time, also deal with the social deficit?

Cosatu demands a "people's Budget". The Budget should be used as the spear of the RDP. Cosatu's focus is on two key aspects: first, that the Budget's parameters should be appropriate; and second, that the Budget process should be transparent, participatory and democratic.

The appropriate parameters for the Budget should not be a narrow discussion on the pros and cons of the government's Gear macroeconomic framework. The Medium Term Expenditure Framework has not taken this debate forward. In principle, Cosatu supports the introduction of the framework as it will



afford us an opportunity to plan in advance so that the kind of rollovers of expenditure can be dealt with.

However, the framework, the very tool designed to help with reprioritisation of the Budget towards RDP priorities, is rendered problematic by Gear's commitment to rigid and arbitrary targets of limiting budget deficits and revenue collection.

It is worth noting that even the World Bank's three policy scenarios for South Africa concluded that the rise in fiscal deficit to 12 percent of the GDP is sustainable. This is because the higher growth pattern will gradually generate more public savings, so that by the year 2000 the country will experience fiscal surplus.

Studies of South African tax indicate that the country is undertaxed by about 3 percent of the GDP. The lie repeated so frequently by local big business is that "South African taxes are high". The question that the macroeconomic and the Budget should be addressing is a more progressive tax structure.

In 1970, company taxes yielded half of the total government tax income; by 1995 the corporate tax contribution only made 14 percent of the tax revenue. In the same period personal tax yielded 18 percent of the government's revenue; by 1995 it was at 42 percent. The regressive VAT system made this worse.

The last Budget speech and one-sided reduction of corporate taxes without any consideration of reducing the tax burden on the personal income tax has worsened the situation.

This policy is at the core of Cosatu's rejection of Gear. The combined effects of this policy has now clearly limited our capacity to deal with the social deficit. The 1997-98 Budget cut the national government's social spending by 4,5 to 5 percent. Education was cut by 6,2 percent.

All other important key strategic areas of the RDP received minimum real increases. All those who have witnessed the chaos in health, teaching, the judiciary and the public sector can be traced to this disastrous fiscal and monetary policy.

We inherited a Budget process from the undemocratic and untransparent apartheid regime. One of the biggest challenges we face is how these traditions can be changed, including the Budget process.

The constitution commits the government to democratic practices. It outlines a process through which the Budget becomes a law. And it requires legislation that will empower parliament to amend the Budget and money bills as proposed by the finance minister.

Within this, a clear strategic role for the ANC, Cosatu and South African Communist Party alliance and ANC constitutional structures should be developed to redirect the finance department's policy.

Cosatu, in its submission to the joint standing committee on finances, argued for a complete break with the past's secretive and centralised Budget process. The slogan "the people shall govern" means that parliament, as the elected representatives of the people, should now be empowered to play an effective overseeing role with regard to the Budget. The RDP calls on a democratic government to "end unnecessary secrecy in the formulation of the Budget".

The RDP goes further, to call on the establishment of a "parliament budget office with sufficient resources and personnel to ensure efficient democratic oversight of the Budget".

The process leading to the tabling of the forthcoming1998 Budget has not been significantly different from how the process was managed in apartheid times. There is still a lack of transparency, and parliament's role is limited to symbolic comments and the holding of hearings that will not make any difference to the Budget.

We pointed this out in our last submission to parliament. We pleaded with them to initiate steps to effect changes demanded by the constitution and the RDP. We said that unless this lack of transparency was addressed and legislation was enacted to give a meaningful role to parliament, we had no intention of making yet another submission.

□ Zwelinzima Vavi is the deputy general secretary of Cosatu

Sacob calls for a good Budget

Sowetan 6/3/98 (49)

Parsons says Government should create an investment-friendly mood

By Shadrack Mashalaba

THE SOUTH AFRICAN Chamber of Business (Sacob) has called on the Government to create a sustainable fiscal deficit and an environment in which business can prosper in the coming Budget.

Addressing the media in Johannesburg yesterday ahead of the Budget speech next Wednesday, Sacob director-general Raymond Parsons said South Africa still had, among others things, high interest rates, exchange controls and high corporate and income tax rates.

He said what was important in this Budget was not the numbers of how much has been allocated but to create an environment for business to succeed.

The important budgetary directions were a need for good governance in the public sector to sustain economic growth.

Business expected a Budget committed to a sustainable fiscal deficit, reduction of tax burdens and prioritisation of expenditure towards the crucial areas of health, education and law enforcement.

"The Budget should reflect an investment-friendly mood. We expect a further relaxation in exchange controls. The improvement in business confidence is good news for the Budget," Parsons said.

Sacob director-general Raymond Parsons.

Sacob also released its February Business Confidence Index (BCI), which shows an improvement of 1,5 percentage points.

Sacob's director of economic policy Dr Ben van Rensburg said Monday would be crucial for interest rates, and expected a one percentage point cut.

The cut, he said, would coincide with the launch of the Repurchase Transactions (Repos) and South African Multiple Option Settlement System (Samos) – the new systems which will determine the fixing of interest rates.

According Sacob's manufacturing confidence index, businesses' short-term expectations were buoyant.

Sacob said while the markets were tolerant of some degree of slippage, commitment to the broad Growth, Employment and Redistribution strategy goals remained crucial.

The organisation's economist, Penny Hawkins, said while the short-term mood was buoyant, the long-term outlook was optimistic. "This can be attributed to market vulnerability that lingers on."

"The employment outlook in the economy also looks bleak with more manufacturers expected to employ fewer skilled and unskilled workers," she said.

GROWTH, EMPLOYMENT & REDISTRIBUTION

Manuel defends deficit targets

But they're not written in stone

Finance Minister Trevor Manuel's recent statements on government's commitment to the budget deficit target — spelt out in its Growth, Employment & Redistribution (Gear) strategy — contrast markedly with those issuing from a recent ANC leadership gathering After a meeting of the party's national executive committee, ANC secretary-general Kgalema Motlanthe said Gear targets would be modified to take account of the social deficit — a reference to huge backlogs in the provision of housing, health, welfare and other services to the formerly disenfranchised

The divergence may mark an approaching shift by the ANC in its effort to bring basic services to black South Africans, certainly it confirms that the party is under enormous pressure to make visible change

Manuel emphasises the importance of the context. "This is that a resolution (on economic policy) adopted by the ANC congress at Mafikeng reinforces the commitment to macro-economic stability, and says Gear is a means of achieving it."

But he adds· "What we didn't do was put a set of abstract formulae in front of 500 people in a commission at conference and ask them to adopt or amend a set of ratios It would be fundamentally incorrect to do that kind of thing."

Two weeks ago, the ANC's national executive committee endorsed the position taken at the conference. "So in policy terms, the direction is pretty clear" But when he opened parliament, President Nelson Mandela warned against making a fetish of targets and behaving "like fools who cut their noses to spite their faces" At the same time, he defended government's budgetary discipline, and went on to say that the path government had chosen was tested in every way and is the only path it could have chosen

Against that, Manuel observes, "there are all manner of very challenging social needs that we have to address."

Mandela said savings would have to be found elsewhere to address social needs — in more efficient delivery of social services and slimming down the public service

"That's the policy environment in which Gear operates," says Manuel.

Continued on page 46

Continued from page 1

What, then, of Motlanthe's claim that Gear targets will be modified to take account of the "social deficit"?

Manuel says he and Motlanthe have agreed not to have a spat about this He maintains, however, that he did not say Gear targets would not be reviewed "I think we would be failing in our responsibilities if we didn't look at Gear in an integrated way"

He says the point is not to look at particular indicators, "but how, through integrating a series of policy measures, you can get the most desirable set of outcomes"

On the balance of payments, for instance, Manuel says in broad terms the current account deficit is manageable "But we have to recognise that there have been changes in the global economy What does this do for demand by our trading partners who have been affected by currencies that have gone into free-fall? What does that do for import demand in SA from those countries that are now lower-cost producers?

"You can't respond in a knee-jerk way and say 'never' "

All these factors have to be measured, Manuel points out. "What happens with tight monetary policy is debatable What is its influence on investment decisions? What does that do to jobs? In the absence of tight monetary policy where would that leave the currency? And how do these things work together?

"Our operative policy direction is that macro-economic stability — and, as part of that, price stability — are exceedingly important objectives of this government, and that was confirmed by conference"

In relation to Gear's targets of 400 000 new jobs and 6% growth by 2000, Manuel says "we are beginning to see that the measurement of employment and job shedding is not in line with certain changes to work patterns" He suspects that jobs created by small and medium enterprises, independent contractors and the shift to casual work are not reflected

"However, what is not in dispute is that the economy is not behaving in a way that creates the number of jobs thought possible when Gear was drafted (But) it still does not look to me like one in three South Africans is completely unemployed"

On economic growth, "I think our frame will come in at probably more like 5%. We need to be sanguine about our chances We haven't been affected by southeast Asian contagion, but what will be the effects further down the line of things like export revenues or the gold price? All of those things will have an impact which we have to evaluate"

Amarnath Singh

Budget to be aimed at poor, but how much will it help?

(49)

Star 7/3/98

OWN CORRESPONDENT

Cape Town – To what extent will poor people benefit from the Budget?

Last year saw the Government start to address the tax burden on middle and low-income earners with a modest tax-relief package. The relief meant R255 less tax a year for people earning R20 000 a year and R850 less tax a year for those earning R60 000 or more a year.

Given the Government's acknowledgement that individuals are bearing most of the tax burden – especially middle and low-income earners – it is unlikely that the tax relief begun last year will now be reversed.

Spending priorities were indicated last March with education, housing, health services, social security and welfare getting about R82-billion – or 60% – of all expenditure.

These priorities were also further elaborated in the Medium Term Budget Policy Statement, which sets the terms for the three-year budgeting that begins with Wednesday's Budget.

But there are concerns about the extent to which general government directives to aid the poor will be met.

Jacqui Boulle, a spokeswoman for the SA National NGO Coalition, said: "We believe Parliament has virtually no impact on budget spending and there is also concern about the amount of money which goes into servicing debt."

Jennifer Wilson, spokeswoman for Finance Minister Trevor Manuel, said the whole idea of publishing the medium-term expenditure policy framework was to enable people to have more of a say in the Budget earlier on. "The time to make input on this year's allocation is short but this will not be the case for the next two years because these allocations have already been made now."

The three-year budgeting process means greater certainty. For example, the deficit targets for the next three years are already known – 3,5% in 1998/99 and 3% in the following two years. This increased certainty would enable better planning.

Manuel in a corner as Budget approaches

ST(BT) 8/3/98 (49)

Cosatu has accused the government of favouring corporate SA above workers and the poor, writes SVEN LUNSCHE

Ahead of his second Budget, Finance Minister Trevor Manuel has been lambasted by Cosatu for structuring fiscal policy to favour business ahead of the poor in SA.

The attack by Cosatu deputy secretary-general Zwelinzima Vavi, in an article written for Sunday newspapers, ends a troubled week for Manuel — on Friday SA had a poorer-than-expected rating from Standard & Poor's, while the Council of Provinces on Thursday blocked his Budget Appropriations Bill.

None of these issues make his real task easier — how to continue controlling government spending and the deficit in line with economic targets. Any reversal of his tight rein on fiscal policy could spell disaster on financial markets.

Vavi said government's favouring of corporate SA "is at the core of Cosatu's rejection of Gear". He called for a sharp increase in corporate tax and urged Manuel to raise the deficit to fund social spending. He said there was "a great deal of movement" in the alliance (ANC, Cosatu and SA Communist Party) "which clearly points to the need to review deficit targets".

He said the process leading to the tabling of the Budget was "not significantly different from how the apartheid regime managed it". Cosatu would not make more submissions to the standing committee on finance unless a transparent, democratic process was implemented, he said.

While the dispute with Cosatu over economic policy is a political handicap, Manuel faces a much more difficult balancing act on Wednesday amid indications that he is overestimating economic growth.

In his Medium Term Expenditure Framework (METF), which sets the broad Budget parameters for the next three fiscal years, Manuel said growth in 1998/99 would be 3%. The reality is that 2.5% is all he can hope for, which means tax revenue is likely to be below the R178.1-billion targeted for in the METF.

Economists are urging Manuel to revise the targets of his controversial Growth, Redistribution and Employment (Gear) strategy for the Budget to remain credible.

"It would be dangerous to stick to the Gear targets with unrealistic macro-economic forecasts," Old Mutual's Dave Mohr says.

Crucially, economists are warning that the deficit target of 3.5% of GDP in 1998/99 cannot be reached if Manuel takes a more realistic view.

Merrill Lynch economist Bruce Donald estimates the deficit should come in at 3.9%, which might still be viewed as relatively positive by the market as it is below the 4.3% of the 1997/98 fiscal year.

Donald warns that if he sticks to a 3.5% deficit target amid lower growth, Manuel will have to curb spending even further.

The METF figure for 1998/99 of R202-billion provides for only 1% growth in real terms. Keeping spending at a nominal 7% increase — in line with the inflation forecast for the year — would cause the ire of government departments, the provinces, as well as his union partners in the alliance.

Tax experts say Manuel has little leeway on the revenue side if he wants to adhere to his promise of limiting tax revenue to 25% of GDP. He could get a boost from fiscal drag, improved revenue collection, a small increase in excise duties and a new tax on trusts.

Politics rules out what many economists argue would be the simplest way to improve government revenues — raising VAT from 14% to 15%.

Amid these problems, Manuel still has to come to terms with provincial budgetary woes — in the current year he has set aside an extra R1.5-billion to help two of the nine provincial governments. Manuel admitted the problems could weaken government. Economists warn that provinces may have taken commercial bank overdrafts to the tune of another R2.5-billion.

● **See Page 5 for an edited version of Vavi's speech and an assessment of the provinces.**

Shock as SA gets bad rating

THE government on Friday expressed disappointment that Standard & Poor's had failed to raise the country's credit rating, saying it could not agree with the decision.

S&P reaffirmed SA's rating at BB+ for long-term currency debt, one notch below the investment grade widely expected by the market. S&P revised its outlook downward from "positive" to "stable".

Financial markets reeled with disappointment on Friday after the verdict. On the bond market, yields on R150 benchmark long bonds leapt to 13.28% from 13.10%, while the rand slumped to R4.98 to the US dollar — its weakest level in six weeks.

S&P says poor growth and high unemployment remain its main concern, but it also gives surprisingly negative marks on SA's inflation performance and forex position.

It lauded SA's fiscal policy and political stability.

The rating is out of line with the investment ratings awarded to SA by three other rating agencies.

Private funds go begging for infrastructure projects

(49)

ST (BT) 8/3/98

Private-public sector partnerships could be the answer for a cash-strapped government, writes SVEN LUNSCHE

THE government estimates that the backlog in infrastructure, ranging from roads to water purification and electrification, is over R170-billion.

It has accepted that the private sector has to become involved in infrastructure provision at national, local and provincial level, but to date joint projects have been limited to the N4 toll road.

Standard Bank's Infrastructure Fund, which was started two years ago and has funds of over R1-billion, wrote out its first cheque only last month.

The answer, says Nick Christodoulou, head of Sanlam's Development Fund, is to diversify the portfolio. His fund, which has allocated R1-billion in a mere 14 months since inception, has substantial investments in broader development projects — including , black empowerment ventures, equity funds and small-business financing.

It is an investment that has paid off for Sanlam — its return on investments was a staggering 42% last year. "It is unrealistic to expect a similar performance in the long term, but we are confident of achieving real returns of 10% to 15% in 1998," says Christodoulou.

A breakdown of its asset portfolio shows that by last December only 4% of the R1-billion had been invested in infrastructure projects — the N4 toll road. Since then the fund has taken a 10% stake in the Beitbridge-Bulawayo railway line and a 20% stake in the new Limpopo bridge at Beitbridge.

"Private-public sector partnerships in developing infrastructure have been slow to take off. We're keen to support other ventures if they become available," says Christodoulou.

Particularly disappointing has been the response from municipalities. A number of forward-thinking municipalities have tried — Nelspruit last year wanted to outsource its water provision for 30 years to a private-sector consortium — but they have met with resistance from the trade unions.

"Unless a number of issues are clarified — notably union resistance to outsourcing and concessioning — direct investments in municipal infrastructure will remain limited," says Christodoulou.

There is no shortage of loan funding for municipal capital expenditures. This week the Infrastructure Finance Corporation reported that it disbursed R685-million of a budgeted R829-million in its first year of operation. The bulk of this funding was advanced to "creditworthy" local authorities, the corporation said.

It posted a R2.4-million after-tax profit after making a debt provision of R1.5-million in its first year of operation.

It plans to channel between R700-million and R900-million to infrastructure development financing in the current year.

Other institutions that lend heavily to municipalities are the Development Bank of SA, Southern Life's Futuregrowth Fund and Sanlam itself, which has a R2.5-billion loan book with local authorities. Many of these institutions would prefer a direct investment in "privatised" municipal projects, particularly as local authorities are facing financial strains.

Both the Sanlam Development Fund and the Futuregrowth Fund have found black empowerment ventures to be the most lucrative investment avenue. Of Sanlam's R1-billion portfolio, almost 80% has been invested in special vehicles to fund black empowerment deals or in black-owned companies directly.

Its largest deal to date was its R230-million funding of the National Empowerment Consortium when it took control of Johnnic. It also backed the Cape Town-based Sancino group with R100-million to take a stake in the New Clicks retail group. Two other groupings that have received strong backing include the Malesela consortium, headed by three Soweto doctors, with a total of R113-million in three projects, and the SA Railways and Harbours Workers' Union (about R75-million for five deals).

Apart from black empowerment ventures, Sanlam is investing heavily in private equity funds — notably a R100-million stake in the African Merchant Bank equity fund — and wholesale lending operations, many of them held by the Theta group. "The type of investments we are looking at are not social investments. They should make good returns as our first responsibility is to policyholders," says Christodoulou. "But by investing in black empowerment and infrastructure we are directly growing the SA economy."

Grouping its projects under the RDP umbrella, Southern's Futuregrowth reported last month that it made new direct investments totalling R587-million during 1997.

Of this, R350-million was invested in black empowerment ventures with both listed and unlisted companies, headed up by a R62-million stake in the trade union consortium that took a 25% stake in hospital group Netcare.

Futuregrowth manages a total of R2.2-billion on behalf of 84 retirement funds. The four funds in the Futuregrowth stable reported returns of between 19% (on township properties) and 42% (structured equity investments).

LOOKING FOR PARTNERS . . . Sanlan

Work put under the spotlight

BUSINESS Times will conduct one of SA's most extensive surveys of the recruitment industry this month.

The survey is known as the Work-in-Life survey. It is based on similar research undertaken last year by the UK's Daily Telegraph and Sunday Telegraph.

Times Media Limited (TML) Marketing Services' Jadrijevich says the survey will enable TML (publisher of Business Times) to evaluate business readers' attitudes towards work.

"Our primary objective is to provide hard facts and a clear understanding to employers, recruitment agencies and consultancies with regard to the BT Appointment pages.

"We also hope to provide new data on recruitment and job search practices, and to identify potential problems in recruitment advertising and employment practices."

The research will take the form of a questionnaire in Business Times on March 22. TML expects up to 5 000 responses. The first 25 respondents will receive prizes.

Sunday Times Business Times
March 8 1998

Let's face it, the rich are laughing, the poor crying

(49) ST(BT) 8/3/98

Ahead of Wednesday's Budget, Cosatu deputy secretary-general ZWELINZIMA VAVI takes a critical look at the government's fiscal policy to date and elaborates on Cosatu's objectives

CURRENT fiscal policy can be best be described as a successful operation on a dead patient.

For business, the operation has been successful: between 1976 and 1995 corporate tax contributions fell to 12.5% from 35% of total tax income. An arbitrary tax ceiling has been established at 25% of GDP. However, in the eight years before the 1997/98 Budget, taxes on individuals increased an average 17%. Exchange controls are on their way out. Soon, companies will just move their money out of our economy as they please.

The GDP deficit target is on track and may just reach the targeted 3% in 2000. According to the latest Central Statistical Services data, producer inflation is 4%, its lowest in 27 years. Interest rates remain extremely high. Productivity is rising in most sectors, while real wages for blue-collar workers are going down. As profits mount, shareholders and senior managers laugh all the way to the bank.

In the view of the working class, the operation has been extremely successful — the patient is dead, or at least in a critical condition.

Employed and unemployed workers, the poor, students, universities and black people in general look to government policies to deal with deep scars of apartheid. Instead, unemployment is rising fast and workers continue to lose their jobs. Last year alone, no fewer than 116 000 workers were put out on the streets. Now there is talk of carrying through one of Gear's dictates of slashing 300 000 public sector jobs by 2000. This will worsen the crisis.

Income redistribution has not taken place at the scale envisaged by the RDP. While historic progress has been made in water provision, health, telecommunications, worker rights, education transformation and land redistribution, poverty is still widespread. Private sector-led housing delivery

ZWELINZIMA VAVI

has left much to be desired and no attempts have been made to establish feasible public transport.

When the Minister of Finance delivers his Budget speech on Wednesday, the business community will be looking to see that their victories are consolidated. They will want to know if the deficit target has been met and if further company tax cuts are coming.

But the poor will be looking to see whether social deficits created by apartheid will be addressed. Workers will cross their fingers in the hope that the opportunity might be used for real, substantial income and wealth redistribution. The homeless will be looking for decent houses. The unemployed will be looking for jobs, and students and parents hope the country will move to manageable pupil-teacher ratios. Overworked nurses and doctors will expect their plight to be addressed. Provincial health ministers will be looking for equipment and staff for their empty new clinics. And so the list goes on.

Cosatu wants a "people's Budget". To us, the Budget should be used as the spear of the RDP. Cosatu's focus is on two key aspects, which should guide the alliance's strategic approach to the Budget.

First, the Budget's parameters should be appropriate rather than arbitrary, and second, the Budget process should be transparent, participatory and democratic. It should not consist of a narrow discussion on the pros and cons of the government's macro-economic Gear framework.

The Medium Term Expenditure Framework (METF) does not take this debate forward. Cosatu supports the introduction of METF as it gives us an opportunity to plan ahead, so that expenditure rollovers, a hallmark of the first years of government, will be addressed. The METF is the very tool designed to help re-prioritise the Budget towards RDP priorities. It is, however, rendered problematic by Gear's commitment to rigid and arbitrary limitations on budgetary deficit and revenue collection.

Budget deficits should not be used as a standard tool of economic planning. It is worth noting that even the World Bank's three policy scenarios for SA conclude that a rise in the deficit to 12% of GDP is sustainable.

Studies of the SA tax system indicate that the country is undertaxed by about 3% of GDP. The lie repeated so frequently by local big business that taxes are high avoids the issue of a progressive tax structure. In 1970 company taxes yielded half of total government tax income. By 1995, corporate taxes amounted to only 14% of tax revenue. Over the same period, the portion of personal tax to revenue rose to 42% from 18%. VAT has worsened the situation.

This is the core of Cosatu's rejection of Gear . It has clearly limited our capacity to deal with the social deficit. The 1997/98 budget saw a cut of 4.5% to 5% in the national government's social spending. Education saw a cut of 6.2%. All of the key strategic areas in the RDP saw minimum real increases.

We inherited a non-transparent Budget from the apartheid regime. This needs to be changed.

Finance Minister Trevor Manuel's

March 11 will be watched with keen ir

labour and big business. Zwelinzima V

secretary-general (left) asks whether tl

the hopes of the workers, the unempl

THE current fiscal and monetary policy of the country can at best be described as a successful operation with dead patients. For capital, the operation has been successful in that corporate taxes have declined from 35 percent to 12,5 percent between 1976 and 1995. The arbitrary tax ceiling has been put at 25 percent of gross domestic product (GDP).

At the same time, in the eight years before the 1997/1998 budget, taxes on individuals have increased an average of 17 percent. Exchange controls are on their way out. Very soon companies will just willy-nilly move their money out of our economy.

The GDP deficit target is on track and may just reach the targeted three percent in the year 2000.

According to the latest General Statistical Services data, inflation is at four percent, a new record in 27 years. Interest rates are extremely high to the dislike of the captains of industry.

Productivity has been on the rise in most sectors, Real wages for blue-collar workers are going down. Shareholders and senior managers in most cases smile all the way to the bank from the accumulating profits. Indeed the operation has been extremely successful.

The patient is dead or in a critical condition in the intensive-care unit in the view of the working class.

Employed workers, the unemployed, the poor, students and universities and most black people are looking to the success of government policies to deal with the deep scars of apartheid.

Unemployment is rising fast – last year alone no less than 116 000 workers lost their jobs.

Now there is a talk of carrying through one of the Growth, Employment and Redistribution (Gear) policy dictates of slashing 300 000 public-sector jobs by the year 2000.

This crisis will worsen standards of living of the poor. Income redistribution has not taken place on the scale envisaged by the RDP. While historic progress has been made in water provision and health, poverty is still widespread, in particular in rural areas.

Private-sector-led housing delivery has left much to be desired. There is no attempt to move into a public transport system, and it appears that we shall be a taxi nation with all that goes with it.

On March 11, 1998, the Minister of Finance will be delivering his budget speech in Parliament.

The business community will be looking at whether their victories will be consolidated and their position of power entrenched, whether the deficit target is being achieved and at further company tax cuts.

On the other hand the poor will be looking at whether this time around, the social deficit created by years of apartheid misrule will be addressed.

The working people will be crossing their fingers in the hope of a real and substantial redistribution of income and wealth.

The homeless will be looking for the provision of decent housing, instead of smaller-than-matchbox houses.

The unemployed will be looking for more concrete steps towards job creation.

Teachers will be looking for job security and whether the country will move to manageable pupil and teacher ratios.

The overloaded nurses and doctors in hospitals like Johannesburg Hospital will be expecting that their plight be addressed.

Provincial health ministries will be looking at whether they will not have equipment and staff for their empty new clinics. The list goes on.

Will the budget for the first time also deal with the social deficit?

The long-held demand of Cosatu is for a "People's budget". To us the budget should be used as the spear of the RDP.

Cosatu's focus is on two key aspects which should guide the alliance's strategic approach to the budget: firstly the budget's parameters should be appropriate rather than arbitrary; and secondly the budget process should be transparent and democratic.

The appropriate parameters for the budget should not be a narrow discussion of the pros and cons of the government's macroeconomic framework called Gear.

Appropiate parameters linked to the macroeconomic stability and budget constraints must be developed. The medium-term expenditure framework (METF) does not take this debate forward.

In principle, Cosatu supports the introduction of METF as it will afford us an opportunity to plan in advance so that the kind of rollovers of expenditure which have been a hallmark of the first years of government will be dealt with.

The METF, the very tool designed to help with reprioritisation towards RDP priorities and to assist in medium-term expenditure planning, is rendered problematic by Gear's commitment to rigid and arbitrary targets of limiting budget deficit and revenue collection.

Planned use of the budget deficit to finance expenditure is not inherently unsustainable. Internationally, it is used as a standard tool of economic planning.

It is worth noting that even the World Bank's three policy scenarios for South Africa conclude that the rise in fiscal deficit to 12 percent of the GDP is sustainable.

This is because the higher growth pattern will gradually generate more public savings such that by the year 2000 the country will experience fiscal surplus.

Studies of South African tax indicate that the country is under-taxed by about three percent of the GDP.

The fallacy repeated so frequently by local big business that "SA taxes are high" will fool only those unquestioning sections of the media. The budget should be addressing a more progressive tax structure.

In 1970 company taxes yielded half the total government tax income. By 1995 the corporate tax contribution made up only 14 percent.

In the same period personal tax yielded 18 percent of government's revenue, by 1995 it was 42 percent. The regressive VAT system made this worse.

The last budget speech and the one-sided reduction of corporate taxes without any consideration of personal income tax reductions has worsened the situation.

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(49) CP 8/3/98

Finance Minister Trevor Manuel's budget speech on March 11 will be watched with keen interest by organised labour and big business. Zwelinzima Vavi, Cosatu deputy secretary-general (left) asks whether this budget will meet the hopes of the workers, the unemployed and the poor.

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In 1970 company taxes yielded half the total government tax income. By 1995 the corporate tax contribution made up only 14 percent.

In the same period personal tax yielded 18 percent of government's revenue, by 1995 it was 42 percent. The regressive VAT system made this worse.

The last budget speech and the one-sided reduction of corporate taxes without any consideration of personal income tax reductions has worsened the situation.

The above policy is at the core of Cosatu's rejection of Gear. The combined effects of this policy that is demanded by capital on the government have now clearly limited our capacity to deal with the social deficit.

The 1997/98 budget saw a cut of 4,5 to 5 percent in national government social spending. Education saw a cut of 6,2 percent.

All other important key strategic areas of the RDP saw minimum real increases.

All those who have been observing the recent events like the chaos in Johannesburg hospital, the closure of eight hospitals in Gauteng, the threat on teachers' jobs and other public-sector jobs, the failure to pay overtime to prosecutors, etc, see that they can be traced to this disastrous fiscal and monetary policy.

The key question is whether we have learnt from our recent social and economic woe?

Are we going to close our eyes to reality and continue marching to be the first to reach the bottom?

Cosatu for its part will continue to engage the alliance, in particular the ANC on these differences.

We think that there is already a great deal of movement towards closing differences if one looks at the economic resolution of the ANC Mafikeng conference and the recent Lekgotla statement, which clearly point to the need to review the GDP deficit target.

We inherited a budget process from the undemocratic and non-transparent apartheid regime.

One of the biggest challenges we face is how these traditions can be changed including the budget process.

The constitution commits the government to democratic practices, it outlines process through which the budget becomes law and it requires legislation that will empower Parliament to amend the budget and money Bills proposed by the Minister of Finance. Within this, a clear strategic and dynamic role for the alliance and ANC consititutional structures should be developed to redirect policy through complex pressures which are brought to bear on the Department of Finance.

ALL THINGS BEING EQUAL . . . Finance Minister Trevor Manuel's tax policy means bigger profits for companies while individuals are saddled with higher taxes.

THE WEEK AHEAD

Greta Steyn

Manuel's credibility might be questioned

BD 9/3/98 (49)

Surprise, surprise. The budget is not going to be a damp squib after all. Even if Finance Minister Trevor Manuel produces a deficit of 3,5% of gross domestic product (GDP), it will be a big mistake to look upon it as a nonevent.

There are a lot of unanswered questions. What will the rise be in spending, will it be credible, and will Manuel budget for the deficit spot-on at 3,5%? Will there be any surprises on the tax front?

The reason why many analysts have not spent too much time racking their brains about the budget is that a lot of information is public. Manuel last year published a medium-term policy statement which gave budget projections. It also gave the macroeconomic assumptions on which the figures were based.

However, much has changed since that statement was released. Firstly, the document's macroeconomic assumptions will have to be revised.

It is clear that economic growth and inflation will be less than the figures in the document, which are given in the table. Manuel has already acknowledged that nominal GDP for the 1997/98 fiscal year was R613bn, lower than the budgeted R618,6bn.

Secondly, the fact that there was overspending in the 1997/98 fiscal year means the base has changed. On the old base, there would have been an increase of 8,2% in spending to R202,1bn in the new Budget. On the new base, if the spending total is kept unchanged, the increase is 6,6%. That would be a tall order, if this past fiscal year's experience is anything to go by. Government battled to contain the rise in spending to below 8%.

Even worse, it looks like government will have to budget for an increase in spending of below 6,6%. The reason is that it will not get in all the revenue that it needs. That is the main implication of revising the macroeconomic assumptions.

Revenue was expected to rise 9,9% in the medium-term statement. A more realistic rise of about 9% produces revenue of R176,6bn. This is about 26% of a revised GDP estimate of R671,2bn (a nominal increase in GDP of 9,5%). If the deficit is to be kept at 3,5% of GDP, it has to be R23,5bn. That means spending cannot exceed R200bn — an increase of only 5,5% from the 1997/98 fiscal year.

These thumbsuck estimates are still rather generous; what they show is that it will be extremely difficult to budget for deficit of 3,5% of GDP — and retain credibility.

If the economic assumptions are not conservative enough, Manuel will lose credibility. If they are conservative, but the spending increase is ridiculously low, his credibility will also be questioned.

So how can he avoid his credibility being tarnished? There is little scope from tax, as it is already above his target of 25% of GDP. The pressure is on him to give tax relief.

He could use smoke and mirrors; he could budget for a once-off revenue windfall. He has already discovered that the Corporation for Public Deposits has been warehousing funds allocated to agriculture in previous years but not spent. A small amount of this — about R500m — was used to fund the overspending in 1997/98. Perhaps there is more where that came from. Or perhaps he could take some spending off-budget.

Otherwise, he could budget for a deficit slightly higher than 3,5%.

Economists seem to think that is what will happen. Sacob last week spoke of "unrealistic" targets and the Standard Bank said the markets should not be surprised if a deficit of 3,8% of GDP is announced.

But many are still willing to bet that Manuel will find a way. If he produces a 3,5% deficit without losing credibility, it would be a spectacular budget indeed.

Budget assumptions

	1997/98	1998/99	1999/00	2000/01
GDP growth		3,0%	4,0%	5,0%
Inflation		7,5%	6,5%	6,0%
GDP (R million)	613 000	684 920	758 610	844 340

Graphic: KUBEN DAVID Source: FINANCE DEPARTMENT

Even erstwhile sceptics agree Manuel is doing well

(49) BD 9/3/98

This week's Newsmaker is Finance Minister Trevor Manuel. Economics editor **Greta Steyn** spoke to him about his other interests.

TRYING to talk to Finance Minister Trevor Manuel just before the budget is not a good idea. But he is happy to talk if the topics are rugby and music, rather than tax increases and spending cuts.

Manuel's passion for rugby came to the attention of financial markets while the rand was crashing in 1996 His apparent support for the touring All Blacks caused fury among the staunch Springbok supporters in the local financial markets. A horrified bond trader, having just put in a sell order, said: "The 'ous' just don't like Manuel."

These days, the "ous", as well as the bankers, cowboys, yuppies and rocket scientists who move markets, like Manuel. They like his policies. Many of them might even agree with his views on rugby.

Manuel believes SA's rugby bosses lack vision, and he still thinks the national team lacks the "flair, big-heartedness and strength to match the team from a two-bit island in the south-east, for whom I am alleged to have a particular affinity".

He likes the way in which coach Nick Mallet has turned around the national team. But then says, in a reference to SA Rugby Football Union boss Louis Luyt: "That is, if they are the national team, and not part of the personal property of you-know-who; but that is a matter which Judge De Villiers will have to decide."

He appeals to Mallett to focus on making the team sufficiently representative to be the collective pride of all South Africans. "This is a major issue — especially at provincial level. In the province where Nick and I live, talent abounds on the Cape Flats The provincial team won the Currie Cup last year, yet the rugby bosses this year favoured the purchase of has-been players from elsewhere over the creation of opportunities for players of colour. This remains a serious problem."

Asked about his own rugby career, Manuel finally debunks the myth that he would have been a Springbok if it had not been for apartheid. He was a second-team flank forward who was always too much of an activist to play rugby seriously. "Selection for the village first team was as far as my rugby ambitions ever stretched."

If he did not want to become a rugby Springbok, what were Manuel's childhood ambitions? He says the stock response to that question is: "The township where we lived as a child was so rough that 21st birthday keys were handed over at 14." He had visions of law, and did a diploma in civil engineering. "I am not sure how I ended up in politics," says the man who was repeatedly detained or placed under house arrest for his political activities, spending a total of 35 months in detention between 1985 and 1990.

Aside from rugby, Manuel's other passion is jazz, which he describes as a therapeutic combination of talent and innovation. "In the township, jazz was a national progression from the schmaltzy R&B we grew up on. My favourite muso's are horn people — Miles Davis, Dexter Gordon." He has a high regard for many SA musicians. "I am partial to our own genre of jazz, in particular the Cape Town riff on the saxophone which I know, can feel, but cannot describe."

Finance Minister Trevor Manuel ... watch my hands....

One wonders if the man who has presided over deep spending cuts is equally disciplined over his own finances. "One of the early decisions I made in life was to marry an accountancy teacher to counterbalance my inherent profligacy. Lynne is a strict financial disciplinarian," he says.

There will be no sign of profligacy, though, when he presents the national budget on Wednesday Manuel's stubborn insistence on cutting the deficit has been one of the most important reasons why he has gained the markets' respect. By making the growth, employment and redistribution (Gear) strategy his own personal mantra, Manuel finally discarded any of the left-wing baggage he might still have carried with him.

Has the fact that Manuel has taken a scalpel to government spending alienated him from his old comrades? Manuel says the ANC is enough of a "broad church" to accommodate the entire spectrum of views on containing the public debt.

"While balanced budgets are the stuff of market orthodoxy now, Karl Marx warned against public debt in Das Kapital."

Even Manuel's left-wing critics now concede that it was the acceptance of Gear that prevented SA from succumbing to a bad dose of Asian flu last year.

The 1996 run on the rand seemed small fry when compared to the fall-out in East Asia; without Gear, SA might have gone the same way

But as the rugby incident showed in 1996, he had a difficult start. His most recent predecessors were a conservative banker and an urbane businessman. That he was not from the inner circle initially counted against him.

He soon enough appeared to confirm fears that things had changed for the worse by lambasting "that amorphous entity", the markets. He took great exception to being described as "a black former activist" in an international news agency report on his appointment, and vowed to prove "the bigots" wrong. That kind of talk — even when it was justified — just served to create an "us-and-them" feeling.

It is a very different story today. The change was for the better. The man who two years ago was moving markets each time he cleared his throat is now presiding over a budget which many analysts believe will be a virtual non-event.

The fact that many market players regard this week's budget as a damp squib is the ultimate tribute to Manuel. It proves that he has won the sceptics over. More importantly, it proves that he is doing his job well.

Manuel has proved that you do not have to be from the business establishment's inner circle to be a good finance minister. In fact, he has proved that having impeccable business credentials probably counts against you when it comes to pushing through tough political decisions and keeping the provinces in line.

He has even proved that it does not matter if the finance minister is not the Springboks' biggest fan

Gear 'favours business at workers expense'

BD 9/3/98 (49)

THE labour movement said yesterday that government's macroeconomic policies favoured business at the expense of workers and the poor.

Just three days ahead of the new budget, a top Congress of SA Trade Unions (Cosatu) official said that government's growth, employment and redistribution (Gear) strategy was inhibiting job creation and poverty alleviation.

"This is the core of Cosatu's rejection of Gear," said Zwelinzima Vavi, Cosatu deputy secretary general, in an article published in Sunday newspapers.

It has clearly limited our capacity to deal with the social deficit," he said.

Government unveils its budget for the 1998/99 fiscal year — which starts on April 1 — in Parliament on Wednesday.

Highly critical

Since the launching of government's five-year macroeconomic plan in 1995, Cosatu, has been highly critical of the policy and has threatened to break away from its historic ally, the African National Congress.

Vavi said that government's budget parameters should be "appropriate" rather than "arbitrary" and that the process of drawing up policy should be transparent, participatory and democratic.

He said Cosatu supported the introduction last December of a three-year budgeting plan, the medium-term expenditure framework, which allowed it to plan ahead.

"It is, however, rendered problematic by Gear's commitment to rigid and arbitrary limitations on budgetary deficit and revenue collection," he said. — Reuter.

SA's debt is odious

Sowetan 9/5/98

The noises from knowledgeable people prompt **Motsoko Pheko** to argue that apartheid's foreign debt should not be repaid by victims of that genocidal policy.

SOUTH Africa under apartheid colonialist rule incurred a foreign debt to the colossal tune of R307 billion A high rate of interest is paid on this debt by citizens of this country, who were not long ago the victims of apartheid.

At present the debt is serviced at nearly R50 billion a year. Is payment of this debt in accordance with the principles of international law and morality?

I am prompted to write on South Africa's foreign debt because of the noise I hear from people who are supposed to know better. Some Members of Parliament speak of the "national debt" which must be rescheduled.

Others say the foreign debt must be "suspended". There are also those who talk of "negotiating" the foreign debt. These suggestions are a complete departure from international precedents.

According to these, a successor government is not bound to pay debts incurred to subjugate its people. The apartheid debt is one such debt – African people were subjugated by apartheid colonialist governments.

In pursuit of this subjugation policy, successive apartheid colonialist regimes committed genocide This was manifested by numerous massacres and by keeping Africans in conditions of poverty, landlessness, lack of education and skills.

These conditions are forbidden by the 1948 United Nations (UN) Convention on the Prevention and Punishment of the Crime of Genocide (Articles I to VI)

The indigenous majority of this country was compelled to fight against the crime of apartheid and for self-determination as stipulated in various international instruments, including the UN's Declaration on the Elimination of All Forms of Racial Discrimination.

When the war of liberation intensified, the apartheid colonialist regime borrowed more money to crush the liberation movement and to continue with its genocide and apartheid, both declared crimes against humanity.

It borrowed money from the International Monetary Fund, World Bank and other sources to use to destroy the African people not only inside South Africa, but outside South Africa as well. Some evidence of this has come before the Truth and Reconciliation Commission.

Millions were spent financing Renamo in Mozambique, the Selous Scouts in the Rhodesia, the civil war in Angola, Koevoet in South West Africa and the Civil Cooperation Bureau inside South Africa.

It is estimated that neighbouring African states which harboured the Pan Africanist Congress (PAC) and African National Congress (ANC) suffered damage of at least R27 billion.

Angola alone suffered R48,5 billion worth of damage. The war in Angola – which involved the South African army – lasted six months and cost more than 60 000 lives.

In South Africa the Human Rights Commission reported that between July 1990 and the end of 1993, more than 12 000 civilians were killed and at least 20 000 injured in hundreds of incidents.

These are the genocidal lengths to which the creators of today's foreign debt were prepared to go to tighten their political, military and economic power on the colonised indigenous people of this country

Must the survivors now be settled with this debt, which was incurred to maintain crime against them and against humanity?

The crux of the matter is that the doctrine of odious debt must be involved – this allows successor governments to repudiate debts incurred to subjugate a population.

Odious debt

The apartheid debt is such a debt. It is odious to the indigenous African majority of this country.

The Government, if it truly represents them, has no legal or moral obligation to honour these debts The African taxpayers cannot justly be held responsible for debts incurred to finance their genocide.

The doctrine of odious debt states that "if a despotic power incurs a debt not for the needs or in the interest of the state, but to strengthen its despotic regime, to repress the population which fights against it, this debt is odious to the population of the state"

There are several precedents in international law and in the practice of states regarding the repudiation of odious debts by a successor government

Cuba, for example, began as a Spanish colony. The colonial government was oppressive and refused the people of Cuba their right to self-determination and decolonisation.

The Cubans, assisted by the United States (US), fought the Spanish colonialists.

After this struggle, Spain claimed for the payment of debts it had incurred in Cuba. But the US repudiated this.

It argued successfully that the debt incurred by Spain in Cuba was unenforceable legally because Spain had incurred it without the consent of the Cubans and by force of arms.

The African people of this country also have never consented to or created the apartheid foreign debt.

They are in the same condition the Cubans were 100 years ago.

In 1923, the Royal Bank of Canada sought to recover debts it claimed were owed to it by the newly-established government of Costa Rica. Costa Rica repudiated this debt and declared it illegitimate

Costa Rica submitted that at the time the loans and debts were made, the people of Costa Rica were engaged in a political and military struggle to bring about liberty and democracy to their country.

Chief Justice Taft of the US Supreme Court sat as arbitrator and drew on the doctrine of odious debt to repudiate the debts entered into between the dictator Tinoco and the Royal Bank of Canada.

But the problem in South Africa is that African leaders, especially those of the ANC, have a dangerous propensity of ignoring international law and precedents applicable to some crucial issues in this country.

They are easily misled by bogus non – or anti-international law agreements like the Groote Schuur and Pretoria Minutes worked out by the apologists of those determined to continue to cheat Africans in this country.

The truth of the matter is that creditors who gave loans to the apartheid regime to crush the liberation struggle did so consciously and knowingly

They should reap the consequences of making financial profit in an environment of genocide.

They do not deserve to be paid this debt. They financed a delinquent regime to commit crimes against humanity.

The debt must be written off voluntarily by the creditors themselves – or be repudiated unilaterally by the successor government

To ask the people of this country to spend their limited resources on the payment of an odious debt, in conditions of poverty deliberately created to subjugate them, is to demand of them to commit suicide.

(Dr Pheko is deputy president of the Pan Africanist Congress.)

Budget: no surprises expected

(49) Sowetan 10/3/98

Government sure to respond to Katz Commission's recommendations

By Isaac Moledi
Acting Business Editor

ALL EYES will be on Cape Town when Finance Minister Trevor Manuel presents South Africa's annual Budget to Parliament tomorrow.

This year's Budget, which economists and analysts say will hold no big surprises, will be the first under the new Medium Term Expenditure Framework announced by Manuel on December 2 last year.

In terms of the new framework the Government's spending plans for the next three years will be published tomorrow, although Parliament will only vote on the Budget allocations for the 1998-99 financial year.

Because Manuel has already given some indication of what can be expected in this year's Budget, analysts believe it is unlikely the usual hype will surround the presentation of the annual Budget this year.

The Budget Policy Statement issued in December projected an expenditure of R202,1 billion for 1998-99, as well as revenue of R178,1 billion and a gross domestic product (GDP) growth of three percent.

These figures, however, are subject to change since there have been some developments since the document was released, particularly in relation to the slow-down of the economy.

Expenditure plans

As in the past a simplified Budget review will be released tomorrow, along with a "white book" which sets out expenditure plans in detail.

For the first time this year's white book will also set out a three-year forecast of Government departments' detailed spending projections, in line with the Medium Term Expenditure Framework announced in December.

In so far as spending priorities are concerned, the Budget policy document issued in December allocated more money to education, welfare and safety and security departments, with the South African National Defence Force (SANDF) receiving less.

Finance Minister Trevor Manuel will present the country's annual Budget in Parliament tomorrow.

About R2 billion will be set aside to cover unexpected expenses that arise during the year.

Tomorrow Manuel will be expected to allocate about 54 percent of the total revenue to the provinces. But how much each of them will get still has to be disclosed. The details of a new formula which determines how revenue is to be shared out between central Government and the provinces is also expected to be announced.

Other issues likely to be announced tomorrow include increasing public sector investment in social and economic infrastructure and reducing Government dissaving (the amount it borrows in excess of what it invests) to below two percent.

Also included in tomorrow's Budget will be the Government's plans to limit the share of national income taken by tax to around 25 percent.

However, the overall tax burden, including mandatory collections by social security and other statutory funds, is at present somewhat higher than this level (tax revenue is estimated at 27,7 percent of GDP in 1996-97).

Deloitte and Touche's tax manager Jenny Klein says it is unlikely this objective will be achieved in the medium term, given the pressure on public spending.

Other economists have also voiced concern that the economic assumptions set out in the Government's Budget policy document were unrealistic and hoped some adjustments will be made in tomorrow's Budget.

The Government's planned reduction of the Budget deficit to 3,5 percent in 1998-99 and three percent thereafter is not likely to be achieved.

There are already rumblings in the ruling party that deficit targets need to be re-evaluated to take account of the "social deficit" (expenditure on housing, education and so on).

"The focus of tax proposals will probably continue to be on tightening existing tax provisions and removing loopholes, rather than introducing any major new taxes," says Klein.

The Budget is expected to contain the Government's response to the Katz Commission's recommendations on the source or residence basis of taxation, capital transfer and benefit funds.

But Klein believes a new capital transfer tax is unlikely to be introduced at this stage, and that changes to the taxation of trusts may be made.

The Katz Commission proposed that trusts should be taxed on a periodic basis (for example every 25 to 30 years) on their net asset value, and that distributions of capital from trusts should be taxable.

Manuel has voiced concern about trusts being used to dodge tax, and some analysts feel it is possible a levy on trust income will be introduced as an interim measure.

Other tax issues

"Several other tax issues have been considered and may receive some attention this year," says Klein.

These include a cash-based tax system for small and medium enterprises, tax measures to encourage group rationalisation, the interpretation of provisions in regard to partnerships and the status of joint venture companies regarding the tax holiday scheme.

Also unlikely is an increase in Value Added Tax (VAT). Company taxes are also expected to remain largely unchanged, although there is possibly room to cut secondary tax on companies.

As is the case every year, smokers and alcohol drinkers will probably have to dig deeper into their pockets as the prices of liquor and tobacco are expected to go up.

Also, as there has not been a substantial outflow of capital, a further relaxation of exchange controls may concentrate on lifting the limits. But restrictions on taking out blocked funds are expected to remain in force.

The Budget Information Service of the Institute for a Democratic South Africa (Idasa) says as the Budget is about the nation's priorities, most South Africans will want to know exactly how expenditure will be allocated and what changes will be made to taxation provisions.

"The real issue in expenditure will be how the money will be spent in different departments rather than between those departments," says Idasa's Warren Krafchik.

Another major challenge is how the Government can achieve social change at the same time as meeting its fiscal responsibilities.

"In measuring that we need to look at whether the Government has an integrated approach towards poverty," says Krafchik.

"We should also look at its approach towards employment as this has been falling despite Gear."

He sees the tax net falling once again on the middle-income group rather than on low-income people, and feels subsidies on items such as cars and medical aid schemes may not escape the taxman.

This is because Manuel previously vowed to clamp down on people who use fringe benefits or "income substitution" to reduce their tax burden.

Last year he introduced provisions for company car benefits to be taxed more heavily although Parliament's finance committee threw out the proposal. This problem, according to analysts, has still not been sorted out.

Manuel will be looking for votes, says Sacob

(49) BD 10/3/98

Linda Ensor

CAPE TOWN — Finance Minister Trevor Manuel would probably place greater emphasis on social expenditure and delivery in his budget speech tomorrow to bolster political support ahead of next year's general election, the SA Chamber of Business's director of economic policy, Ben van Rensburg, said yesterday.

Sacob did not expect any major tax shocks, but Van Rensburg believed there would be the "pre-election temptation to deliver unaffordably more in terms of social expenditure". The privileged would be called upon to make greater sacrifices and business expected to contribute more to social spending, Sacob tax expert Ernie Lai King said.

Van Rensburg noted that the 1998/99 budget would be a difficult one, with a "straitjacketed" Manuel being constrained both by the lower economic growth rate and the reduction in inflation, which would reduce government's ability to build fat into the budget

Further constraints were government's commitment to a tax burden not greater than 25% of gross domestic product (GDP), compared with the current 26,6%; the deficit reduction programme; and its political inability to increase the rate of VAT.

"It is quite clear that the minister will have to find a balance between creating a better growth framework and more social delivery. Standing in his way is a bloated civil service which will cut deep into his financial resources," Van Rensburg said. He predicted increased public service retrenchments.

To boost revenue, Manuel was expected to rely on bracket creep, more aggressive tax collection to expand the tax net, and the closure of tax avoidance loopholes such as trading trusts, interest earned in medical aid saving schemes and the taxation of interest income earned abroad.

A one percentage point increase in the maximum marginal rate of personal income tax to 46% was also a possibility.

Business would be looking for a clear commitment by government to the growth, employment and redistribution (Gear) strategy.

Sapa reports that the National Party announced yesterday it would oppose the 1998/9 budget.

This decision was based on the NP's rejection of the government's economic policy package, which was undermining growth and job creation, party spokesman Theo Alant said.

The high level of income tax, overspending on current expenditure, an inability to reduce public debt and effect privatisation, as well as affirmative action policies, were clear evidence of the inability of the African National Congress to govern, Alant said.

The Freedom Front, meanwhile, has urged Manuel to stick to his deficit targets, saying a failure to do so would seriously undermine confidence in government's efforts to improve the economy.

Union hits out over govt's 'failure to consult' on budget'

Reneé Grawitzky (49) BD 10/3/98

THE budgetary process came under fire yesterday when the Congress of SA Trade Unions (Cosatu) said it would not participate in parliamentary budget hearings after the finance department failed to abide by its constitutional obligation to grant Parliament the right to oversee and amend the budget.

At the same time a number of public service unions have questioned if the budget will include enough funds for implementation of the final year of the three-year wage deal in the public service. These concerns were raised at a meeting of the public service bargaining council where government said it did not have a mandate to indicate whether funds were available.

This uncertainty comes amid speculation that government wished to implement the agreement in October instead of July, thereby saving R1,5bn.

Cosatu said it was "deeply disturbed" by the way in which the finance department had approached the 1998 budget.

Cosatu said meaningful consultation and oversight was all the more important in the context of significant disagreement over the growth, employment and redistribution (Gear) strategy's "antidevelopmental budget parameters and the likelihood of many of our members' interests being compromised by unilateral downsizing of the public service".

The federation's decision not to participate in the parliamentary process, despite a constitutional commitment to the contrary, could have no real impact on budget decisions.

Section 77 of the constitution states that "an act of parliament must provide for a procedure to amend money bills before Parliament".

Cosatu said to date no such procedure had been put in place, "as legislation in this regard (the Money Bills Amendment Procedure Bill) tabled by the minister of finance was rejected by Parliament's finance committee on the basis that it did not confer effective amendment powers to Parliament"

The federation said it was questionable if the bill complied with the "spirit" of the constitution.

'WE'RE BEING STRANGLED'

Portfolios' budgets set for massive cuts

CT 10/3/98 (49)

BUDGET CUTS to parliamentary portfolios would hamper their work, according to Blade Nzimande: "We're being strangled." **JOVIAL RANTAO** reports.

THE Department of State Expenditure has sent a strong belt-tightening message to politicians by cutting Parliament's budget by R72 million and reducing each portfolio's budget by R80 000.

Committee chairpersons complained yesterday that the reduction for portfolios — from R245 000 to R165 000 — would make it almost impossible for them to fulfil their constitutional obligations.

Finance Minister Trevor Manuel is expected to announce the cuts tomorrow when he reveals funds allocation to Parliament as part of the 1998/99 Budget.

ANC deputy chief whip Ms Naledi Pandor, who broke the news at a meeting of all committee chairpersons yesterday, said it would be impossible for Parliament to do anything about the allocation as the Budget had been finalised in September last year.

BROKE THE NEWS: Naledi Pandor

Pandor said R30 million had originally been requested for committees. This had been cut, first by R17,5 million, and later to R7,5 million. She said negotiations were being held with the Department of State Expenditure to allow funds that had not been spent during the current financial year to be rolled over into the Budget for the new year, which starts on April 1. In principle, the government has been opposed to roll-overs.

ANC MP and chairperson of the Portfolio Committee on Education, Dr Blade Nzimande, said the budget allocation was inadequate.

"We're being strangled. We can't have a blanket allocation. There have to be some criteria. I can't see how I can run the education committee on this. How do you advance and consolidate democracy with this kind of budget?" asked Nzimande.

In reply, Pandor said that committee chairpersons should have submitted their budget requirements to the budget sub-committee and presiding officers.

● A balance sheet released at yesterday's meeting revealed that most of the Parliamentary committees had overspent on their 1997/98 budgets.

The worst committees were those for Arts, Culture, Science and Technology, which overspent by R270 000; Provincial Affairs and Constitutional Development (R268 000); Communications (R202 000); Correctional Services (R188 000); Health (R101 000); Public Enterprises (R82 000); Agriculture, Water Affairs and Forestry (R79 000); Environmental Affairs and Tourism (R67 000); Education (R54 000); Welfare (R32 000), and Transport (R31 000).

ALLIANCE BOMBSHELL

Cosatu snubs Budget talks

CT 10/3/98 (49)

THE GOVERNMENT HAS FAILED in its "obligation" to allow Parliament to oversee expenditure and revenue decisions, Cosatu claims. **JOVIAL RANTAO** reports.

THE ANC's main alliance partner Cosatu has, on the eve of the tabling of the 1998/99 Budget by Finance Minister Trevor Manuel, dropped a bombshell by announcing its withdrawal from Budget hearings organised by Parliament.

Cosatu, which has repeatedly threatened that it would withdraw from the process, said it stopped participating in the budget hearings because of the government's lack of commitment to budget reform. It wants MPs to oversee expenditure and revenue decisions.

The move has implications for the unity of the ANC-Cosatu-SACP alliance before the 1999 elections. Yesterday's move follows recent threats by Cosatu to take the ANC on.

During the debate on the Basic Conditions of Employment Bill, Cosatu threatened to use its members in Parliament to stop the legislation from going through. The trade unions' federation has also threatened to recall MPs who are not seen to be championing workers' rights.

Cosatu said it was clear that the Department of Finance was not prepared to subject its macro-economic parameters to public debate, neither was it prepared to fulfil its constitutional obligation which required that Parliament be given the right to oversee and amend the Budget.

Cosatu has argued that despite constitutional provisions that "an act of Parliament must provide for a procedure to amend money bills", no such procedure has been put in place.

"Cosatu is unable to participate in a parliamentary process which, despite a constitutional commitment to the contrary, can have no real impact on Budget decisions.

"In our view, meaningful consultation and oversight is all the more important in the current context of significant disagreement over Gear's (Growth, Employment And Redistribution strategy) anti-developmental Budget parameters and the likelihood of many of our members' interests being compromised by unilateral down-sizing of the public service."

Cosatu said a key challenge facing the country was to ensure that the Budget process was transformed in line with the commitment to democratic and transparent governance, to empower elected representatives, to engage in and scrutinise the budgetary process to ensure that it was in line with the implementation of the RDP.

Cosatu's decision follows a step recently which saw Parliament's finance committee reject the Money Bills Amendment Procedure Bill because it did not confer effective amendment powers to Parliament.

Chairperson of the ANC caucus in Parliament, Mr Thabang Makwetla, said Cosatu's move was regrettable and said a political solution to the problem would be sought.

"The ANC would be the last party to undermine the new democratic values that we want to build with regard to the function of Parliament. I've all the confidence that we will amicably resolve our differences."

Meanwhile, CHRISTO VOLSCHENK of *Business Report* writes that after years of growing tax burdens, this year's Budget may hold good news for some taxpayers.

Poor and low-income earners are likely to benefit the most.

Last year Manuel lightened the tax burden on low-income earners slightly, while increasing it on middle- and high-income earners by introducing a single tax bracket for taxpayers with taxable incomes below R30 000 a year and by lowering the marginal tax rate for those below R45 000 to 32%.

The Budget may hold good news for some taxpayers.

The "rich" got hit by an increase in a fringe benefit tax on company cars and smokers and drinkers were penalised with a dramatic increase in excise duties on tobacco products and liquor. Expect a repeat performance.

The maximum marginal rate of personal income tax is expected to remain unchanged at 45%, while the company tax rate should remain at 35%. VAT should remain at 14%, despite calls from tax experts for an increase to 15% and a call from Cosatu for it to be increased on luxury goods and zero-rated on certain basic goods and services.

More significantly, Manuel could put an end to income splitting by beneficiaries of trusts by taxing trusts at a flat rate of 35% — the same rate as companies are taxed at.

In short: Most taxpayers will be relieved to hear that they have escaped higher taxes for another year.

Cosatu's Budget bombshell

(49)

Tripartite alliance quivers as federation attacks Government on monetary reform

Star 10/3/98

By Jovial Rantao
Cape Town

The ANC's main alliance partner, Cosatu, has, on the eve of the tabling of the 1998/99 Budget by Finance Minister Trevor Manuel, dropped a bombshell by announcing its withdrawal from Budget hearings organised by Parliament.

The trade union federation, which has repeatedly threatened to withdraw from the process, said it stopped participating in the Budget hearings because of the Government's lack of commitment to budget reform. It wants MPs to oversee expenditure and revenue decisions.

Cosatu's move has implications for the unity of the ANC-Cosatu-SACP tripartite alliance ahead of the 1999 elections.

Yesterday's move follows recent threats by Cosatu to take on the ANC. During the debate on the Basic Conditions of Employment Bill, Cosatu threatened to use its members in Parliament to block the legislation. The federation has also threatened to recall MPs who were not seen to be championing the rights of workers in Parliament.

Cosatu said that, both in Parliament and at the National Economic Development and Labour Council, it had been clear that the Department of Finance was not prepared to subject its macro-economic policy to public debate. Neither was it prepared to fulfil the constitutional obligation that Parliament be given the right to oversee and amend the Budget.

In another unprecedented step, Cosatu has heaped praise on members of opposition parties in the National Council of Provinces who last week "refused to rubber stamp" amendments to last year's Budget.

Cosatu has argued that, despite constitutional provisions that "an act of Parliament must provide for a procedure to amend money bills", such a procedure had yet to be put in place.

"In our view, meaningful consultation and oversight is all the more important in the current context of significant disagreement over the Growth, Employment and Redistribution (GEAR) policy's anti-developmental budget parameters and the likelihood of many of our members' interests being compromised by unilateral downsizing of the public service," Cosatu said.

Thabang Makwetla, chairman of the ANC caucus in Parliament, said Cosatu's move was regrettable and that a political solution to the problem would be sought.

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Real power is economic

Sacob expects no major tax shocks

(49) Sowetan 10/3/98

'South Africans can expect a Budget much similar to that of last year'

By Rafiq Rohan

THE Government must do its best not to introduce new taxes but rather look at ways of being more efficient tax collectors.

This is the message the South African Chamber of Business (Sacob) wants Minister of Finance Trevor Manuel to bear in mind when he introduces his Budget tomorrow.

In a pre-Budget briefing at its Cape Town offices yesterday, Sacob said it expected no major tax shocks tomorrow and told South Africans to expect a Budget similar to that of last year.

Government, hinted Sacob director of Economic Policy Dr Ben van Rensburg, would be treading warily with this Budget because it would be keeping in mind that the country was in a pre-election year and it should therefore, not attempt anything too drastic for fear of upsetting voters.

However, Van Rensburg warned, retrenchments from within the civil service were inevitable.

"It is quite clear that the minister will have to find a balance between creating a better growth framework and more social delivery.

"Standing in his way of achieving this is a bloated civil service that will cut deep into his financial resources. Cutting that part of the state's total expenditure is not his responsibility but nevertheless impacts heavily on his ability to achieve better growth and better social equity," he said.

According to Van Rensburg, there are a number of factors that will impact on growth prospects for 1998-99 financial year.

These include:

Ben van Rensburg

- The degree to which exporters manage to retain export markets;
- The degree to which the Growth, Employment and Redistribution (Gear) implementation process is continued;
- The degree to which social stability is maintained in the build-up to next year's elections;
- Further reductions in interest rates;
- Continued foreign capital inflows which will depend on policy certainty and stability in the currency market

Big business, Van Rensburg said, was hopeful that the Budget would produce stability and create an enabling environment in which to do business.

For this to happen, the tax system to the business community should be "as friendly as possible."

He also warned that successful as the programme has been so far, the Government would be making a mistake if it started softening its approach to implement Gear because of the election year.

"Given the positive acceptance by investors, both here and abroad, it would be a great pity if a change of approach to fiscal probity partly destroys that hard-earned support," he said.

Meanwhile, the Freedom Front has urged Manuel to stick to his deficit targets, saying failure to do so would seriously undermine confidence in Government's efforts to improve the economy.

It also did not expect any fireworks in tomorrow's Budget as the options opened to him were limited, party finance spokesman Dr Willie Botha said in a statement yesterday.

He said a rise in VAT was not an option at this stage, but the lower international oil price could allow Government some leeway to increase duties derived from the sale of petrol.

Botha said it would be interesting to see how Manuel budgeted for the proposed downscaling of the civil service.

BAD NEWS FOR MOTORISTS, SMOKERS AND DRINKERS?

Budget: The taxing questions

(49) CT 11/3/98

ECONOMISTS don't expect tax shocks on wealth, health, land and water use or an increase on VAT in today's Budget, but tax-collection is likely to be improved, writes **CHRISTO VOLSCHENK** of *Business Report*

TAX experts and economists expected the Budget to be tabled in Parliament by Finance Minister Trevor Manuel at 2.30 this afternoon to be a "bad news Budget" for motorists, smokers and drinkers.

But most taxpayers should escape the Budget without a heavier tax burden, they said.

Tax shocks in the form of a wealth tax, health levy, land tax and water user charge were all ruled out — if not for future Budgets.

"Rather than introducing new taxes, Manuel would concentrate on closing tax loopholes, improving tax-collection and increasing sin taxes and the fuel levy," Old Mutual chief economist Mr Dave Mohr said.

Taxes on cigarettes and liquor should rise and the fuel levy be increased for a new dedicated road fund, he said.

Manuel was set to give only limited relief to lower-income earners of bracket creep and almost no relief to high-income earners.

Mr Ben van Rensburg, chief economist of the South African Chamber of Business (Sacob), said: "If there was to be a tax shock, it was likely to be an increase in the rate of value added tax (VAT) from 14% to 15%."

With a general election looming, the chance of the VAT rate rising was extremely small, he said.

Should Manuel be so brave as to increase the VAT rate, he would also announce a poverty-relief programme to soften the pain of the higher VAT rate on the very poor.

Instead of hitting existing taxpayers harder, Manuel would zoom in on tax-evaders.

"This year businesses should expect a more aggressive Receiver of Revenue to examine tax returns with a magnifying glass and ask some tricky questions," Van Rensburg said.

There should be some encouragement for the small business sector.

Several tax loopholes would be closed, including the way trust income was taxed in the hands of beneficiaries.

Manuel could hit on employees who receive fringe benefits by increasing tax on company cars and limiting the tax-deductibility of medical aid contributions by employers to 50%.

Employees with housing benefits would be taxed on those fringe benefits for the first time. Tax experts expected employees in the mining and agriculture sectors to be excluded from this new tax.

Almost all provinces were expected to express disappointment with the allocations they received from the central government.

With a few exceptions the allocations this year would be a few percentage points higher than last year. A few provinces might even receive unchanged allocations.

On the expenditure side most departments would see only small increases in their allocations from last year. Only a few would be favoured with increases higher than inflation.

The exceptions could be education, police and health.

Our Parliamentary Bureau reports that Manuel will have to balance the needs of the poor and unemployed against the demands from business for financial incentives to attract investment and fuel economic growth.

It is expected to be a "people's budget" that will improve the position of the working and lower middle-class, the ruling party's biggest constituency, in the run-up to the national elections next year.

The Congress of South African Trade Unions, which has withdrawn from the parliamentary Budget hearings, said Manuel's Budget would be judged by the extent to which it could be used as an instrument of transformation.

Cosatu said it expected the Budget to promote redistribution and reprioritise job-creation.

Cosatu expected the Budget to significantly reverse last year's downward trend in social spending such as education, health, social security and housing.

Cosatu called on the government to replace GEAR (Growth, Employment and Redistribution) with a macro-economic model to redress the social deficit in a sustainable way.

The Budget could be used effectively as a "tool of development", Cosatu said.

National Party leader Mr Marthinus van Schalkwyk said a key task for Manuel would be to recommit the government to Gear in "an unequivocal manner".

The Democratic Party's Mr Ken Andrew has called on Manuel to increase funding to the Heath Special Investigative Unit and the Public Protector's office to enable them to act quickly and effectively against corruption in the public service.

The party suggested that the 1997/98 vote of R5, 943 million to the Public Protector be tripled and the Special Investigative Unit's R9, 646m should be increased to R40m.

The government is expected to put more resources into the security departments, including safety and security (policing) and correctional services (prisons), but the defence department is not expected to receive a great boost in today's Budget.

BUDGET BLUES: Ministers and political watchdogs won't be the only ones keeping tabs on Finance Minister Trevor Manuel's Budget speech today. Dawn Davids, a single ... from Lotus River, tells Manuel yesterday that she hopes he will lower the tax for single parents and increase the budget for education so that children can learn properly.

PICTURE: BENNY...

Budget 1998: How will it affect you?

WHETHER you live in Bishopscourt or Bishop Lavis, Finance Minister Trevor Manuel's Budget speech to Parliament today will affect you.

For the first time, the national Budget will map out a three-year plan for how taxpayers' money will be used to run the country. If you have children at school or university, how will their education be funded over the next three years?

If you own a business, how will your taxes be affected? What are the implications for your profitability? If you receive a car allowance, will you end up paying more tax? Are your tax-free investments going to remain untouched? Is there going to be more money for health, fighting crime, prosecutors, magistrates, judges, prisons?

The *Cape Times* with its team of specialist writers from the Independent Newspapers' Parliamentary Bureau, *Business Report* and *Personal Finance*, will answer all of these questions and more in our bumper Budget issue tomorrow.

With pictures, graphs, charts and tables, we will reduce all the information in the 1998 Budget to news you can use — quickly and easily. Only in your *Cape Times*, tomorrow.

What the Women's Budget does

CT 11/3/98 (49)

KATHARINE BUTT interviews Debbie Budlender, who with Pregs Govender, set the Women's Budget in motion

Gill Marcus, Deputy Minister of Finance and Trevor Manuel, the Minister
Picture: BENNY GOOL

THE South African Women's Budget has been adopted as a pilot initiative by the Commonwealth, and is being investigated for implementation by legislators in the United States, Uganda, Brazil, Sri Lanka and Barbados.

Yet most South Africans don't know what it is and how it works.

Budget Day tomorrow sees the Women's Budget come into play for the third year.

KB: What is the Women's Budget and how does it fit into the national budget strategy?

Debbie Budlender: The Women's Budget is not separate to the national budget — it recognises that the Budget is the most important policy instrument of the government in power. It's all very well drawing up some of the best policy in the world, but unless you have money attached to it, the programmes flowing from policy are, of course, useless. The Women's Budget, initiated three years ago to begin to sort out areas of race and gender inequity in spending, is represented in most ambits of the national budget and assesses the impact of the Budget on both women and men.

KB: You and Pregs Govender are essentially the authors of the Women's Budget and you've edited some very interesting contributions on, among others, Home Affairs, Foreign Affairs, Safety and Security, Justice and Correctional Services, Health, Energy, Welfare and Land Affairs. How effective has the process been?

DB: When we started we had no idea of what we'd get out of it, nor any idea of the world-wide interest that's been generated or how it would grow so effectively. The model we began with was based on an initiative within the Australian government which has been in place for 15 years. The Australian programme, much better resourced than ours, is purely government based, and is expressed at both federal and State levels. Since their new, more reactionary, government was voted in two years ago, some of the states haven't contributed and it's become watered down — to some extent a public relations/bean counting exercise. Where it has been carried through, it's still operating impressively. There, bureaucrats in different departments are responsible for their own policy and definition, and report on all different sectors of the budget. It has improved assessment of budget issues enormously. Our model is not government-initiated, but forms a joint programme between NGO's who do the research, and parliamentarians who use it. The joint approach works well, and creates a healthy dynamic.

KB: Apart from resources, are there any constraints on the preparation of the Women's Budget?

DB: It's important to take spending forward from an aspirational document to demonstrate fiscal realities. Where you want more spending in a certain area, it's essential to assess where less spending is needed. It has to be a highly disciplined process to be effective, to be taken seriously and implemented. There's a bit of a research struggle involved — moving beyond "numbers" of men and women, what sort of departmental representation, the impact on millions of men and women outside formal representation.

> It is often easier to accept historical constraints and work within their limitations than to challenge them. We intend to challenge them ... through the tool of a progressive Budget
>
> *— Pregs Govender, ANC MP and member of the Joint Standing Committee on Finance*

KB: Practical gains so far?

DB: The most direct and controversial gain is the child support grant, which reflects a shift in government priorities. Ideally there should be more money for this grant than the maintenance grant. In this case, the need out there is greater than the shift. The grant now reaches more than three million children, as opposed to 300 000. It's an important beginning. And last year the amount for basic adult education was doubled — from a miniscule base!

KB: How do the gains tie in with what we're able to expect from the Constitution?

DB: It's about recognising that some groups of people are starting off at a disadvantage in terms of government spending, which is of course the instrument of government policy.

Our Constitution is very strong in being based on substantive or effective equality (that dreaded word "outcomes") rather than formal or theoretical equality. And the Women's Budget acknowledges that women and men need different things to get the same outcome, especially in the more impoverished regions. So some of the more obvious areas we'd look at include child care policies, energy, land and water (improving the provision to rural women of electricity and water saves enormous amounts of time and energy that need to be used in other ways) and issues of unbroken service in the formal employment sector. It's important that maternity leave is not regarded as broken service.

KB: What pleases you most about the process so far?

DB: The way government has taken it on. It's a significant acknowledgement of the legitimacy of the concerns raised, and that areas of huge disadvantage need to be corrected. But having said this, in some ways this acknowledgement has not been translated in action. For instance the Gender Equality Commissioner has been given a budget that doesn't even cover basic salaries and the commissioner is paid less than other commissioners.

Overall, I'm pleased about how far we've been able to get with something perceived as unconventional, even if the issues are *very* conventional. The extent of political flux has allowed the room, analytically, for us to develop the process.

A big part of our success is of course Pregs Govender, who is very skilled at using the existing system in the most constructive way. When she feels strongly about something, she gives her all. Being on the Finance Committee she is able to make issues visible.

I'm in the unusual position of having one foot in and one foot out of government. I work for an NGO — the Community Agency for Social Enquiry — but have been seconded to the Central Statistical Service to work part-time on gender issues, and have been assisting the finance department with this. Julia de Bruyn, who sits on the Financial and Fiscal Commission, has made very valuable contributions as have so many others. And of course we've had excellent support and input from Maria Ramos (director-general, Finance), Phumzile Mlambo-Ngcuka (deputy minister, Trade and Industry) and Gill Marcus (deputy minister of Finance).

KB: What sort of interaction happens with the Minister of Finance?

DB: Trevor Manuel has demonstrated a growing awareness of the importance of the inputs and how they aim to alleviate disadvantage in all its complexity of race, gender and class issues — and how these three are intertwined. He has demonstrated a clear commitment to the process, and of course it assists his job if these areas are appropriately researched, defined and articulated for the Budget function.

KB: You've just come back from a SADCC meeting in Mozambique.

DB: Yes. It concerned the drawing up of national accounts, which up until this point haven't included an assessment of unpaid labour or work that doesn't translate directly into cash. A lack of reference in this area is often responsible for poor policy decisions which then demonstrate the cumulative effects of *not* recognising unpaid labour.

Governments are finally waking up to the necessity of monitoring labour as it really happens, as opposed to our theories of how it should be identified. There was tremendous interest at the meeting, and it was wonderful to see administrators, who function largely as fiscal technicians in so many ways, clearing the way to carry this form of accounting forward.

KB: Uganda has followed South Africa's lead in this budgeting process. How far have they got?

DB: I workshopped ideas with the Ugandans following a visit there by Pregs 1995. Winnie Byamjima, who is the leader of the Women's Caucus in Parliament there, is pretty dynamic — she's also an aeronautical engineer. She has visited South Africa and spearheaded an evaluation and planning system for the next three years. Their approach is similar — they include the research of the NGOs.

KB: The way forward?

DB: The main thing now is to keep the momentum going. It appears that much of what we've recommended will appear in the budget review for this year. Different departments need to develop effective mechanisms to evaluate what they're achieving. Our next focus is likely to be on local government, starting with Cape Town. Discrimination is too unsubtle a term for what needs to addressed here in terms of spending. The system reflects an inherent bias which will be very difficult, but necessary, to change. A start will be the acknowledgement and definition of that.

- The Women's Budget Initiative is a joint research project by the Joint Standing Committee on Finance, The Community Agency for Social Enquiry, the Law, Race and Gender Project (UCT) and Idasa

ANC, Cosatu tensions rise over fiscal policy

BD 11/3/98 (49)

Reneé Grawitzky

AS TENSIONS mounted on the eve of the budget, the Congress of SA Trade Unions (Cosatu) warned that a rigid commitment to budget deficit targets imposed limits on the potential for fiscal policy to be used as a tool for development through redistribution.

Sapa reports the African National Congress (ANC) dismissed Cosatu's criticism of the budget process and reaffirmed the party's support for fiscal discipline. It was reacting to Cosatu saying on Monday that it would not participate in the budget process, in light of government's unwillingness to negotiate its macroeconomic policy parameters.

"It is the ANC's view that parliamentary structures offer enormous opportunities to members of the public to make a meaningful impact on policy direction of the government." Today's budget and its new medium-term expenditure framework would improve the public's contribution to the budgetary process, the ANC said.

"The ANC views the budget as an instrument of our ongoing strategic transformation of our society and economy. In this regard, the ANC expresses its support to fiscal discipline and sustainability."

Cosatu said the growth, employment and redistribution strategy (Gear) targets should be replaced with a "macroeconomic model" aimed at redressing the social deficit.

It said the 1998/99 budget would be evaluated to see whether it was designed to fulfil 10 components of a "people's budget" which included promoting job creation; redistribution; a reprioritisation towards socioeconomic delivery; poverty relief and the transformation of the public service.

The Federation of Unions of SA (Fedusa) warned of a derailment in the transformation of the public sector if the budget failed to incorporate sufficient funding for the implementation of the final year of the public service wage deal.

Fedusa general secretary Chez Milani said if government reneged on the deal it could lead to legal and industrial action by public sector unions. Fedusa also said the economy was shedding more jobs than it was creating. Cosatu said the budget should prioritise job creation "thereby setting the scene for a successful job summit".

More consultation wanted: Page 4

ANALYSIS

Passing the buck and blaming the provinces

90 11/3/98 (49)

THE assumption behind the worldwide trend of decentralising certain key governmental functions is that subnational (provincial and local) governments can perform certain functions more effectively than central government. However, where these governments do not succeed in doing "more with less" given "non-negotiable" fiscal targets, the net effect often is of knocking on budget deficits from central government.

The practice of "passing on" a deficit has some legitimacy if strong subnational governments are already in place and efficiency gains can be made. But we must look at the social consequences if this is not the case. The recent pension crisis in the Eastern Cape is a case in point.

In January the Eastern Cape province failed to pay the social security grants of 632 000 of its pensioners, leaving many without money to buy food, plus a large number of dependants. It was also feared that welfare organisations would have to halt their operations since they depended on the provincial government for up to 60% of their wages.

By the end of January the central government had provided the province with a R801m stay of execution to facilitate social security payments until the beginning of the new financial year in April.

It was disclosed in the same month that the provinces held R2,3bn in overdrafts with First National Bank, the main clients being the Eastern Cape and KwaZulu-Natal. The national Welfare Ministry also reported that KwaZulu-Natal (R411m) and Northern Province (R436m) faced large welfare deficits. What happened?

The popular treatment of provincial overspending is to blame the provinces. The high profile given to provincial mismanagement and lack of capacity makes this a very attractive explanation.

The minister of finance has blamed KwaZulu-Natal and the Eastern Cape's problems on cash flow which would be largely resolved before the end of the financial year.

An investigation of welfare budgeting and actual expenditure in the Eastern Cape clearly shows that the pensions crisis was anything but a "cash flow" crisis and furthermore that it is erroneous to lay the blame for overspending at the door of the Eastern Cape government. Why did it happen?

The 1997/98 fiscal year was the first in which provinces received a lump sum to divide according to their own priorities. In the Eastern Cape 24% of the budget was set aside for welfare services — a shared competence with national government — but this amount has been swallowed up by social security grants, determined nationally. Social security payments made up 88% of the Eastern Cape's 1997/98 welfare budget.

The problems experienced by the Eastern Cape welfare department did not come into being in this financial year (1997/98). For the previous year, when the welfare budget was the domain of the national welfare department, the provincial department submitted an estimate of R3,2bn based on the number of beneficiaries (630 000) at that stage.

However, the department only received an allocation of R2,2bn (less than 1995/96). The rise in the number of beneficiaries due to backlogs of the past was also not sufficiently taken into account and an additional amount of only R142m on the original allocation of R2,06bn was allocated for this. The severe underfunding for 1996/97 was thus effected by the national welfare department.

By the end of that financial year the scene was set for a crisis. The increase of 1,7% in provincial spending on welfare in the 1997/98 provincial budget — an adjustment effected by the province — was not sufficient to offset the existing gap between resource allocation and expenditure.

The problems in the current financial year leading up to the November crisis become clearer when we examine transfers to the welfare department from the provincial treasury. Only 58,3% (R1,66bn) of the departmental budget should have been spent by October, but in fact 69,32% (R1,97bn) was spent. The overspending on social security payments alone is almost R396m (14% of the total departmental budget).

Overspending of this scale could be explained in two ways. Either the province did not allocate sufficient funds to the welfare department, or central government's allocation to the province was too low. Variations in the welfare budgets of all the provinces over the past three financial years show that the first hypothesis is probably not valid.

There has not been a decline in the welfare department's share of the total Eastern Cape budget. It actually went up. Its allocation for the current financial year as a proportion of its total budget is the same as in 1995/96, after a steep decline in 1996/97.

The only remaining explanation is that the allocation to the province did not allow it to meet growing social security commitments (in August there was already a backlog of 25 000 new applicants). In the Eastern Cape underfunding also meant the welfare department spent very little on developmental programmes.

The committee report does mention a lack of capacity in financial control, reconciliation procedure, administration and management, but in the light of the massive underfunding of this department, this must be seen as a secondary cause of the pensions crisis.

To argue that the province should have planned better for the increased take-up on the national welfare entitlements and increased the welfare budget by even more, also does not hold water.

Furthermore, if the national department (Business Day, March 3 1998) still is clearing up the welfare lists, how can the national sphere expect any province to know how many social security payments it will be making?

Surely if national co-ordination rests with the national department, it takes responsibility to see that nationally there is enough money to cover what the department commits the fiscus to?

In SA the reduction of government spending is a central pillar of macroeconomic policy. Given government's hard stance on the growth, employment and redistribution (Gear) strategy targets, one could conclude that the creation of viable subnational governments as a long-term strategy has become secondary. The inevitable crises have led to the "do we need the provinces" debate. But it is exactly because of the way in which the deficit issue has been tackled that the provinces have run into difficulties.

The formulation of Gear should have been accompanied by an extensive programme of provincial capacity-building and public sector reform. On the other hand one can argue that the decentralisation should have taken into account the current macroeconomic environment and apartheid's institutional legacies.

Instead, Gear has become a mere deficit reduction strategy and provincial capacity-building, a prerequisite for doing more with less, is being tackled in an ad hoc manner. Hence the apparent contradiction between Gear and the project of building viable provinces.

□ *The story was compiled by researchers at Idasa's Budget Information Service.*

HIGHLIGHTS
TURNOVER UP 66%
ATTRIBUTABLE PROFITS UP 87%
ADCORP
HOLDINGS LIMITED
("Adcorp")
AUDITED RESULTS
for the year ended 31 December 1997
Consolidated income statement
Consolidated abridged balance sheet

'3-year plan 'a boost to Parliament's role'

BD 11/3/98 (49)

BUDGETING

The role of Parliament was critical in drawing up medium-term budget priorities for the country, Finance Minister Trevor Manuel said.

This year's Budget was different from previous budgets because it was the first to be presented in the context of the Medium Term Expenditure Framework (MTEF), which covers spending plans for the next three years.

The goals of the MTEF, Mr Manuel said, were to strengthen political decision-making in the budget process, to strengthen co-operation between different levels of government, to make sure every rand of taxpayers' money was used efficiently and to help public services to plan over the medium term.

"The role of Parliament is critical to the MTEF process," he said.

"We will be voting on the 1998-99 national Budget with the knowledge of the projections for the two subsequent years. Parliament therefore has a long lead time to discuss and debate the priorities and forward spending trends."

Government departments could only spend the amounts approved by Parliament, Mr Manuel said.

"The MTEF radically alters the way in which Parliament will participate in budget-making in future."

Getting rid of corruption as well as spending money more efficiently would have to be a priority of the Government, he said.

"We have to root out corruption to ensure that every rand is spent on delivering better services to more people," Mr Manuel said.

"Corruption eats away at the fabric of society. For that reason we have to do everything in our power to uproot it, in government and in business."

Mr Manuel said there were no short cuts to economic growth and development.

Choices had to be made which were sometimes difficult.

"Government's resources are finite. We can only plan to spend what we collect in taxes and what we additionally borrow at great cost from the nation's savings.

"Therefore we have to manage our resources prudently, focusing on the need to ensure value for money."

Reconstruction and development had only started four years ago, Mr Manuel said.

"To address this immense task successfully, we should not underestimate the enormity of inherited problems and we must recognise that the project will not be concluded in a short period.

"As elected representatives of the people we must all be restless about the pace and quality of change. We can and must do more."

R3,7-bn in taxpayers' pockets

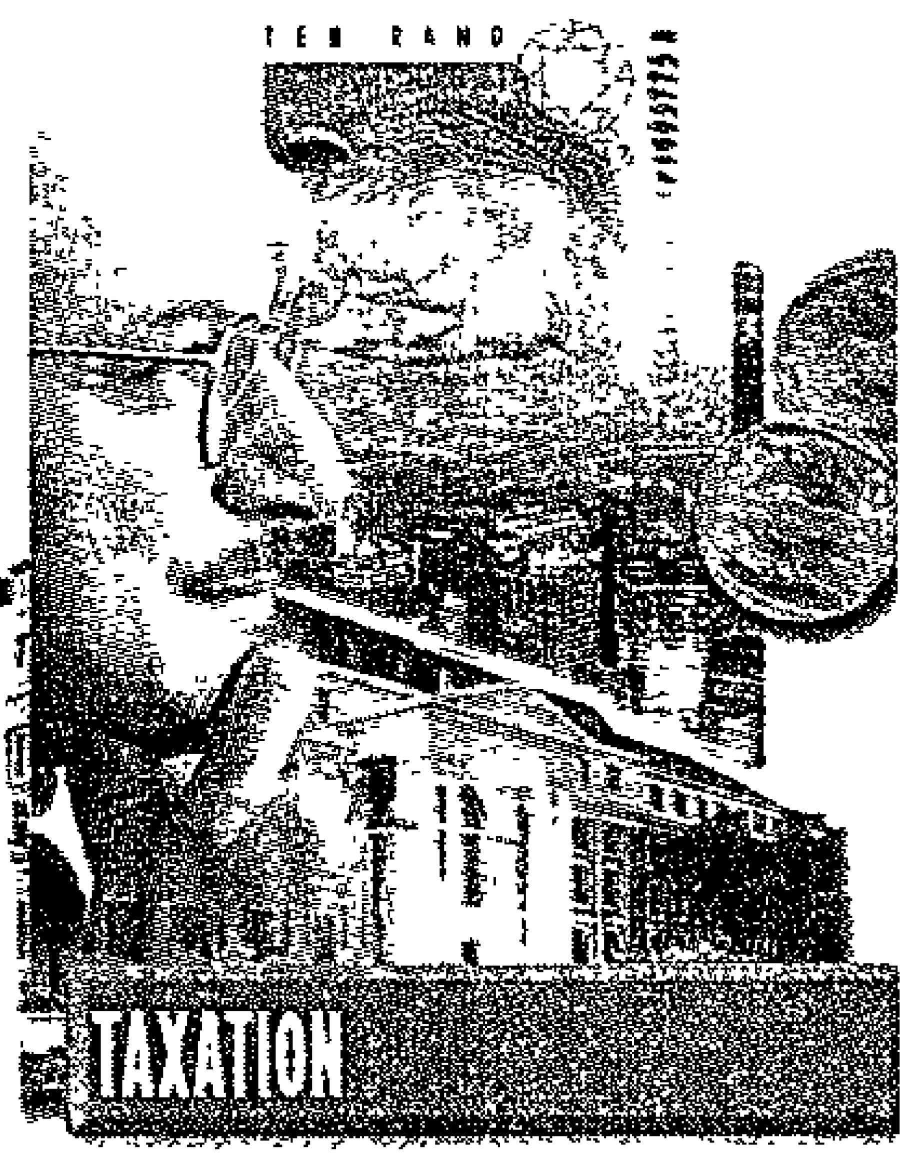
Relief measure targets lower income earners

Finance Minister Trevor Manuel intends to put R3,7-billion back into taxpayers' pockets this year, nearly half of it going to people with incomes of less than R60 000 a year.

The plan attacks "bracket creep", which happens when inflation-linked salary and wage increases push taxpayers into a higher tax bracket, so that their real after-tax income (taking inflation into account) is reduced.

Mr Manuel said the primary tax rebate would be raised from R3 215 to R3 515 and the rebate for people 65 years and older would be increased from R2 500 to R2 660.

The marginal rate applicable to taxpayers with taxable income from R46 000 to R60 000 a year would be cut from 41% to 39%; the number of income tax brackets would be squeezed from seven to six; and the top marginal income tax rate of 45% would kick in at R120 000 a year instead of R100 000.



The effect of the changes will be to cut tax paid by taxpayers under 65, earning R30 000 a year, by R300 a year. A taxpayer earning R100 000 a year will pay R1 000 less in tax and a taxpayer earning R120 000 will pay R1 360 less.

This is the second year in a row in which Mr Manuel has announced relief for taxpayers in the lower and middle income brackets.

Last year tax restructuring put R2,8-billion back into taxpayers' pockets.

The money lost to the taxman would be made up by better tax collection and through the broadening of the tax base, Mr Manuel said.

In line with the recommendations of the Katz Commission on tax, tax deductions by employers of contributions to medical aid schemes would be limited, yielding R700-million in extra revenue this year.

Stricter taxation of trusts would bring in R150-million and an increase in the rate of tax on retirement funds from 17% to 25% would bring the taxman R1,2-billion more this year.

Mr Manuel has kept his promise that the overall tax burden on the country would not be increased. Total revenue for the 1998-99 year is R177,6-billion, which is 26,5% of the country's Gross Domestic Product, the same as last year.

Overall, income tax is expected to yield R73,5-billion, assuming an 8% average increase in wages and stable employment. Revenue from tax on company profits is expected to bring in R1,4-billion (up 3,7% on last year), and from tax on retirement funds R3,4-billion (up 9,7%). But revenue from gold mines is expected to drop from R450-million to R180-million.

The Government also intends to cut excise duties on some electronic goods, cameras, binoculars, motorcycles and other items while at the same time bringing a range of new goods into the excise duty net.

Duties on perfumes, photographic goods, tape recorders, video recorders, records, tapes, spectacles, watches and a host of other goods will be cut from 15% to 10%; duties on computers, printers, modems and other office machines will be cut from 6% to 5%.

But at the same time, duties of 10% will now be imposed on cellphones, air-conditioners, video cameras, yachts, caravans, dishwashers and a few other items.

The new scheme of duties, which takes effect from today, will neither cost the Government anything in lost revenue nor add money to the tax collector's coffers.

Bad news for motorists is that the fuel levy has been hiked by 10c a litre on both diesel and petrol.

The hike will bring in an additional R1,66-billion to the State, but will add less than 0,5% a year to the inflation rate, the Government has estimated. The levy will contribute more than 8% of total revenue.

TAX LAWS

Cheaters face public exposure

Think twice before cheating on your tax payments or you could well find your name up in lights as one of the dishonest.

Proposed changes to the tax laws will mean that the name of anyone convicted of a tax offence can be published.

"Tax evasion imposes higher tax rates on honest taxpayers," Mr Manuel told Parliament. "It is only right that those who pay their dues should know whose tax default they are paying for.

"Government aims to maintain and strengthen a tax system that is fair, equitable and efficient. Improved tax administration makes lower rates of tax on individuals possible," he said.

Manuel gives his cure

Will the Finance Minister cut education spending even more, or maybe raise VAT? The country waits with bated breath as **Rafiq Rohan** takes an early peep...

Sowetan 11/3/98

WITH THE Government suffering from intense economic and social headaches, it is in the hands of Finance Minister Trevor Manuel today to provide the pill that could possibly ease the pain.

He will deliver details to the nation of his annual Budget There are dozens of questions that need to be answered, but one that stands out is: What relief will be forthcoming for the severely squeezed taxpayer?

In addition, other areas of most concern are those involving education and the job market. Only a few weeks ago, when he opened Parliament, President Nelson Mandela promised: "Jobs, jobs, jobs "

What surprises can Manuel pull out of his hat to reassure the legions of unemployed that they will be getting their "jobs, jobs, jobs"? Stay tuned to find out.

While the Government has received accolades for its Growth, Employment and Redistribution (Gear) strategy, this will be the first Budget after a full year of Gear.

The Democratic Party (DP) has released a comprehensive proposal package for the Government's 1998-99 Budget and, while praising Manuel for adhering to Gear targets, it also warns him of pitfalls that lie ahead.

"Any undue deviation from Gear targets by the Minister of Finance in this year's Budget will seriously damage South Africa's economic prospects."

While the Government "is not an employment agency" – to quote Mandela – the DP said Government had a responsibility to create an economic climate for investment, economic growth and job creation.

"The Ministry of Finance cannot do this alone and unless we have labour market flexibility, public service downsizing and the privatisation envisaged in Gear, we will end up with neither jobs nor the poverty alleviation we so desperately need," the DP said.

More or less the same was said by the South African Chamber of Business (Sacob) in Cape Town on Monday. However, it argued that Manuel should not have his eyes too firmly set on the impact the Budget could have on next year's election.

Sacob director of economic policy Dr Ben van Rensburg said in the build-up to the elections that the African National Congress (ANC) "might want to create more space for better delivery through a higher degree of fiscal laxity".

The previous government also employed what Van Rensburg called a "stop-grow" policy before an election, but this impacted negatively on the economy in the long term.

"Such a two-pronged approach will revive a new round of spiralling inflation and a consequent negative impact on the value of the rand," he said.

Finance Minister Trevor Manuel.

So far, the DP argued, the Government has fallen short on objectives to create special opportunities for the rural poor, young work-seekers, first-time entrants to the formal sector job market and in export processing areas.

"If a country wishes to create more jobs, it must change the laws and habits that make it expensive to employ people,' the DP said

Then there is the vexing question of education. Substantive measures need to be taken to stem the growing crisis. By international standards the country already has one of the highest education budgets in relation to the gross domestic product.

Sitting with problems

Granted, the Government is still sitting with problems left by the apartheid past and resistance from certain sectors to its attempts to create education equity, but something drastic needs to be done.

What is clearly going to happen today is that Manuel will announce more cuts to private schools and redistribute these savings to more needy education areas.

With massive redeployment, retrenchments and startling figures of unemployed newly qualified teachers, there has been excessive overspending in the provinces.

Because of this there is concern in the education sector that Manuel might apply new belt-tightening measures

South Africa spends too much on teachers' salaries. Ninety-two percent of the education budget goes towards teachers' salaries while, in an ideal situation, this figure should be around 75 percent.

The DP wants to see a situation where spending in the education budget on salaries is reduced to at least 80 percent of the primary and secondary education budgets

"A reduction in salary expenditure would free money to invest in teaching equipment, textbooks, classrooms and most importantly educational technology to supply teaching to the poorest of the poor."

Another area Manuel may touch on is Government spending on itself. Earlier he said there would be a streamlining of government departments and ministries, and that at least two ministries will be chopped to create a leaner Government.

The DP thinks this is not enough and wants at least nine ministries to close because it feels there are too many politicians and civil servants. A merger of related ministries would see personnel costs vastly reduced.

An issue that will warrant some mention is that of VAT. As Sacob said on Monday, "Harry Oppenheimer or a squatter living in a shack" all pay the same VAT.

But, the DP argues, the only way that everyone, especially tax-dodgers, will be forced into paying tax is through VAT. It wants to see VAT pushed up by one percent to 15 percent.

The Government will then receive increased revenue of R3.1 billion, of which R500 million, according to the DP, could be spent "on additional targeted poverty relief".

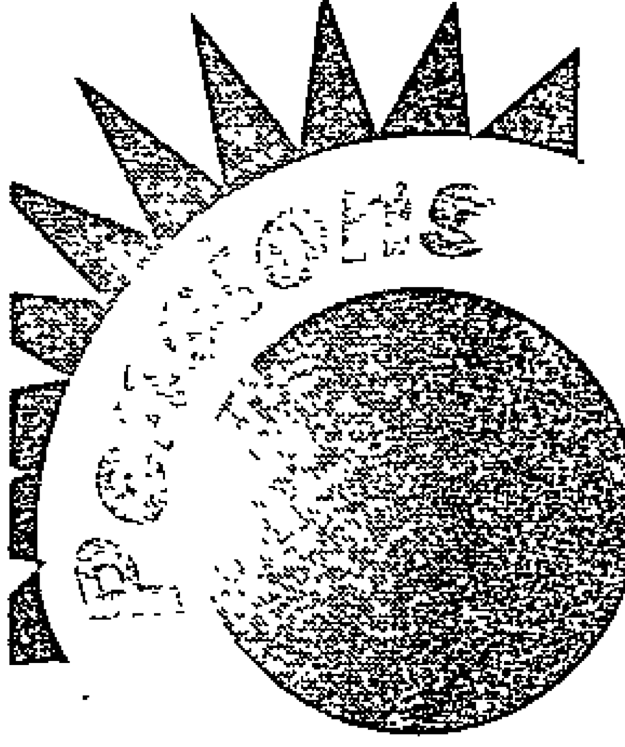
There are of course many other areas that Manuel's Budget will have to address, including crime-fighting, reducing the individual tax burden, corporate taxes and defence.

But, above all, we wait with baited breath for Mandela's promise of "jobs, jobs, jobs".

BUDGET '98–'99

(49) Sowetan 12/3/98

Budget: all things to everyone



THE Government's primary investment in poverty alleviation, according to Finance Minister Trevor Manuel, rests in welfare and social security spending.

Since the 1995/96 Budget, spending in this area has risen substantially from R14 billion to this year's R19 billion. In two years, Manuel said, this figure would rise to over R21 billion.

However, with that news comes the dramatic announcement that, in an effort to uproot corruption and eliminate fraud, some three million beneficiaries of social grants and pensions will have to re-register.

"This process will enable us to update and correct the data in the system and so eliminate duplicate claims, ghost beneficiaries, syndicates and cross-provincial payments," Manuel said.

The current increase in the Welfare budget represents a 13 percent increase from last year's figure of R17,5 billion.

Budget: lukewarm reception

(49) Sowetan 12/3/98

Cosatu and opposition parties say Manuel did little for unemployment

By Ido Lekota

THE Congress of SA Trade Unions and opposition political parties gave Finance Minister Trevor Manuel's 1998-99 Budget a lukewarm reception, saying it had failed to address the question of rampant unemployment in the country.

Only the African National Congress came out in full support of the Budget. Head of the ANC's economic transformation committee, Labour Minister Tito Mboweni, said it was "a good Budget and a step in the right direction in meeting our objectives of reconstruction and development".

Speaking as the convener of the ANC's social transformation committee, Health Minister Nkosazana Zuma said the Budget had addressed the problem of the poor. "The envisaged increase in pension is welcome because in the rural areas more than half of the families rely solely on those social grants."

Manuel announced yesterday that the Budget provided for Government expenditure amounting to R201 billion – 6,4 percent more than the 1997-98 Budget – of which 60 percent would go to social services.

In response Cosatu's deputy general-secretary Mr Zwelinzima Vavi said Manuel's Budget "gave no hope to the unemployed". Vavi was also critical of the Government's plan to reduce jobs in the public sector and said the labour federation would resist retrenchments.

The National Party said the present rate of unemployment – estimated at 25 percent – put South Africa among the countries with the highest unemployment rate. "In spite of this the Budget contains no imaginative steps to enhance economic growth and job creation."

The NP said the Government should deregulate the labour market; reduce the tax burden; and abolish certain ministries.

The Inkatha Freedom Party said the Government had failed to adhere to the fundamental economic growth requirements of its own Growth, Employment and Redistribution macro-economic policy – "which are consistent with those applied in the world's successful and high employment economies".

The Pan Africanist Congress said the Budget, while reducing the deficit, did nothing to encourage job creation.

The Freedom Front said the fall of domestic saving from 16,9 percent in 1996 to 15,2 percent in 1997 was unsettling. The FF was also critical of the increase in the fuel levy and in excise duties on tobacco and liquor, saying they adversely affected the farming community.

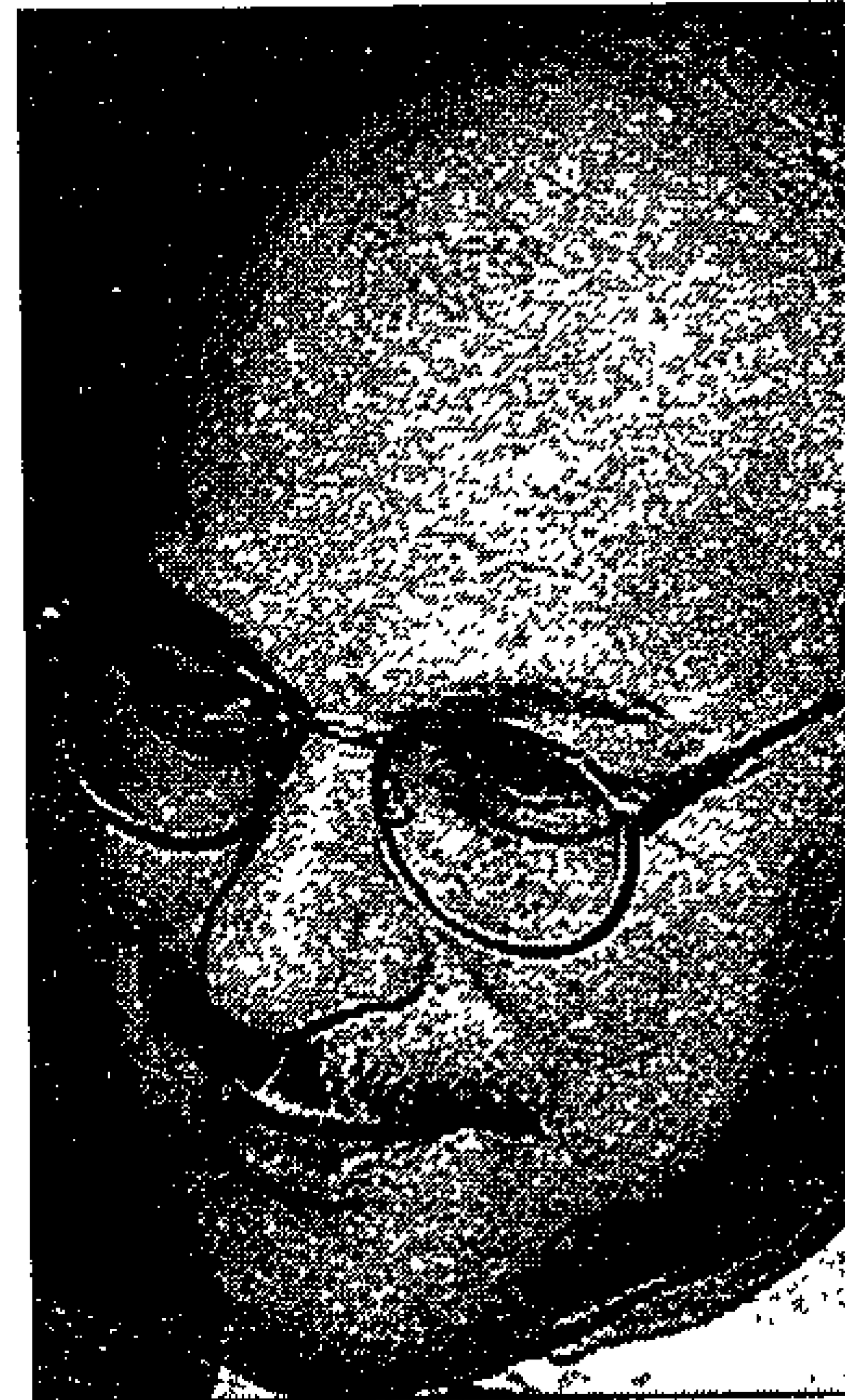
New measures to aid investors

GOVERNMENT's programme of dismantling exchange controls took a step forward yesterday when several further liberalisation measures were announced at the unveiling of the 1998-9 Budget.

Finance Minister Trevor Manuel said the amount individuals would be allowed to invest offshore would be raised from R200 000 to R400 000, but they will now be required to get a clearance certificate from the South African Revenue Services stating that their tax affairs are in order.

Previously only a declaration to this effect was required.

Companies will now be permitted to invest R250 million in Southern African Development Community countries and R50 million elsewhere. These limits were increased from R50 million and R30 million respectively.



Trevor Manuel

Travel allowance

The travel allowance South African residents may take abroad was raised from R80 000 to R100 000 for adults, and from R25 000 to R30 000 for children under the age of 12.

Emigrants from South Africa may currently export household goods and personal effects worth R100 000 and motor vehicles worth up to the same amount. These limits will now be abolished and a total combined limit of R1 million will be introduced for these assets.

The non-resident ownership level at which foreign controlled entities become subject to local borrowing limits was also raised from 50 percent to 75 percent with immediate effect.

South African companies will also now be allowed to retain foreign currency earnings from exports and services for up to 180 days from the date the goods were sold or the services were rendered.

The limit on the amount South African institutional investors may invest abroad has been raised from 10 percent to 15 percent of their total assets.

The Reserve Bank will introduce most of these measures immediately.

No surprises in Manuel's 'low-income-earner' Budget

Sowetan 12/3/98 (49)

By Abdul Milazi and Isaac Moledi

TAX experts described the 1998-99 Budget as fairly friendly to low-income earners, but they expressed concern about the proposed tax on retirement funds and the 10-cents-per-litre levy on fuel.

Finance Minister Trevor Manuel announced tax relief for individuals, with the elimination of bracket creep and an increase in the primary rebate designed to put R3,7 billion back in the pockets of working people.

Tax on people earning less than R45 000 a year will be reduced from 41 percent to 39 percent, while tax on income for people who are 65 years and older earning R25 000 and less was dropped by R300 or 12 percent.

Tax consultant Randani Neluvhalani said: "The Budget came as no surprise as everybody expected it to address low-income earners.

"We had all the injustices in the past affecting the majority of our people. More than half of our people earn less than R65 000 a year," said Neluvhalani.

Patrick McGurk said the 25 percent tax on retirement funds was counter-productive as it discouraged people from providing for their retirement and therefore made them more dependent on the state.

McGurk and Neluvhalani both criticised the levy on fuel as it would have a negative impact on consumers and the poor.

"Fuel price hikes will mean that taxi fares for commuters will also go up and that means the money the Government is trying to give back to the low-income earners will actually not be theirs. They will pay it back to Government in taxes," said Neluvhalani.

Another concern is Manuel's announcement that employers' medical aid contributions will be taxed to discourage their use as part of salary packages.

Although he praised some areas of Manuel's budget, Price Waterhouse tax partner Kevin McManus complained that the total amount of tax as viewed from the economy as a whole was too high.

"The 26,5 percent total tax is too high for a developing country," he said.

Democratic Party finance spokesman Ken Andrew said Manuel's Budget was bad news for the poor, the unemployed, the motorist and those saving for their retirement.

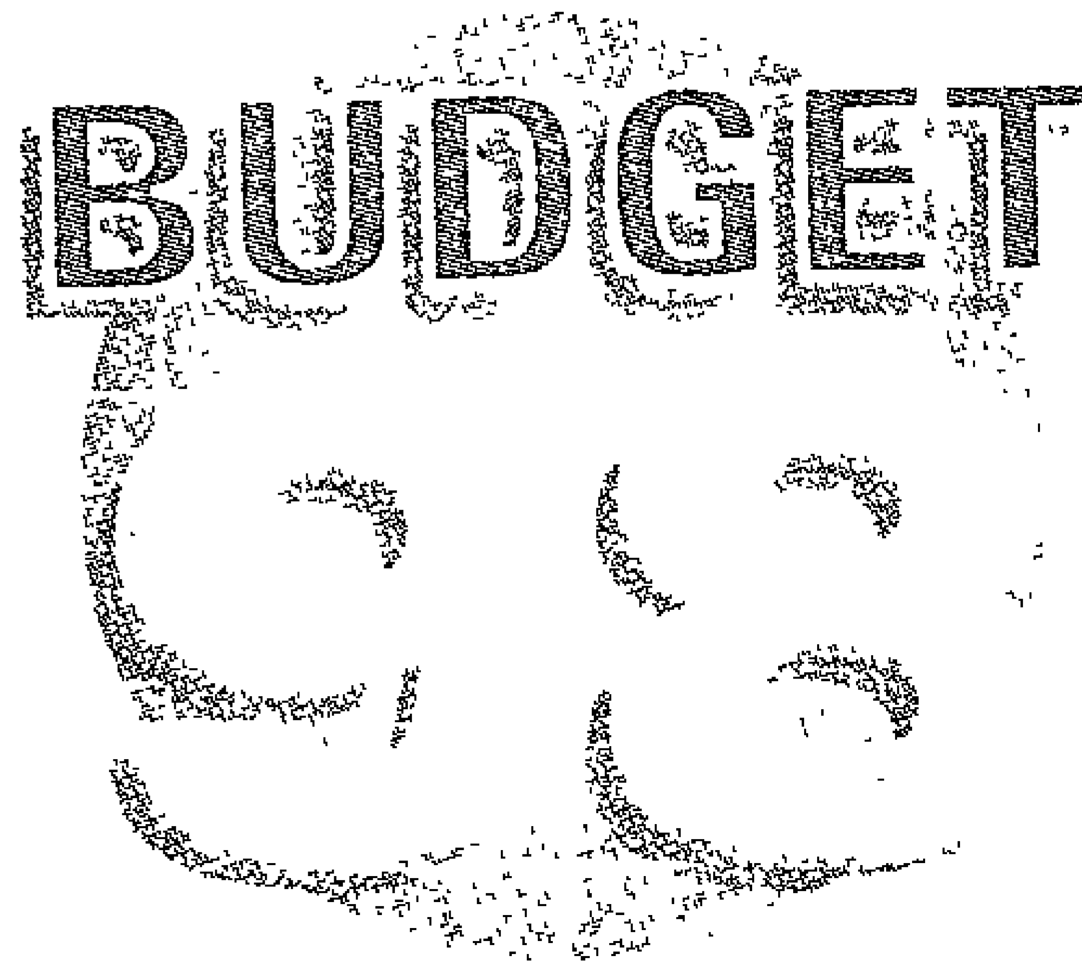
He said it condemned South Africa to low economic growth and high unemployment.

Demutualisation under spotlight ■ Fiscal drag tackled ■ Deficit target stays at 3,5%

New levy boosts revenue

BD 12/3/98 (49)

Linda Ensor



CAPE TOWN — A one-off levy on the demutualisation of large life assurers was the main surprise in yesterday's budget, which kept government on track in terms of its deficit reduction and redistribution plans.

A further relaxation of foreign exchange controls and the elimination of fiscal drag which would put R3,7bn into taxpayers' pockets, were other features of Finance Minister Trevor Manuel's plan for government finances in 1998/99.

Manuel defied sceptics by sticking to the growth, employment and redistribution deficit target of 3,5%. This would be achieved by holding the rise in government expenditure to 6,4% (to R201bn), and a 9,3% hike in revenue to R176,6bn from R162,6bn. The budget assumed inflation of 6%.

Manuel's budget speech highlighted government's achievements in improving the lot of the less well off and allocated more than 60% of total noninterest expenditure to social services.

He announced a 2,5% levy on the free reserves of Sanlam and Old Mutual when they demutualised. The revenue raised — estimates of the reserves ranged from R50bn to R120bn — would be used to capitalise a new fund, the Umsobomvu (new dawn) Fund geared towards job creation and training for youth.

Increases in alcohol and tobacco taxes netting R1bn; a R1,66bn inflow from a 10c/l increase in the fuel levy from April 1; and an 8,2% rise in income tax revenue were the means Manuel used to stay within government's self-imposed constraints.

The R3,7bn gift to taxpayers, especially those earning less than R60 000 annually, by restructuring tax rates and brackets would be offset by a range of other revenue-raising measures.

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The tax on retirement funds' net rental and retirement income was increased from 17% to 25% to generate R1,2bn, and R1bn would accrue from closing fringe benefit tax loopholes. In addition, a projected R1,9bn would come from improved tax collections.

A further fillip for the less well off was the cut in the marginal tax rate to 39% from 41% for income ranging from R46 000 to R60 000, while the level at which the maximum marginal rate of tax at 45% would kick in was increased to R120 000 from R100 000.

A lower than expected amount allocated for improvement in public servants' conditions of service — R3,4bn compared with the R4,8bn required by the three-year union wage agreement — also gave Manuel more room to manoeuvre. Finance officials indicated they believed it was possible to renegotiate the agreement because of the decline in the inflation rate.

Revenue estimates were based on a 3% growth in gross domestic product (GDP) over the fiscal year and kept revenue as a percentage of GDP at an unchanged 26,5%.

The budgetary slant towards the lower-income earner was reflected in the fact that social services claimed an estimated 49,8% (46,6%) of the total budget, including interest spending. Welfare and social grants took up 12% of noninterest government spending, health 14% and education 28%.

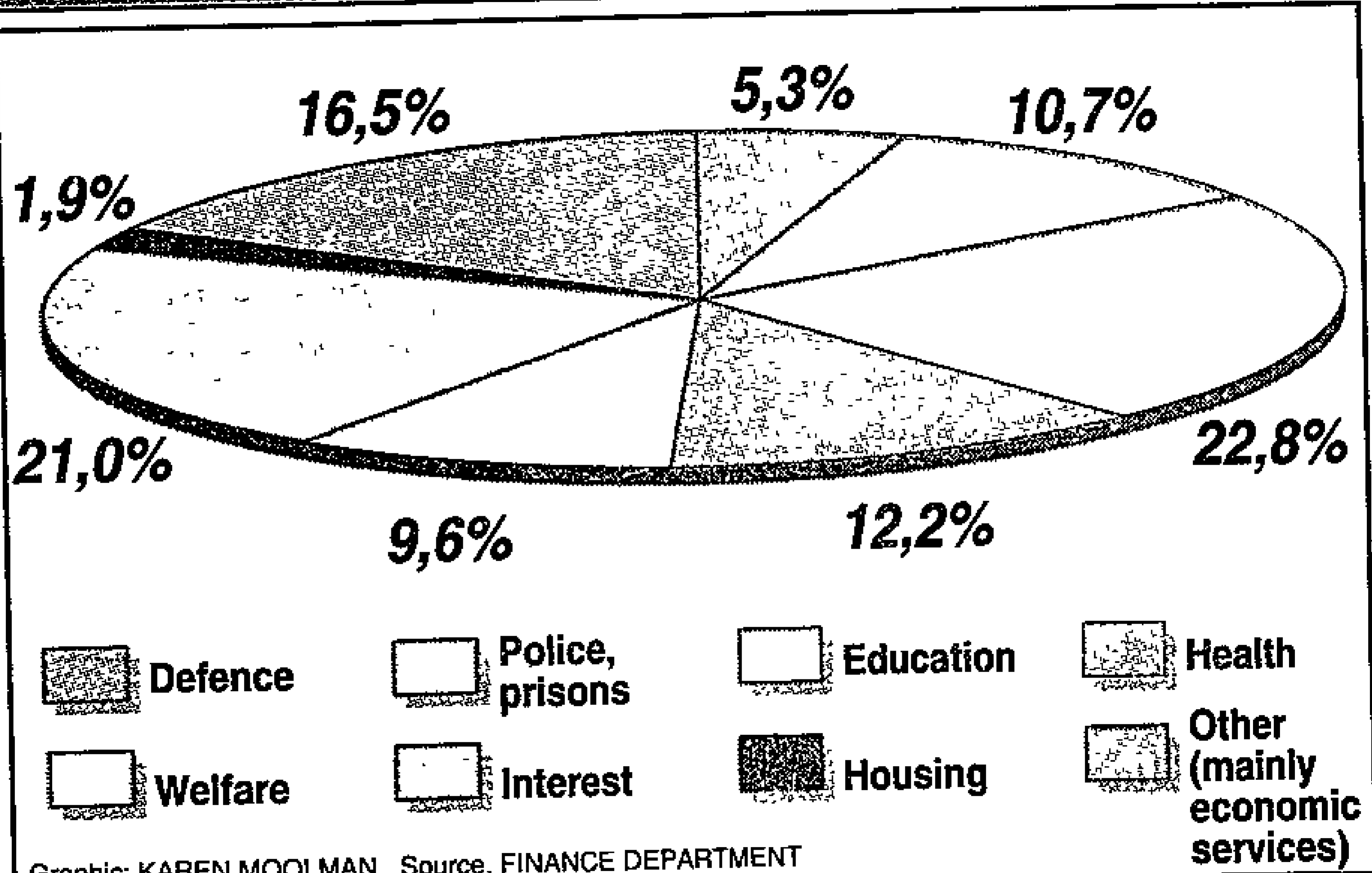
In a bid to strengthen the criminal justice system, correctional services was awarded one of the largest increases (26%), followed closely by health (24%), based on a budget-to-budget estimate by the department.

Comparing estimated expenditure with last year's actual expenditure, welfare (7,3%), education (6,6%) and the SA Police Service (7%) all received higher amounts with justice slightly higher (0,9%). The defence budget was slashed by 6,8% and housing 24%.

Provincial allocations would rise 8,2% to more than R90bn, of which R79,1bn would be the equitable share and the remainder made up of conditional grants. Local government's equitable share amounted to R1bn.

The budget, the first under SA's new constitution, was also the first presented within the context of government's medium-term expenditure framework which outlined its spending plans for the next three years.

Where your money goes



Graphic: KAREN MOOLMAN Source. FINANCE DEPARTMENT

Riot fund to reduce state debt

BD 12/3/98 (49)

Robyn Chalmers

GOVERNMENT is to convert the SA Special Risks Association (Sasria) into a public company and use part of its R9,4bn reserve to reduce state debt.

The budget review also said government had received R1,7bn from the sale of state assets in 1997/98. This included the sale of radio stations, Sun Air and a 30% stake in Telkom.

The finance department said it would submit a draft bill to Parliament to convert Sasria from a Section 21 company, initially with government as the sole shareholder. This would allow government to limit its risk exposure in terms of reinsurance cover provided to the insurance industry.

Sasria was set up in 1979 to provide insurance against loss of property due to riot and civil disturbance.

Government would use Sasria's surplus to cut state debt after consulting its actuary on the reserves needed.

The review said government's privatisation programme was moving ahead, with a steering committee set up to investigate Transnet's restructuring. It was agreed that Transnet's business divisions would be corporatised. The interministerial cabinet committee had agreed that up to 25% of SA Airways would be sold by October. The restructuring and sale of 20% of the Airports Company would be completed soon.

The review said privatisation of Denel would kick off with a public offer of its information technology arm Denel Informatics, while the trade and industry department was considering how to restructure the arms industry.

Government would retain ownership of Alexkor until the diamond mine was properly valued, after which mining companies would be offered a management contract to run the entity.

The sale of holiday resort company Aventura was under way and restructuring strategies were being considered at the SA Forestry Company. Legislation to corporatise Eskom would be reintroduced to Parliament.

Borrowing requirement rises to R39,5bn

BD 12/3/98 (49)

Linda Ensor

CAPE TOWN — Government's gross borrowing requirement in the 1998/99 fiscal year would amount to R39,5bn (last year: R36,2bn) on the basis of a projected budget deficit of R23,7bn, or 3,5% of gross domestic product.

The borrowing requirement is calculated by adding the national budget deficit and loan redemptions which this year were projected at R15,9bn — R14,7bn in government stock and bonds and R1,2bn in foreign loans.

Further assumptions in determining the borrowing requirement were a conversion of R3bn nil coupon bonds by the Reserve Bank, an average capital market yield of 13%, an average coupon rate on new government bond issues of 12,3% and average short-term interest rates of 13%.

Most of the financing of the borrowing requirement would be by way of government bonds. In his budget speech, Finance Minister Trevor Manuel said government would raise net short-term loans of R2,5bn and approach the domestic capital market for R30,97bn.

Foreign loans of R5bn would be raised and R1bn transferred from the International Monetary Fund deposit account at the Reserve Bank.

Relief for lower- and middle-income earners

BD 12/3/98 (49) (300)

Samantha Sharpe

CAPE TOWN — Individual taxpayers will pay R3,7bn less tax in the new financial year as government made good on its promise to bring tax relief to the man-in-the-street, Finance Minister Trevor Manuel said yesterday

While most of the relief, about R1,7bn, will go to those earning less than R60 000 a year, close to R600m will be shared among those falling into the highest tax bracket.

The tax reductions will be financed partly through an improvement in the efficiency of tax collection by the SA revenue services and the broadening of the tax base.

Manuel said the individual tax relief aimed to combat the negative effect of "bracket creep", which arises when salaries and wages increase with inflation and tax thresholds are left unchanged Adjustments proposed in the 1998/99 budget, which included a single scale of rates for all taxpayers, would help eliminate this effect and its ability to reduce after tax income in real terms, he said

The single scale of benefits proposed for all individuals would reach a maximum rate of 45% at a taxable income of R120 000 a year, pushing out the maximum marginal rate of tax by R20 000

At the same time the marginal rate applicable to taxpayers with taxable income in the range R46 000 to R60 000 a year would be reduced from 41% to 39%, Manuel said, with the number of income brackets reduced from seven to six

"Bracket creep affects lower and middle income taxpayers particularly severely and so nearly half of the relief granted will go to individuals with taxable incomes of less than R60 000 a year," he said.

This was despite the fact that latest available data showed taxpayers in the R100 001 to R200 001 income group contributed close to 45% of the total revenue taken from income tax.

This meant an effective increase in the primary rebate from R3 215 to R3 515 a year, with the rebate in respect of individuals 65 years old and older to increase from R2 500 to R2 660

"The effect of the proposals on a taxpayer earning R30 000 and who is under 65 would be a reduction in tax liability of R300 a year, while a taxpayer earning R100 000 would pay R1 000 less per year," he said "In the case of a person over 65 years earning R50 000, the tax liability will be reduced by R960, while a person earning R120 000 will pay R1 360 less per annum."

Dragnet aims to raise R1bn from 'dodgers'

BD 12/3/98 (49) (300)

Samantha Sharpe

CAPE TOWN — Taxpayers will fork out an extra R1bn in fringe benefits tax during the 1998/99 financial year as government moves to clamp down on tax avoidance, says the Budget Review

"Those benefits coming under the scalpel include residential accommodation, travelling allowances, benefit funds and medical aid scheme contributions. Finance Minister Trevor Manuel said in his address yesterday that aggressive structuring of salary packages eroded the tax base and put at a disadvantage lower-paid workers who did not enjoy the same degree of tax mobility. "Moreover, it discriminates against smaller firms that generally do not have the capacity to manage complex remuneration packages," he said, a situation which had helped prompt government to take action.

On medical fund scheme contributions, Manuel said government had become aware that these were increasingly being used to structure salary packages in a way that was never intended in the Income Tax Act. Government therefore had decided that where the employer's contribution to a medical scheme on behalf of an employee exceeded two-thirds of the total contribution, this would be taxed as a fringe benefit in the hands of the employee. This was expected to yield the fiscus R700m in 1998/99.

On residential accommodation, he said government had proposed measures to combat the abuse of accommodation-related salary sacrifice schemes These occurred where the employer paid a monthly rental in respect of an employee's accommodation in return for a reduction in salary, thereby reducing the taxable income of the employee.

Employees would now be taxed on the cost to the employer of the accommodation where the accommodation was not owned by the employer or an associated institution. Exceptions would exist where it was customary or necessary for employers to provide free or subsidised accommodation or where the benefit was provided at arm's length for bona fide purposes.

The portion of an employee's travel allowance included in the taxpayer's remuneration to determine pay-as-you-earn (PAYE) would also be increased from 40% to 50% with effect from April 1, Manuel said.

While this proposal had no effect on the eventual tax liability of an individual, it was estimated to yield a cash flow advantage of R150m for 1998/99.

Manuel said government planned also to abolish benefit funds with effect from January 1 2000, with employer contributions to friendly societies no longer tax deductible.

Tax on alcohol and cigarettes will increase the price of some simple pleasures. Picture TREVOR SAMSON

SA smokers left fuming as Manuel raises tobacco tax

BD 12/3/98

Linda Ensor

CAPE TOWN — Smokers were left gasping yesterday following Finance Minister Trevor Manuel's announcement that excise duties on tobacco would be increased by 29%.

A packet of 20 cigarettes would cost 46c more, Manuel said, justifying the move in terms of the need to keep the overall tax on tobacco products, including VAT, at 50% of the retail price. The measure would generate an additional R699m for the fiscus.

Drinkers would also have to dig deeper into their pockets to indulge their habit after Manuel's stinging tax increases on alcohol products, which would see 340ml cans of beer and cider each costing 1,6c and 9c more respectively; a 750ml bottle of cane spirits 65,7c more; a 750ml bottle of whiskey and other grain spirits 48,2c more, a 750ml bottle of wine spirits 104,2c more; and a 750ml bottle of unfortified wine 5,9c more. There was no change to the excise on sorghum beer.

In total, government calculated that the adjustments to excise duty would yield an additional R1bn The hike in grain spirits tax alone would generate R683m, beer R118m and wine spirits R101m.

Regarding alcohol, the budget review said the aim of the increases was to tax high alcohol content products at a higher rate than low alcohol products and to bring SA taxes in line with broad international benchmarks

Furthermore, one consolidated duty of R27 per litre of absolute alcohol would apply to the differentiated rate structure for seven categories of spirits. No increase in the excise rate for soft drinks was proposed, representing a real 6% decrease. Total abolition in line with international trends would depend on affordability issues, the review said, as revenues of R300m were collected from this excise tax.

Revenue from excise duties was expected to be 4,2% higher in the coming fiscal year compared with the last.

Retirement fund levy to raise 25%

BD 12/3/98 (300)

Samantha Sharpe

CAPE TOWN — SA's retirement fund industry faces an increase in the current 17% tax levied on its net rental and interest income to 25%, a move which will boost government coffers by R1,2bn in the new financial year.

The extent of the increase has come as a surprise to some industry members who, while expecting some tinkering of the 17% figure, had forecast the rise to come in at about 19%-20%.

Finance Minister Trevor Manuel said while the tax was currently being investigated in its totality "to determine the most appropriate method of taxation of the flow of funds through retirement funds to the ultimate beneficiaries", no changes had been made to the rate since its introduction. This justified an increase in the rate from 17% to 25% with effect from March 1.

On the current state of the National Retirement Consultative Forum, the budget review said the forum had established five theme committees to consider the contribution of the SA retirement provision industry to the general economy The input of the forum would be framed as a white paper, followed by draft legislation, it said.

Government plans to undermine trusts as avoidance mechanism

(300) BD 12/3/98

Samantha Sharpe

CAPE TOWN — Government plans two initial reforms to current trust tax legislation, and has signalled that further changes could be introduced following a full investigation later in the year.

The move is in line with market expectations, with several tax experts forecasting earlier in the week that government would attempt to reduce the effectiveness of trusts as a tax avoidance mechanism.

Manuel said yesterday government was aware trusts were increasingly being used to channel losses, incurred as a result of the deduction of expenditure and allowances in the trusts, to their beneficiaries. The beneficiaries then set these losses off against income.

They were also being used as a means of splitting income between the fund's beneficiaries, thus reducing the tax rate at which income was ultimately taxed and creating a mechanism for tax avoidance.

Manuel said the provisions of section 25B of the Income Tax Act would therefore be amended "to provide that the losses of the trust may, for tax purposes, not be allowed to flow through to the beneficiaries".

"They can, however, be retained in the trust, where they may be carried forward to the following tax year to be set off against the income of the trust in that year.

"This proposal will apply in respect of all new trusts created from March 11 1998. As far as existing trusts are concerned, it will apply from years of assessment commencing on or after 1 January 1999," he said.

Manuel also proposed that income vesting in the trust as taxpayer (not the income vesting in any beneficiary of the trust) be taxed at a rate of 35% on taxable income not exceeding R100 000 and at 45% on the amount of taxable income which is in excess of R100 000.

"An exception is proposed in the case of a trust created for the benefit of persons who suffer from a mental illness as defined in section 1 of the Mental Health Act, 1973; or a disability, where such disability incapacitates the beneficiary from earning income to maintain him or herself."

These changes would apply from years of assessment commencing on or after March 1 this year, he said.

Speech 'did not address SA's problems'

BD 12/3/98 (49)

David Greybe

CAPE TOWN — Opposition parties sharply criticised the budget for being soft on corruption, failing to do more to promote economic growth and create jobs, pushing total taxation to record levels, and imposing a redistribution levy on people planning for retirement.

Finance Minister Trevor Manuel's budget speech did not contain any evidence that the government understood the country's problems or had solutions or the will to govern, the National Party (NP) said.

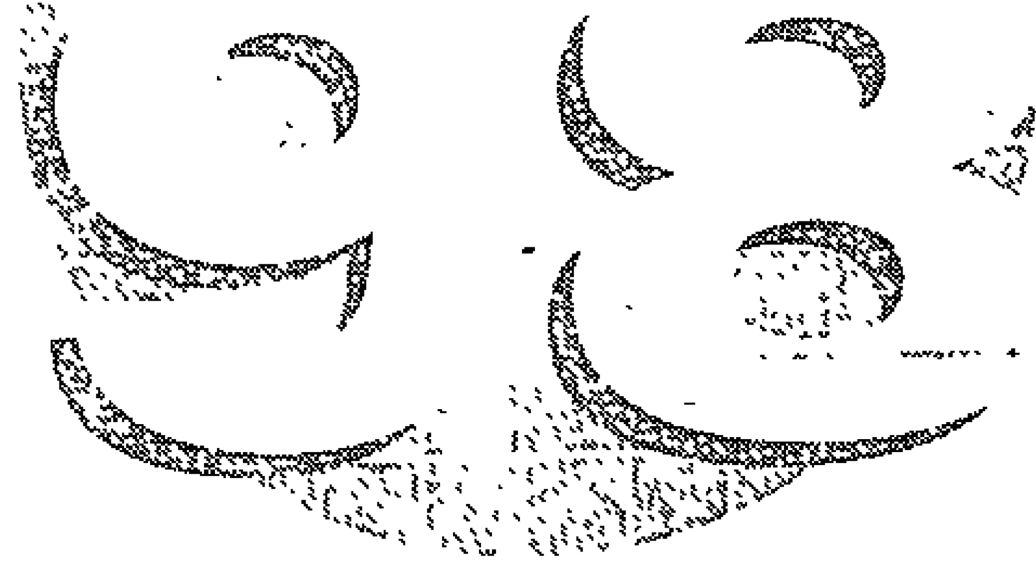
"Government should limit itself to functions which it can perform effectively, leaving the rest to the private sector," NP finance spokesman Theo Alant said. "The tax burden should be reduced concurrently," he said.

He criticised Manuel for increasing the total allocation for capital expenditure "by a mere 4%, substantially below the expected inflation rate. It is totally insufficient for the maintenance and expansion of infrastructure."

Alant called for drastic steps to cut expenditure, such as the scrapping of "several" ministries, the dismissal of consultants, the reduction of public service personnel expenditure and the reduction of "wastefully large budget allocations" such as for the National Intelligence Service.

The NP welcomed the government's "sustained commitment" to fiscal discipline and deficit reduction, the further relaxation of exchange control measures, the neutralisation of fiscal drag on personal income tax and steps to improve tax administration.

The Democratic Party (DP) labelled it a "bad news budget". DP finance spokesman Ken Andrew said the budget was bad news for the poor, the unemployed, and motorists as well as "everyone saving for retirement".



"By using uniquely optimistic growth forecasts and allowing taxation to reach record levels, (Manuel) has managed to stay within range of most of Gear's (government's growth, employment and redistribution strategy) fiscal targets."

However, little or nothing was said about other elements of Gear such as greater labour market flexibility, public service reform and privatisation.

"These are all absolutely essential if we are to have sustained economic growth and job creation," Andrew said.

The budget provided for total taxation to reach the highest levels yet, "which will remove any realistic prospect of accelerated investment, growth and job creation", he said.

Not only did the budget remove the possibility of substantial new savings, "it also snatches 49% more (R4,6bn) from people who are saving for their retirement, and will appropriate part of their demutualisation funds," he said.

The sharply increased fuel levy would be inflationary, Andrew said. It was inexplicable that only 2c of the extra 10c a litre levied was to be used for roads — a critical part of the infrastructure but which had been allowed to deteriorate alarmingly.

Corruption was, and had been, costing SA billions of rands. However, the budget did not provide nearly enough in increased allocations for the badly underresourced Special Investigating Unit led by Judge Willem Heath and the public protector's office.

"If government is serious about combating corruption, it should ensure that the necessary funds are available so that quick and decisive action can be taken against anyone misusing or stealing taxpayers' money," Andrew said.

The Pan Africanist Congress (PAC) said the budget was "thin on the ground, with no depth".

There was nothing new about land redistribution, restitution or land tenure reform. With 450 000 annual school leavers joining the workforce, job creation should have been a higher priority.

The money earmarked for the Umsobomvu development fund was too little and it would prove not to be a viable instrument to finance youth development and job creation, the PAC said.

The African Christian Democratic Party (ACDP) said overall it was a "positive" budget. The reduction in the deficit since 1994 and the elimination of "bracket creep" for low income earners were particular achievements, ACDP finance spokesman Louis Green said. However, the ACDP was concerned about the increase in tax on retirement funds from 17% to 25%, which could have the effect of discouraging people from saving for their retirement.

The ACDP welcomed the large increase in the price of cigarettes and the creation of the Umsobomvu fund.

The Freedom Front said the proposed 2,5% demutualisation levy was nothing but a redistribution charge and a breach of government's promise that the transitional levy of 1994/95 would not be repeated.

"This levy is the same thing, it is just called by another name," Freedom Front finance spokesman Willie Botha said. The further fall in domestic saving from 16,9% in 1996 to 15,2% last year was also worrying, he said.

Farmers would be particularly hard hit by the fuel levy increase, which was "politically less controversial than an increase in the VAT rate".

The farming community would also be adversely affected by the huge increases in excise duties on tobacco and liquor. It was significant that there was no increase in the duty on sorghum beer. "Maybe it has something to do with the coming elections," Botha said.

The United Democratic Movement (UDM) said the budget had let the majority of South Africans down by not doing enough for job creation.

The fuel levy increase would hit the poorest of the poor, the UDM said.

While the education increase was welcomed, the question was how was it going to be spent, the UDM said. "Will this increase reach the learner or is it going to disappear into a bottomless pit of bad administration and corrupt dealings within this department?" it asked.

New Budget favours social services and the poor

(49)

Manuel's plan will not impress those with large fringe-benefits

Star 12/3/98

By Jovial Rantao and Ryan Cresswell

Finance Minister Trevor Manuel's 1998/99 Budget unveiled yesterday has been widely hailed as laying the foundation for sustained growth and employment-creation, while at the same time tackling social issues.

Presenting the second Budget since the Government's adoption of the Growth, Employment and Redistribution strategy, Manuel walked a careful line between increased social spending and fiscal discipline.

Business organisations and economists praised the R201-billion Budget as one that would boost economic growth. They were also appreciative of Manuel's attempts to ease the tax burden on low and middle-income earners, and provide relief to the poor.

Manuel announced increased spending on social services, the police and justice departments and correctional services. Police, justice and correctional services received a 12% increase totalling R20,675-billion.

Health services will receive 14% of the Budget (R23-billion) and education 28% (R45-billion), while spending on housing will remain above R3,5-billion a year.

He hit smokers, drinkers and motorists, slapping them with bigger-than-expected increases. Excise duties on cigarettes have been raised and a packet of 20 cigarettes will cost an extra 46c. The fuel levy on petrol and diesel would increase by 10c a litre from next month.

He said the Government would place R3,7-billion back in the taxpayer's pocket by eliminating some of the effects of tax-bracket creep.

This means, for example, that a person under the age of 65, and earning R25 000 a year, will pay R300 less tax a year – a 20% reduction in liability.

"Bracket creep affects lower and middle-income taxpayers particularly severely, so nearly half of the relief granted will go to individuals with taxable incomes of less than R60 000 per year," Manuel said.

He also increased some fringe-benefit taxations, including travel allowances. Opposition parties and the ANC's ally Cosatu criticised the Budget, with the main refrain being that it was unimaginative.

The South African Chamber of Business said Manuel had laid a solid foundation for economic growth and further interest-rate reductions.

Rand Merchant Bank economist Rudolf Gouws said the Budget was in line with the Reconstruction and Development Programme, with its emphasis on social spending.

▸ **Budget Special – all the details**
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The Steel and Engineering Industries Federation of SA said it was satisfied that the Budget demonstrated the Government's firm commitment to sound financial management and planning, in line with sound macro-economic principles.

Christoph Kopke, president of the National Association of Automobile Manufacturers of SA, welcomed the recognition by Manuel of the importance of investment growth and the critical role of business in industrial and export-market development, economic growth and job creation.

The SA Agricultural Union said the Budget was conducive to economic growth and was in line with the Government's macro-economic strategy. It especially welcomed attempts to contain the national deficit within acceptable limits.

Manuel's unexpected tax concessions were made possible by the introduction of taxes which will directly affect the relatively better-off and the rich. He imposed a once-off tax on life assurance companies about to demutualise and increased tax on retirement funds.

The taxes would jointly earn the Government R2,6-billion.

Funds from taxing the demutualisation of Sanlam and Old Mutual would be used to establish the Umsobomvu Fund for the creation of jobs.

Jacqui Boulle, programmes director for the SA National NGO Coalition, said Manuel had recognised that unemployment was a major problem.

Following an increase of R5-billion – from R14-billion to R19-billion – in welfare, Geraldine Fraser-Moleketi, Minister of Welfare and Population Development, announced that social security grants would be increased by 4,3% from July 1

The good, bad and ugly

Budget woes:
- An increase from 17% to 25% on retirement fund payouts.
- Cigarette smokers to pay 46c more per packet of 20.
- Fuel levy raised by 10c per litre on petrol and diesel.
- Demutualisation charge of 2,5% will reduce the windfall to those holding shares in Sanlam and Old Mutual.
- Total tax burden as a percentage of GDP remains above 25% Gear target at 26,5%.

Budget highs:
- Old age, disability and care dependency grants will increase from R470 to R490, war veterans' grants from R488 to R508 and foster care grants from R340 to R350.
- VAT stays the same.
- The maximum tax threshold kicks in at R120 000 instead of R100 000 at a marginal rate of 45%.
- The highest marginal rate has not been increased.

Taxi fares to increase in April

By Anna Cox

Looking at the lighter side

Finance minister turns master juggler

Trevor Manuel has kept his promises, and more, through some imaginative revenue plans, writes economics editor **Greta Steyn**

BD 12/3/98

(49)

TALK about a double whammy Senior executives from Old Mutual and Sanlam should have known something was up when they were invited to breakfast with Finance Minister Trevor Manuel yesterday morning They must have choked on their eggs and bacon when he told them about the demutualisation charge Not to mention the fact that their retirement funds' investment income would also be taxed more heavily.

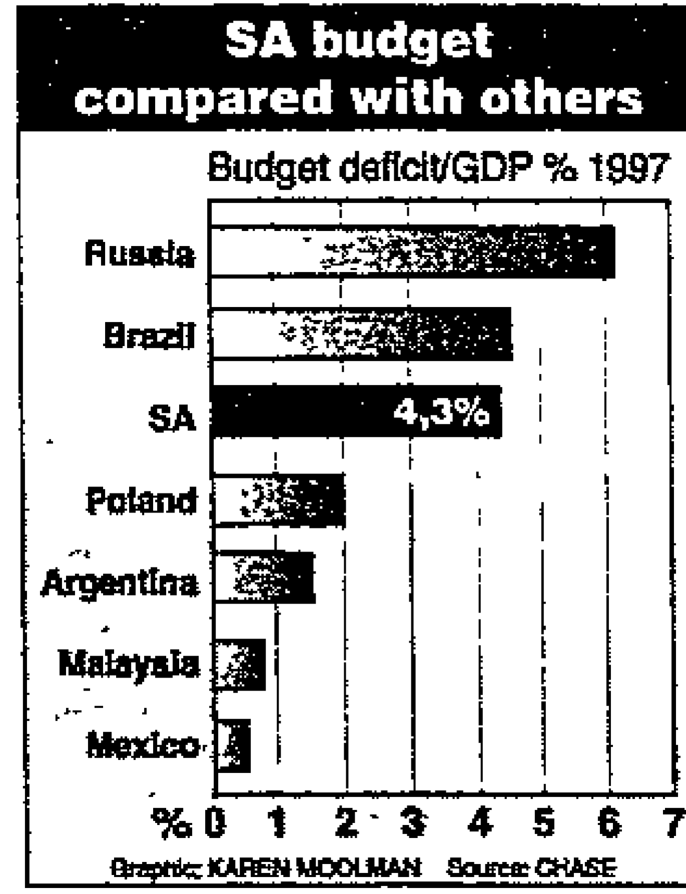
These two tax changes were two surprises in a budget which had been widely anticipated to be a damp squib But with an election looming, it makes sense to have a nice surprise up your sleeve

Manuel had to show that he cared about more than just deficit reduction. He had to demonstrate that he cared about the unemployed, and about ordinary working people who pay a lot of tax. To show he cared, he needed more revenue — and he turned to the life and pensions industry to find part of the extra cash. They are easy targets, as for years they have been seen as the fat cats of the SA tax system.

The budget might make sense from a political perspective, but does it make economic sense?

In theory, the creation of the Umsobomvu Fund furthers the longer-term aim of job creation. The failure of the growth, employment and redistribution (Gear) strategy to create jobs was something that Manuel had to tackle. If he had not, he risked being cast as a heartless ideologue who was willing to wait indefinitely for "the invisible hand" of the free market to generate jobs.

But how this fund will differ from its predecessor, the Independent Development Trust (IDT), and other government funded poverty relief schemes, is not yet clear. It has a more catchy name than the IDT, to be sure, but whether it can make a sustainable difference to the problem remains to be seen. In the meantime, its importance is symbolic; it strengthens government's position at the jobs summit later this year. And it recognises — correctly — that it cannot afford to wait for Godot in the form of economic growth to create jobs.



The creation of the fund will take place off-budget. The revenue from the demutualisation charge, which is likely to exceed R1bn, will not be shown in the Exchequer statement, and the fund's spending will not be reflected in the budget. Should this government spending be kept off-budget?

Finance officials say it should be off-budget as it is a new institution that is being created and it will not be a central government spending agency. They say this is no smoke-and-mirrors exercise.

But they are wrong. The fund will be using government money to fund job creation — which is expansionary fiscal policy.

This expansionary policy will not show up in central government's figures. Government spending and tax as a percentage of gross domestic product (GDP) would have looked worse if the spending had taken place on the budget, for instance on the public works budget. Overall spending would have risen in real terms if that had happened. By taking the spending off-budget, Manuel disguises the true level of government's involvement in the economy

It is becoming increasingly important to look at figures for the public sector as a whole rather than just for central government. The creation of a new body to dispense government funds is yet another reason to look further than just at central government's figures to arrive at the true picture. The other reason is the extensive use of bank credit by the provinces and the local authorities.

The main concern over the creation of the Umsobomvu fund is the fact that it is sleight of hand. It disguises government's involvement while allowing it to take credit for job creation. But concerns over the expansionary nature of the spending would be misplaced, as demutualisation would be expansionary anyway.

The low rate at which the demutualisation charge will be levied means Old Mutual and Sanlam will probably not be too unhappy about having to pay it. The fact that it is going to a noble cause will also muffle the squeals. But there is little doubt that there will be much unhappiness in the retirement industry over the tax rise on retirement funds' investment income from 17% to 25%

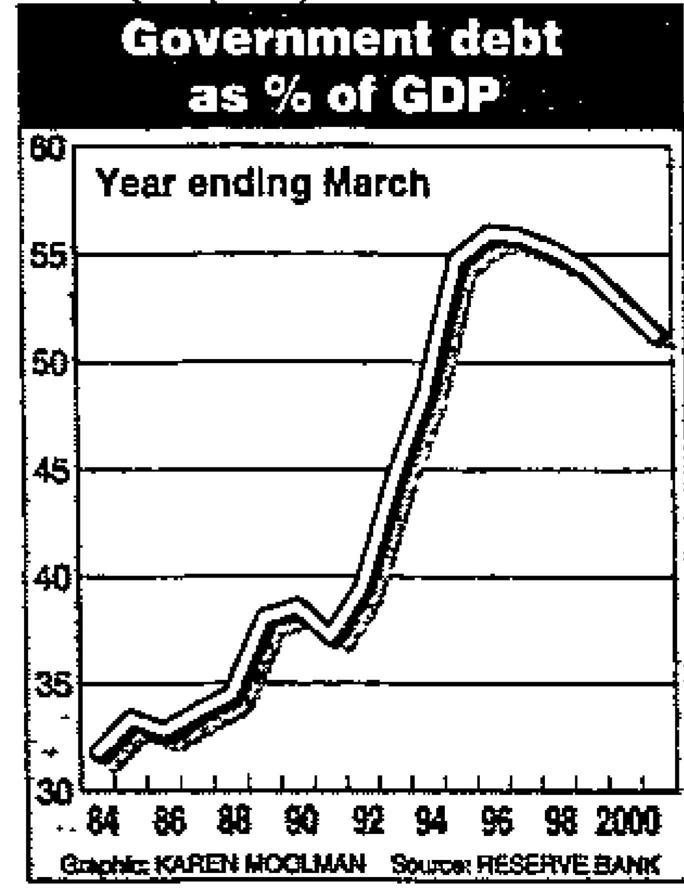
The main argument against this move is that it taxes savings, and that the proceeds finance about a third of individuals' tax relief, which will largely be spent on consumption. That is yet another sign that there are expansionary aspects to this budget But that would be an overly simplistic way of looking at the situation.

It is by no means clear that people will save less as a result of the rise in the tax on the retirement industry The tax might discourage the use of retirement provision as a means to avoid tax, but whether it will discourage genuine savings in favour of consumption is not certain.

However, Manuel will have to deal with taxation of retirement funds in a more holistic way Following the example of Chris Liebenberg, he has tinkered with the system. A philosophical approach needs to be finalised and all aspects of the approach have to be hammered out with the industry by the time of next year's budget.

The tax on the retirement industry is only part of the story of how Manuel managed to find the finance to relieve fiscal drag. Another part of the story is the fact that he has saved more than R1bn by not giving public servants the salary increase that they expected. In terms of the agreement struck between government and public sector unions in 1996, there should have been an allocation of R4,8bn for Improvement of Conditions of Service. Instead, there is an allocation of only R3,4bn.

The question must be whether he will get away with this. At the time when the three-year wage agreement was struck, inflation expectations were much higher. If he can convince the unions that the fall in inflation is sustainable, then he will be able to pull it off. However, if the unions do not bite, he will have to dip into his contingency reserve to finance the extra spending. There will be a lot of pressure on the contingency reserve. So failure to convince the unions to accept lower salary increases will be a very bad sign.



That something has to be done about the salary bill goes without saying. According to the medium-term expenditure framework, the consolidated national and provincial spending on personnel will rise by 12,9% to R83,3bn in 1998/99, a real increase of 6,5%. Spending on servicing government debt also rises in real terms. Small wonder, then, that there is little left for capital expenditure.

The framework shows there is a nominal decline in capital expenditure in 1998/99, from R14,8bn to R14,4bn — which translates into a substantial real decline. The conventional wisdom is that this is a sad state of affairs. But some analysts argue that raising spending on capex is a bad idea when it is not clear that there is enough finance for the ensuing recurrent expenditure They say it is better not to build clinics or schools that will stand empty However, it is even worse to desist from building clinics and schools because one is paying the salaries of "ghost" workers Fortunately, Manuel expressed a determination to root out superfluous staff.

Dealing with the problems posed by the bloated public service is one prerequisite for realising Manuel's vision over the next three fiscal years. In terms of that vision, average growth in government spending on social services will rise by a healthy 3,2% in real terms over the three fiscal years from 1998/99 to 2000/01

The other key condition to realising the vision is robust economic growth. Healthy rises in GDP will not only generate the necessary revenues, but will also make SA's key indicators as a percentage of GDP look better to foreign investors. As the graphs show, SA is not a shining star among emerging markets when it comes to fiscal policy. Its debt to GDP ratio has remained stubbornly high, and the projected decline requires robust rises in GDP.

It is by no means certain that government will reach 3% GDP growth this fiscal year, despite the belief that demutualisation will provide a boost. Similarly, not all economists would agree with projections of 4% and 5% growth for the following two fiscal years. If growth does not pick up, Manuel faces big problems, and the ambitious spending numbers for future fiscal years mentioned yesterday will have to be changed.

The budget carries on the process of deficit reduction, which in itself is no mean feat. Achieving the 3,5% deficit will be very difficult, and carrying on with the process in future fiscal years will depend on economic growth and cutbacks on salaries and wages. In future, tax reform needs to be addressed in a less ad hoc way. In addition, the move to shift things off budget, such as provincial borrowing and job creation, should also be curtailed. Yesterday's budget was an important stepping stone on a difficult path.

Adroit Manuel's balancing act

BUDGET *Minister hands out tax relief while keeping to his promise of reducing the deficit to 3,5% of GDP*

(49) CP/ (BR) 12/3/98

Christo Volschenk
Economics Editor

Cape Town — In a deft balancing act, Trevor Manuel, the minister of finance, yesterday delivered a Budget that adhered to strict and sound fiscal discipline while still addressing the more pressing needs of the country's poor.

While broadly in line with expectations, Manuel presented some unexpected tax changes, allowing him room to hand out tax relief to the poor without reneging on his promise to bring the deficit down to 3,5 percent of gross domestic product (GDP) in 1998-99, from an estimated 4,3 percent in this fiscal year.

Spending, said Manuel, would rise by 6,4 percent next year to R201,2 billion, with revenue projected to increase by 9,3 percent to R176,6 billion, thanks to greater efficiencies in tax collection and a broadening of the tax base.

Economists were not expecting much tax relief in the Budget but Manuel changed the personal income tax tables to neutralise bracket creep.

In a somewhat controversial move, Manuel also announced that a new job-creating fund, Umsobomvu, would be financed by a 2,5 per cent "once-off tax" on the free reserves of Old Mutual and Sanlam, the demutualising life assurance institutions.

"Our nation must invest in its young people, arouse their skills potential (and) invigorate job creation," Manuel told parliament.

But the life assurance industry said it was disappointed with the unexpected "double tax blow" handed to it by Manuel.

Abrie Meiring, tax expert at Old Mutual, said the increase in tax on retirement funds from 17 percent to 25 percent, in addition to the 2,5 percent levy on Mutual and Sanlam, was "unfortunate" since the tax was introduced without consultation with the industry.

However, the financial markets and economists applauded the Budget. The only caveat economists had was that Manuel's growth assumption of 3 percent for the next fiscal year was too high.

Dave Mohr, chief economist of Old Mutual, said 2 percent would have been more realistic.

Manuel's inflation forecast of 6 percent — the other important assumption on which the Budget was built — was realistic, Mohr added.

Several tax increases could put pressure on the core inflation rate, including the 10c a litre rise in the fuel levy, the big increase in "sin taxes" and the introduction of an ad valorem tax on a long list of imported luxury goods.

However, economists said the assumptions were realistic enough not to damage the credibility of the Budget, and may have strengthened chances of a third interest rate cut this year.

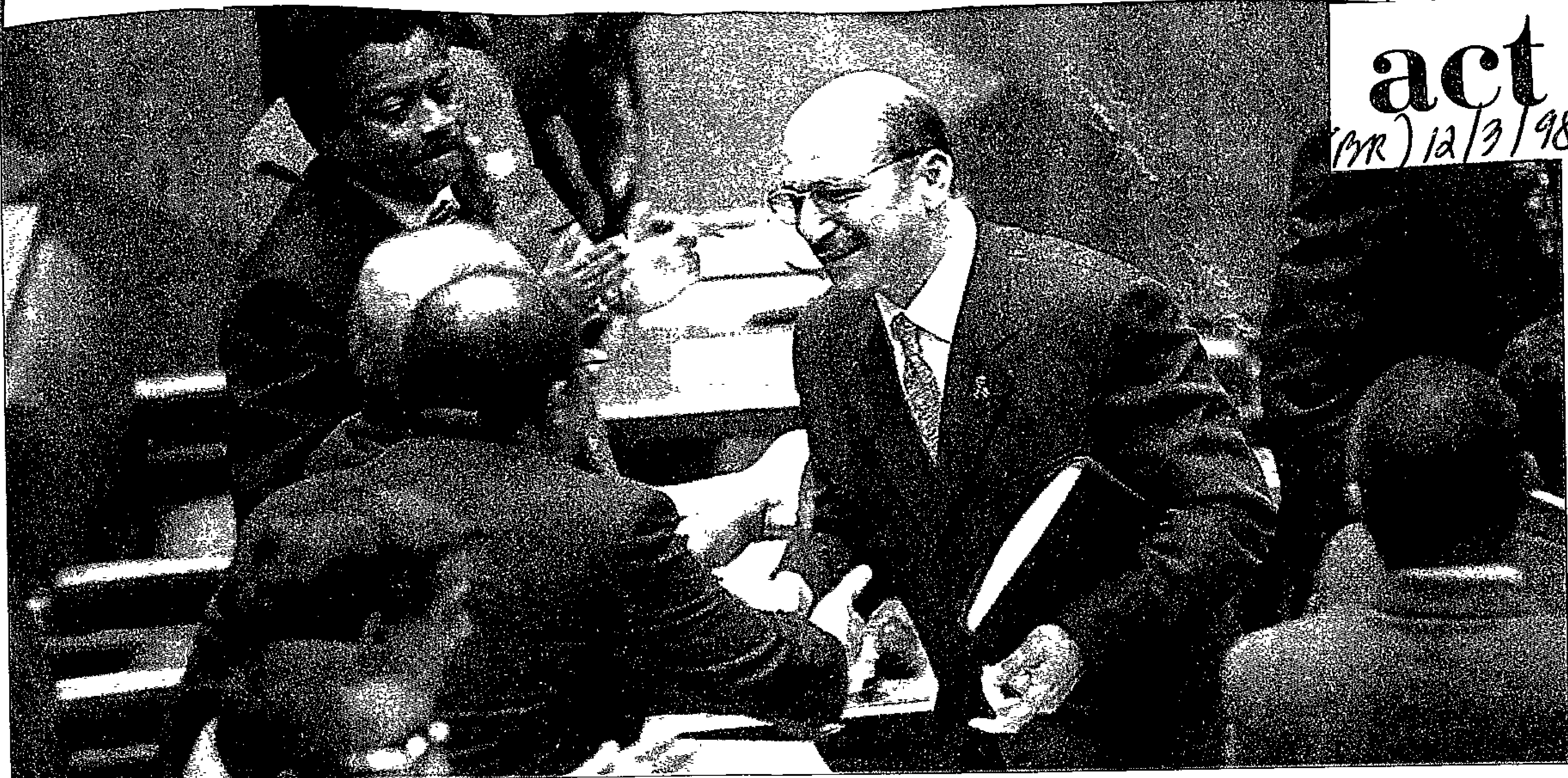
The medium-term expenditure framework also showed all the important criteria for measuring the health of state finances were poised to move in the right direction in the next three years.

State debt as a percentage of GDP, deficit as a percentage of GDP, tax collected as a percentage of GDP and state expenditure as a percentage of GDP were all targeted for consistent declines in the next three years.

Loan redemptions of R15,8 billion should be added to the deficit of R23,7 billion to get to the gross borrowing requirement.

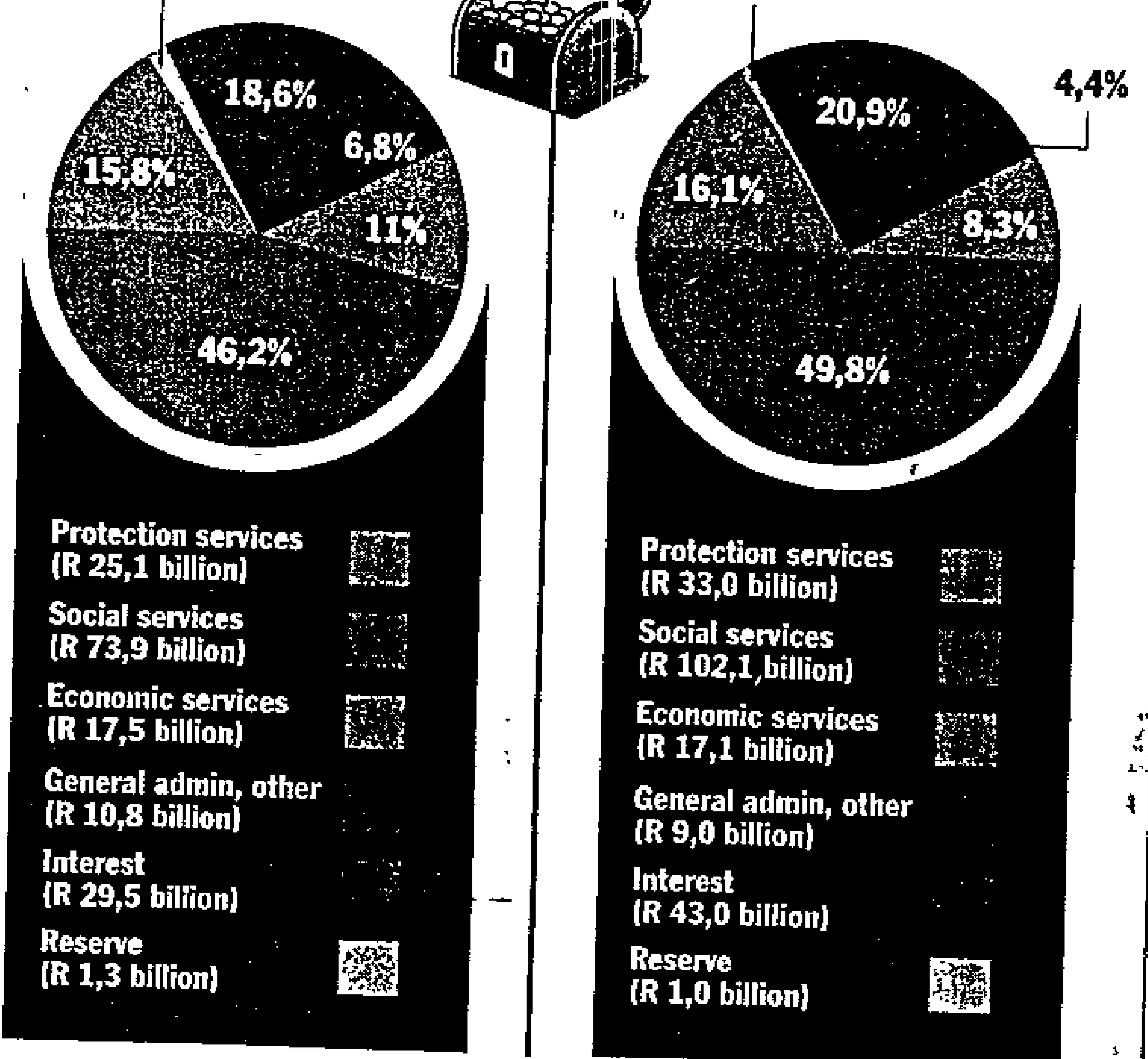
Mohr said the gross borrowing requirement of R39,5 billion would be "handled comfortably by the capital market".

Manuel expected to borrow R5 billion in foreign capital markets in the fiscal year, up from R3,9 billion last year, which would take further pressure off the local capital market, he said.



GOOD NEWS *Ministers and President Nelson Mandela (in the background) are all smiles as Trevor Manuel shakes hands after delivering his Budget speech to parliament*

PHOTO ANDREW BROWN



Provinces get 'equitable share'

CT 12/3/98 (49)

ANDRE KOOPMAN AND KARIN SCHIMKE

WHEN it comes to handing out money, each of the provinces receives what is called a "provincial equitable share", to make sure that money from the national treasury is distributed in a fair way.

This figure is worked out based on the provinces' demographic and economic profiles.

This year, the provinces get R88,14 billion between the nine of them, an increase of about 9% over last year's allocation of R80,805 billion.

On top of that, each receives supplementary allocations for health services, local government and other conditional grants.

The total budgets for each of the provinces — including the additional grants — are:

- Eastern Cape: R15,616 billion
- Gauteng: R14,095 billion
- KwaZulu-Natal: R17,628 billion
- Northern Province: R11,066 billion
- Western Cape: R9,492 billion
- North West: R7,216 billion
- Free State: R6,003 billion
- Mpumalanga: R5,507 billion
- Northern Cape: R2,064 billion

TOTAL tax payable by 4 typical households

R18 000 p/a	R30 000 p/a	R75 000 p/a	R140 000 p/a
TOTAL tax paid R2 102 (11,7%)	TOTAL tax paid R5 417 (18,1%)	TOTAL tax paid R24 483 (32,6%)	TOTAL tax paid R56 102 (40,1%)

The revenue-sharing formula this year represents a break from historical funding patterns. Resources from the central government are being distributed to ensure the equitable provision of provincial services.

The formula includes specific components to take into account the demand for services such as education, health and welfare.

The education component, for instance, reflects the number of school-age children and the number of those actually enrolled.

The welfare component is based on the proportion of the population eligible for social security benefits. Included are elderly people who qualify for a pension or children six years and younger who qualify for the new welfare grant.

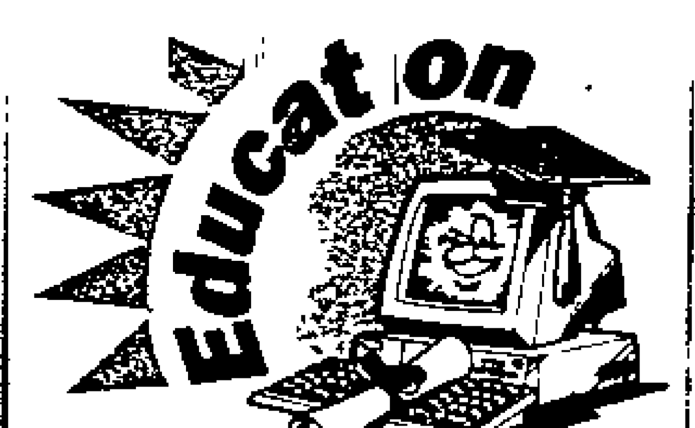
Factors considered in determining money allocated to the provinces include:

- An increased share of the total population in the Western Cape and Gauteng.
- A poverty-related weighting in the social security and basic components of the formula.
- A bias in favour of the school-going population in the education component.
- A bias in favour of people without private medical insurance in the health component.
- A weighting in favour of women, children and the elderly in the health and social welfare areas.

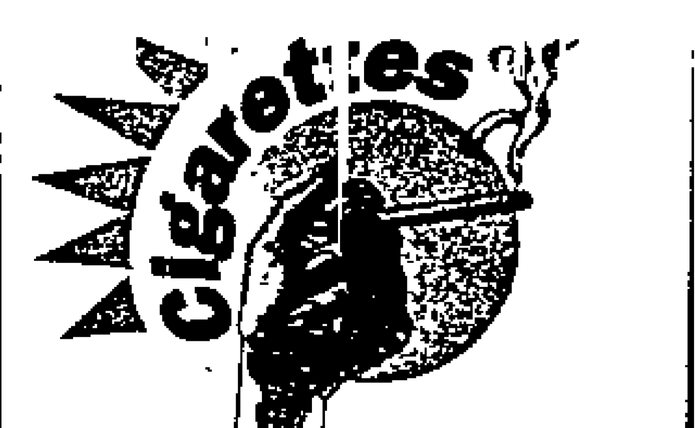
FACE FROM THE PAST: Former finance minister Chris Liebenberg listens to the Budget speech from Parliament's public gallery.

PICTURE: BENNY GOOL

R19 billion



R45 billion



Up by 46c a pack

R23 billion

R3,6 billion (49)

Sowetan 12/3/98

Thumbs up!

By Rafiq Rohan

MINISTER of Finance Mr Trevor Manuel did not come armed with a sackful of goodies to relieve the plight of all South Africans, but his Budget yesterday could best be described as measured, balanced and puts the accelerator a bit more firmly on the redistribution programme.

It being an election year, Manuel did not pussyfoot by presenting a plan with one eye on placating the restless sectors of society, but he did place an emphasis on social delivery.

Provinces, which have been the centre of allegations of corruption and overspending, get the following allocations: Eastern Cape R15 billion; Free State R6 billion; Gauteng R14 billion; KwaZulu-Natal R17,6 billion; Mpumalanga R5,5 billion; Northern Cape R2 billion; Northern Province R11 billion, North West R7,2 billion and Western Cape R9,4 billion.

Local government gets a total of R8,81 billion, which includes R1,1 billion for supporting local governments presently experiencing transitional difficulties.

The best news of the Budget was the boon offered in tax rates for certain workers. In last year's Budget R2,8 billion was spent to provide relief to the lower income earners with the restructuring of personal income tax.

Manuel took that step further yesterday and announced a 20 percent reduction in tax liability to the lower income earners.

The new bracket is for those who are under the age of 65 and who are earning R25 000 a year, or just over R2 000 a month. They face a reduction in tax liability of 20 percent.

Good news too for those who earn between R4 000 and R5 000 a month, who get a tax reduction from 41 to 39 percent.

In terms of this new structure R3,7 billion will find its way back into the pockets of tax payers.

Tax dodgers

It is not good news for tax dodgers. They are to be publicly identified due to their evasion which results in the imposition of higher rates on "honest taxpayers".

Tax laws are to be amended to provide for the publication of the names of those convicted of evasion.

Manuel said that his Budget was intended, among other things, to meet the basic needs of the people, develop human resources and speed up infrastructure development.

The total Budget of R201 billion will see the largest share, 60 percent, going to social services.

Welfare and social grants will get nearly R19 billion; health services gets R23 billion; education gets more than R45 billion (the largest cut); while housing programmes and subsidies will account for R3,5 billion a year.

Manuel said the Government had spent an average of between R250 million and R350 million each month on housing over the last year and the timeframe to get housing projects approved will be reduced.

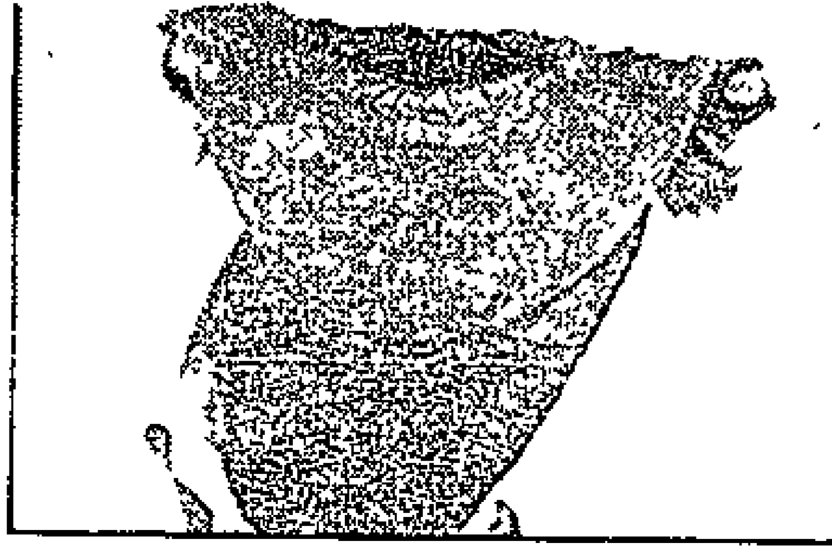
In addition, Manuel allocated R500 million for poverty relief projects; water schemes and related infrastructure will incur spending of R1,6 billion while the redistribution of land and land reform receives R685 million. He said that with current progress by 2004 the water and sanitation programme will bring 25 litres of drinkable water per person a day to all communities.

Turning to the fight against crime, Manuel announced that spending on justice, police and prisons would increase by an average of 7,8 percent a year over the next three years and there would be a renewed focus on integrated community policing.

While welfare has received a substantial increase in allocation, it is unclear whether any increase in old-age pensions is on the cards. At a press conference Manuel said that an announcement to this effect would be made soon. Political parties have been allocated R53 million to help with elections.

● **More reports: pages 2, 3, 6, 13 and 30**

Minister of Finance Trevor Manuel delivers the 1998-9 Budget speech to Parliament in Cape Town yesterday. PIC: AP



Anne Motlhokwane ... "Alcohol increases are bad because addicts will sacrifice money which could have benefited their families."

Peter Lenong ... "The price increase will discourage people from drinking and smoking."

Tendai Sithole ... "People will definitely cut down on smoking and drinking as a result of price increases."

Basimane Mokhomo and cigarette price i not deter people fro and smoking."

Budget seems spot-on, say ordinary folk

(49)

Sowetan 12/3/98

Taxation of 'bad luxuries' such as tobacco and alcohol welcomed

Sowetan Reporters

MEMBERS of the public applauded Finance Minister Trevor Manuel for substantially increasing tax on alcohol and cigarettes in his Budget, a *Sowetan* snap survey found yesterday.

Excise duty on tobacco will increase by 29 percent and this will see the price of a packet of 20 cigarettes rise by 46 cents, while pipe smokers will pay R2,11 a kilogram of tobacco.

A can or pint of beer will cost about two cents more, cider will go up by nine cents and spirits will rise by between 48 and 65 cents a bottle. Wine will increase by about six cents a bottle and 23 cents a litre.

Reverend Peter Lenong of Kagiso said the price increases would discourage drinkers and smokers from their habit.

"If alcohol were cheaper there would be more indulgence, which causes a disruption of family life and values."

Miss Mimi Mogorosi of Soweto said she wished that alcohol had increased by at least R20 to discourage drinkers.

Beneficial purposes

"Prices of food should go down but for bad luxuries, such as alcohol, they should be raised," said Miss Fikile Khubheka, also of Soweto.

However, Miss Anne Motlhokwane regretted the hikes. "Addicts will still smoke and drink, which will deprive families of more money that could have served beneficial purposes."

Mr Tendai Sithole felt the hikes would affect smokers and drinkers hardest. "People will definitely cut down on smoking and drinking as a result of price increases."

Smoker Mr Dominic Roskin said the nicotine hikes were "terrible", suggesting that import tariffs be increased instead.

Drinker Mr Victor Tobias said he would not stop drinking but would instead cut down on items such as food.

Mr Basimane Mokhomo summed it up: "The increases will not decrease substance intake. Prices have gone up constantly but smokers and drinkers have increased regardless."

There were mixed feelings among the general public, however, about Manuel's dramatic announcement that in an effort to uproot corruption and eliminate fraud, some three million beneficiaries of social grants and pensions would have to re-register themselves.

"This process will enable us to update and correct the data in the system and so eliminate duplicate claims, ghost beneficiaries, syndicates and cross-provincial payments," Manuel said.

Vice chairwoman of the Women Lobby, Mrs Babette Kabak, said: "We should be pleased that the Government is recognising the extent of corruption in the country and is trying to eliminate claims by people who are cheating the system."

On the other hand, Rural Women's Movement director Ms Pumza Tuswa thought the whole process was unfair and would not work.

Since the 1995-96 Budget, spending in this area has risen substantially from R14 billion to this year's R19 billion. In two year's time, Manuel said, this figure would rise to more than R21 billion.

Education budget

The current increase in the Welfare budget represents a 13 percent increase from last year's figure of R17,5 billion.

Teachers warned that the increased education budget allocation should cover the increased enrolments at schools and various backlogs in the education system.

Education was allocated R44,7 billion last year. This year's education budget allocation is R45,3 billion.

National Professional Teachers Organisation spokesman Mr Andrew Pyper said: "We are obviously pleased about the increase, even when it is an increase of less than two percent."

According to the Medium Term Expenditure Framework, the figure will escalate to R48 billion in 1999-2000 and to R50,2 billion in 2000-2001.

Trade unions welcomed the propose unemployment creation fund, Umsobomvu, but expressed concern about its capacity to deliver.

Exchange controls relaxed further

Linda Ensor

CAPE TOWN — Foreign exchange control regulations were relaxed further yesterday — most with immediate effect — with an increase in the maximum amounts which individuals, institutional investors and companies may take out of the country.

Special measures were introduced to facilitate the integration of capital markets in the Southern African Development Community (SADC), with substantial increases in direct investment and portfolio allowances. Firms will be allowed to list on the Johannesburg Stock Exchange (JSE) to raise capital for projects elsewhere in the region, subject to the current investment limit applicable to SADC investments.

With official consent, dual listings on the JSE and other SADC exchanges will be allowed, as will the issue of SADC depository receipts in SA for firms listed elsewhere in the region.

Regarding companies, the R50m limit on new investments in SADC countries was increased to R250m per approved investment. The limit on offshore new investments rose to R50m from R30m.

Restrictions on asset swaps by financial institutions were relaxed, with the 10% limit of total SA assets allowed for this purpose being raised to 15%. Within this amount, the limit of net annual cash inflow which may be used for asset swaps was raised from 3% to 5%.

Financial institutions' investment in SADC stock exchanges was raised from a maximum of 2% to 10% of net annual cash inflow, subject to the overall asset swap limit of 15%.

The amount private resident individuals may invest abroad was increased from R200 000 to R400 000. "This will ensure that families with assets of up to R800 000 will be completely free of exchange control restrictions, which will remove the yoke of exchange control from 99,5% of the population," the budget review says.

Instead of the requirement of a declaration of good standing by the tax authorities, a clearance certificate would have to be obtained from the SA revenue service prior to any approval of any foreign investment.

The budget review said the change in procedure arose because the tax affairs of 16,6% of the 4 815 investors who applied to invest a total of R610m outside SA between July and December last year were not in order.

For emigrants, the total maximum amount of R200 000 allowed annually for household and personal effects and motor vehicles was increased to an undifferentiated R1m. For adult travellers, the annual limit on the amount that could be taken out was raised from R80 000 to R100 000. Children under 12 years would be entitled to take out R30 000 — the former limit was R25 000 — and student travel allowances were also increased.

BD 12/3/98 (49)

Continued on Page 2

Exchange

Continued from Page 1

Capital introduced into the country after July 1 1997 by resident individuals may be repatriated at any future date and controls on the use of credit cards abroad were eased in the sense that forms would not have to be completed. However, the Reserve Bank would still monitor transactions.

The requirement that companies repatriate any foreign currency earnings in respect of exports of goods and services within 30 days of the date of accrual was extended to 180 days from date of shipment or date of service rendered. The Reserve Bank said this would assist companies in their foreign cash management strategies.

Restrictions on the opening and operation of customer foreign currency accounts with local authorised dealers by businesses making profits or commission on foreign transactions were removed, subject to the 180-day limit for the repatriation of funds.

The nonresident ownership level at which foreign-controlled resident entities became subject to the limits on local borrowing was raised from 50% to 75% with immediate effect.

The finance department and Reserve Bank would investigate the repeal of the Currency and Exchange Act. Its replacement would "seek to replace the system of controls" with a focus on improved reporting of transactions, and temporary restrictions would replace exemptions. Government would seek to replace gradually exchange controls on the financial service industry with controls "based on principles of prudential regulation".

Average Business Day reader will have to fork out more

BD 12/3/98 (49)

Pat Sidley

BUSINESS Day's typical reader is likely to face a marginally increased tax bill of about R154 a month after yesterday's budget, according to calculations by Arthur Andersen's personal tax expert, Marina Kyriacou.

Much of this will come from increases in the tax on medical scheme contributions and travel allowances — on the assumption that they form part of the reader's salary package.

As this reader has several expensive vices (cigarettes and alcohol), he or she will feel the effects of the "sin taxes" too.

The typical reader is older than 25, with many older than 35, and has a monthly household income in excess of R10 000 a month, according to research from AMPS. The reader owns a car, mostly bought new, owns his or her own home, has bonds and uses security services.

A third of the paper's readers smoke, more than half drink beer and two-thirds drink wine with a third drinking whisky and other spirits.

Assuming his or her gross income is R12 000 a month with medical aid contributions of about R1 000 (paid for by his employer) and a travel allowance of R2 000 a month, the average taxable income until this budget would have been R9 800 a month. The budget has increased the taxable portion of the salary to R10 333. This is because the taxable portion of the travel allowance has been increased to 50% from 40%. In addition, a third of the medical aid contribution will now be taxable where it was not before. The average tax bill for this employee would have been R3 229,58 a month and this will now increase to R3 369,43.

The after-tax income will drop from R7 770,42 to R7 630,57 a month.

Add to this consumption of alcohol and cigarettes (assuming 20 cigarettes a day, a litre of wine a week and 12 cans of beer, half a bottle of spirits and a quarter bottle of cane spirits a month) and the monthly tax will increase about R154 a month.

This does not take into account the fact that more than half this group have life assurance policies, many of which will be placed with Old Mutual or Sanlam, both of which have announced their intention to demutualise. The "windfall" shares the typical reader would get at the point of demutualisation would be taxed — at the apparently low rate of 2,5%.

It also does not take into account the fact this reader may belong to a company pension fund which, in all likelihood, has converted from a defined benefit fund to a defined contribution fund. This may eventually mean, with the increase in the tax on funds from 17% to 25%, that the withdrawal benefit in each member's case will be diminished slightly.

Unlike his or her counterpart in the US or UK, this group cannot claim deductions for mortgage payments, donations to education, or the cost of education.

How budget affects typical reader

Assumptions:	Current	Proposed	
Age	under 65	under 65	years of age
Average gross income	R 12 000,00	R 12 000,00	per month
Medical aid	R 1 000,00	R 1 000,00	per month
Travel allowance	R 2 000,00	R 2 000,00	per month
Average taxable income	R 9 800,00	R 10 333,00	per month
Tax	R 3 229,58	R 3 369,43	per month
Average after tax income	R 7 770,42	R 7 630,57	per month
1 litre wine per week	R 30,00	R 30,08	per litre
12 cans (340ml) of beer per month	R 2,31	R 2,33	per can
0,5 of a 750ml bottle of spirits per month	R 25,00	R 25,48	per month
0,25 of a 750ml bottle of cane spirits per month	R 10,00	R 10,66	per month
20 cigarettes per day	R 5,75	R 6,21	per pack of 20

Calculations:	Current	Proposed	Difference
After tax monthly income	R 7 770,42	R 7 630,57	R 139,85
less: monthly beer consumption	R -27,72	R -27,91	R 0,19
monthly spirits consumption	R -25,00	R -25,48	R 0,48
monthly cigarettes consumption	R -172,50	R -186,30	R 13,80
Net income per month after above expenses	**R 7 545,00**	**R 7 391,00**	**R 154,00**

Source: Arthur Andersen

Nine provinces heave a sigh of relief over their increases

20/2/98 (49)

Wyndham Hartley

CAPE TOWN — The nine cash-strapped provinces breathed a collective sigh of relief yesterday when it emerged that their budget allocations had increased by 8,3% over their actual expenditure in the 1997/98 financial year.

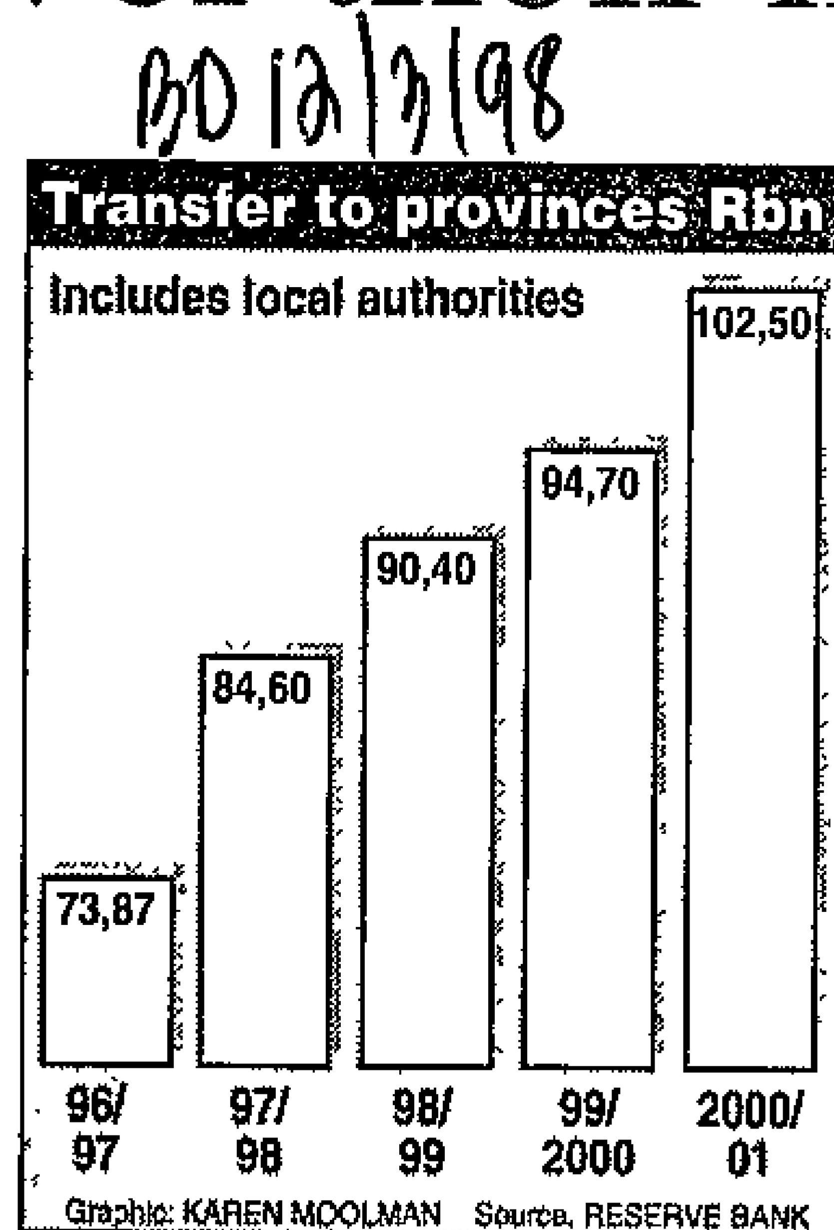
This translates into a real increase of about 2,2%. However, the amounts needed by the provinces to pay for improved conditions of service for their employees have been included in the budgeted amount, as have a number of conditional grants.

According to projections of the medium-term expenditure framework, the provinces will tread water in 1999/2000 if inflation remains at 6%, and unless the provinces are given additional fund-raising powers in terms of Katz commission recommendations on provincial taxation.

All the framework's targets depend on reaching economic growth rate targets of 3% or more over the next three years.

In her budget review, finance director-general Maria Ramos said that despite overexpenditure in the 1997/98 financial year "most provinces made significant progress in controlling expenditure". She said the growth in provincial spending on health and education had stabilised from "unsustainable levels" and this year's budgets were far more realistic.

The review predicts provincial budgets, which showed a 2,3% deficit in 1997/98, would stabilise in 1998/99 and break even from 1999/2000. The new budget also signals the beginning of a five-year period during which a new division of funding between the nine provinces is to be phased in. The intention is to ensure the allocations to provinces are fair.



Legislation governing this division, in the form of the Division of Revenue Bill, was tabled in Parliament yesterday by Finance Minister Trevor Manuel. In five areas the finance department deviated from the recommendations of the Finance and Fiscal Commission, while adhering to the commission's principles for allocation.

The commission based its estimates on development bank and demographic bureau statistics, which were rejected in favour of the results of the 1996 census.

However, the department followed the principle that the relative needs of the provinces in education, health and welfare should be assessed with reference to the numbers of people living in the provinces, their ages and similar data. The department moved away from the commission's cost-based determination of provincial shares to a formula which included efficiency as a criterion.

This has the qualified endorsement of the commission.

For the first time, provincial allocations include an equitable share for local government. Some of the provincial allocations have been held back in the national budget as "conditional grants".

The largest of these, called the "central hospital services grant", is to hospitals across the country. More than R4bn of the provincial allocations are conditional on the money being spent on upgrading hospitals. The commission welcomed the move as "desirable for equity, national development and policy priorities".

The budget also does not approve the commission's call for a surcharge on personal income tax as a means of funding the provinces. A commission spokesman said there were no "irreconcilable differences" between the commission and the department.

Differences between commission recommendations and department decisions were instead viewed in the light of "continuing discussions and negotiations on an evolving system".

Manuel delivers shock-free Budget

Sowetan 12/3/98 (49)

By Rafiq Rohan

ALL the brouhaha has subsided. All the pre-analysis of what he will or will not do has receded into the background.

What Minister of Finance Mr Trevor Manuel has done with his Budget is to put paid to all the speculation and announce a Budget that is shock-free and, to quote the words of the Congress of South African Trade Unions (Cosatu), something of a "People's Budget".

Praises will no doubt be heaped on the, minister for this well-planned Budget, but caution needs to apply until its execution.

Manuel goes right to the core of the country's problems, but the one area that has posed shortcomings in Government delivery is at provincial level.

To address this issue, Manuel released R2,8 billion in the form of grants to the provinces, which will be used in the much-needed areas of health, welfare and education.

Relief in sight

This means relief is in sight for the thousands of insecure teachers facing retrenchment, the stretched-to-the-limit health workers in state hospitals and social pension grantees unsure of their future.

One of the biggest problems in the provinces related to the question of over-expenditure. These overspending trends were identified by the Ministry of State Expenditure in the 1997-98 financial year.

Task teams made up of national and provincial treasuries were set up to investigate provincial expenditure. The first results following the 1996-97 period revealed that provincial budgets for the 1997-98 were unrealistic.

Increased spending to address backlogs in health and education were hardly accommodated in the 1996-97 budgets.

Unrealistic reductions

These had to be dealt with by end-of-year Treasury Committee allocations, rollovers and the reallocation of funds within provincial budgets and provincial cash reserves.

According to the *Budget Review* released yesterday, "while the 1997-98 budgets appeared to accommodate modest increases on a budget-to-budget basis, they actually required unrealistic reductions when compared to actual 1996-97 expenditure".

The Financial and Fiscal Commission complained that provinces engaged in what it called "budget games".

What this entailed was that some provinces under-budgeted in key areas like education, health and welfare, expecting the Government to compensate for the shortfall.

While Government still insists that provinces live within their budgets, there is recognition that ministries are responsible for developing policy that is implemented in provinces.

Finance Minister Trevor Manuel presented his 1998/99 Budget to Parliament yesterday.

The *Budget Review* explains: "When national ministries fail to take full account of the cost implications of their policies, and do not provide additional funds to implement new responsibilities, then provinces can find themselves with unfunded mandates.

"This mismatch between funding and policy responsibility appears to have contributed to provincial expenditure pressures."

The review also pointed out that the provinces felt they had little room in the budgets to reprioritise.

Personnel costs and social security benefits account for 80 percent of provincial expenditure, yet changes in salaries and the numbers of social security beneficiaries are largely beyond the control of the provinces.

Provinces have failed to implement policies in the areas where they have the discretion to do so. This is why limits on the number of employees or administrative costs have not been enforced.

What has also been a problem is that weak financial and management systems have resulted in weak expense controls, increased fraud, administrative overstaffing and delays in applying reform policies.

The 1997-98 Adjustment Estimate included R1 500 million to assist those provinces most affected by overexpenditure, and these funds will only be available subject to stringent controls.

Last year task teams worked closely with representatives of national and provincial health, welfare and education departments to help provinces develop administrative capacity.

Arising from the work of the task teams, Manuel agreed to make available the R2,8 billion, but only under strict conditions.

The review states: "These funds are divided between the provinces based on the equitable shares formulae, but will be available to a province only if it enacts a credible budget consistent with the task team principles that adequate funds must be provided for education personnel, health personnel and welfare grants."

Other conditions require that provinces take the necessary steps to improve the collection of their own revenue, apply recognised financial management practices and comply with financial legislation and agreements reached in the Budget Council.

With these new measures being announced many pensioners, teachers and health workers will breathe a little easier.

Manuel wants public input, and public wants to give it

People fast becoming educated on budgetary issues

ARG 13/3/98 (49)

INSIDE STORY

In a sign that our democracy is coming of age, the public is becoming increasingly interested in economic matters and how the Budget will affect them, writes Group Parliamentary Editor **ZUBEIDA JAFFER**

Julia Mokgwetsi, a pre-school teacher from Jankempsdorp, near Kimberley, listened intently as Finance Minister Trevor Manuel presented the Budget.

With short, cropped hair, slightly bleached in the latest fashion, dressed in a black skirt and a red jersey, she sat in the near-filled public gallery, straining to hear whether the minister would speak about the education needs of young children in rural communities.

She was disappointed: "Education is increased a little, but he said nothing about pre-schools "

Ms Mokgwetsi had travelled to Cape Town for Budget Day after seeing an advertisement in her local newspaper about an anti poverty workshop that the churches and non-governmental organisations were holding to study the Budget

In the hours after she left the public gallery, she met people from church, trade union and community organisations to debate and analyse the Budget.

This year's Budget Day was interestingly marked by indications that the South African public was increasingly becoming aware of the importance of coming to grips with economic issues that influence every aspect of everyday life

This represents a marked departure from past years, when all energies were consumed by political argument

The negotiation experience from 1990 to 1994 forced large numbers of South Africans to grapple with what kind of political systems we wanted.

Long past are the intense discussions about federalism and multiparty democracy

Long past, too, are the endless controversies around the kind of constitution we would find acceptable.

The constitution was finally adopted on May 8, 1996, and amended by the Constitutional Assembly on October 11, 1996

This brought an end to the life of the Constitutional Assembly, freeing Cyril Ramaphosa and Leon Wessels to direct their skills into practical rebuilding of the country's institutions. Mr Wessels has returned to his legal work researching human rights. Mr Ramaphosa is one of the leaders in the movement for black economic empowerment.

Ear to the people: Minister of Finance Trevor Manuel says he welcomes advice – solicited or unsolicited – from all South Africans on the Budget

Many others have followed Mr Ramaphosa into the economic arena, effectively shifting the central imperative in South Africa to building the economy.

The intense political interactions over the past years have shown that South Africans have the capacity to listen to one another and reach compromises.

The constitution represents an expression of such compromise and provides the foundation upon which democracy is being built.

The involvement of large numbers of South Africans in reaching compromise over the political fundamentals has ensured that the democratic system has not only stabilised but strengthened over the past four years

The hard work on rebuilding the economy, however, now lies ahead and just as with the political compromises, we will have to seek economic compromises which as many South Africans as possible are prepared to live with

Mr Manuel diverted from his prepared speech this week when he indicated that he welcomed advice from the public

"In the past two weeks, Madam Speaker, I think we have been privileged to receive advice from so many quarters in South Africa, solicited and unsolicited," he said

"And to all this advice we listen very carefully "

This momentary diversion indicated that the country was slowly moving in the direction of large numbers of people beginning to grapple with budgetary and economic issues

Mr Manuel will do well to find the ways to widen public participation in the budgetary process

Participation will ensure understanding and commitment, which are essential for making the economy work

Ms Mokgwetsi did not travel to Parliament in vain

Although she is unhappy that the minister did not speak about preschool education, she goes back to the Northern Cape with a deeper understanding of budget making and the economy

And she has extracted a promise from an MP, Dr Abe Nkomo He has invited her and others to return to Parliament

"We will be coming back again to talk about the Budget for next year," Ms Mokgwetsi said

R170 m state funding for political parties

(49)

DONWALD PRESSLY CT 13/3/98

TAXPAYERS will pay out R170 million to fund the administrations of political parties represented in Parliament and the provincial legislatures. According to the budget review a total of R53m will be allocated to the eight political parties in this financial year. This will be followed by R56,5m in the next financial year and R61m in 2000-01.

Parliament passed legislation last year to enable political parties to maintain their administrative capacity as part of "democracy-building".

The parties in Parliament and the provincial legislatures are the ANC, the National Party, the IFP, the Freedom Front, the Democratic Party, the PAC, the African Christian Democratic Party and the Minority Front.

Parties not represented in the legislatures do not qualify. United Democratic Movement co-leader General Bantu Holomisa said: "I don't think it augurs well to promote multi-party democracy if it excludes parties outside Parliament.

"There must be a criterion agreed upon for those parties."

He pointed out polls showed that the UDM was now the fourth largest party. "This system gives the other parties an unfair advantage."

The general said in the longer-term foreign funding of political parties should be stopped to prevent undue influence. He pointed out that governments were particularly sensitive to this during the process of privatisation.

All parties in Parliament supported the legislation last year.

Paying the price for fringe benefits

MHG 13-19/3/98 (49)

Belinda Beresford

Sometimes it may seem that the government and taxpayers — not to mention accountants and lawyers — are all locked in a contest with the one side trying to avoid as much tax as possible and the other trying to collect it.

For many people having a tax adviser is part of life — whether simply to pay someone else to handle the paperwork or as part of a tax structuring plan.

But with the government determined to apply the maxim "from each according to his means" to taxation, it comes as no surprise that the budget has seen further chipping away at fringe benefits. The ultimate aim is to ensure that the tax you pay has minimal relation to the structure of your pay package.

In his budget speech, Minister of Finance Trevor Manuel said tax avoidance discriminated against lower-paid workers who tended to have less choice in the structure of their salary, and eroded the tax base.

Many of the changes to fringe benefits had been anticipated, given the published recommendations of the Katz commission which is looking at South Africa's tax structures. Although the result may be higher liabilities for many taxpayers, commentators said some of the new measures were less onerous than had been anticipated.

From the beginning of April, you'll pay taxes on half (instead of 40%) of any travel allowance you get from your employer for using your own car on business. However, this will probably not affect your overall tax liability since you can claim the tax back at the end of the year if you can prove your business mileage.

But, you are likely to face an increase in taxable income if your employer has been paying all or most of your medical aid contributions. From April, any such payments which exceed two-thirds of overall contributions will be taxed as a fringe benefit.

The government had been considering applying taxes once employer contributions passed the 50% mark, but fears of discouraging lower paid workers from medical aid schemes contributed to a more lenient stance.

You should also look at the structure of your salary package if your employer provides fringe benefits in the form of residential accommodation, although the government has given you an extra year's grace.

The budget review says discussions with stakeholders meant that last year's proposals to tax such benefits have been relieved slightly since the tax proposals could have "unintended effects on certain lower-income groups". As a result, changes to tax on accommodation will only take effect from the beginning of March next year.

The ultimate aim is to ensure that the tax you pay has minimal relation to the structure of your pay package

Manuel also announced plans to clamp down on the use of trusts to reduce tax liabilities, with further measures expected in the future. Unless a trust has been established for a disabled or mentally handicapped person, income vested in the trust itself will be taxed at 35% on income up to R100 000 and 45% above this level.

In addition, beneficiaries of trusts will in future not be able to take advantage of losses within trusts for tax reasons. Previously, individuals and companies had been able to claim tax deductions on such losses.

Benefit schemes will also be affected by the budget. Among the changes, contributions to friendly societies — such as some stokvels — are going to cease to be tax deductible from the beginning of March next year.

Black business embraces the budget

Marion Edmunds

Minister of Finance Trevor Manuel's copy of the 1998/1999 budget speech was a prize attraction this week at a lavish banquet for South Africa's top black businesspeople who gathered to toast Manuel and the country's foremost black entrepreneur, Cyril Ramaphosa.

The document — which included some gentle tax cuts for the richest of the rich — was auctioned to the highest bidder, National Empowerment Corporation chair Mashudu Ramano, for R60 000, while Ramaphosa delivered the keynote address on black empowerment.

The occasion, organised to raise funds for the African National Congress, served to underline yet again the support the ANC-led government enjoys from black business, the so-called "patriotic bourgeoisie".

While the ANC's alliance partner, the Congress of South African Trade Unions, poured scorn on the budget, black businesspeople embraced the government's spending plans, backing Manuel's hardline stance on fiscal discipline, his strategy to limit social spending and his determination to stick to the principles of the growth, employment and redistribution strategy.

Former Gauteng premier Tokyo Sexwale — now an international diamond businessman — says Manuel's budget is " very positive", particularly as it encourages foreign investment.

"The continued tight fiscal controls are a good thing as the foreign investment community is very careful about how a government handles its own funds. However, at the same time, the budget is seen to be people-sensitive with no increase of value-added tax (VAT)."

Sexwale says the government's plan to tax the demutualisation of Sanlam and Old Mutual is a "clever move", because it means it has ammunition for the Presidential Jobs Summit later this year.

Moss Mashishi, CEO of Moribo Leisure Limited, says he believes black business will be comfortable with Manuel's budget. "I am generally satisfied with the budget. Manuel had a difficult task in that he had to handle competing demands, but he achieved a credible and sustainable budget. It's a tough budget, but it is far better to go hard on fiscal discipline and I am quite satisfied that this is the route the country needs to go.

"The greater provision for education, policing and health is good, as well as the reduction of taxes for lower income earners. His tax on petrol is a major problem and it may reduce gains of the lower income groups."

Mashishi says he backs the demutualisation tax. "It is fair, currently given the imperatives of the government, because the root of the matter is that we do not have enough money and South Africa, both corporate and personal, is taxed to the hilt, so how do you get more? We certainly do not need more VAT because the cost on individuals is already high," he said.

Maurice Radebe, a prominent black businessman in the oil sector, believes Manuel could have done more for black empowerment. "It's a sad omission that the budget does not highlight the issue of black empowerment and is not promoting empowerment actively."

However, Mustaq Bray, chair of Brimstone Investment Corporation Limited, says he believes the government is doing enough to promote black business, and it was up to this sector to seize the opportunities the climate for black empowerment created.

"Its not a bad budget considering that the government is serious about expenditure, especially now that they have a three-year plan. I grew up with Manuel in the Western Cape and he is doing a great job, with his whole team. The International Monetary Fund has recognised him as one of the best finance ministers in Africa."

Bray was supportive of Manuel's moves to crack down on tax evasion and corruption in government.

Ayanda Bam, executive chair of Kuyasa Mining, was also supportive of the budget, citing Manuel's determination to clamp down on tax dodgers as particularly admirable. He also praised Manuel for presiding over the drop in the country's deficit.

Spreading the word: Parliamentarians take note of Trevor Manuel's budget. PHOTOGRAPH: RODGER BOSCH/IAFRIKA

Shaming us into paying taxes

(49) M+G 13-19/3/98

Trevor Manuel's budget held few surprises, writes **Belinda Beresford**

Forget the call to restore flogging and other old-fashioned punishments for crimes. Minister of Finance Trevor Manuel has a similar frontier penalty in mind for tax-dodgers — public shaming.

Where once South Africans could keep an eye on their friends, neighbours and enemies via the gossip column or the deaths and marriage announcements, now there arises the tantalising prospect of being able to check just who has been cheating on their taxes.

The government proposes publishing the names of convicted tax-dodgers in the *Government Gazette* and from there the names can be disseminated in the wider media.

Appeals to personal morality and civic responsibility have long since failed to persuade South Africans to pay their taxes. Instead the government is trying public shame and the use of peer pressure.

The knowledge that the person sitting next to you at dinner has directly contributed to your higher taxes by cheating may create a form of social pressure, quite apart from moral issues.

The government's determination to right the inequalities of the past was demonstrated in the surprise announcement of a windfall tax on the future demutualisation of insurance giants Old Mutual and Sanlam.

Policyholders of these two organisations will be entitled to shares in the newly converted companies and will benefit in a number of ways, including getting dividend payments and benefiting from share price rises. Demutualisation will mean the new shareholders will have access to the free reserves — the excess of reserves over liabilities — of the two organisations.

The budget review says this decision is based on the fact that reserves have been built over time by generations of policyholders and with the benefit of favourable tax regimes for mutual companies

Emphasising again there is no such thing as a free lunch, Manuel announced the government intends to apply a one-off tax to the new shareholders of the two organisations The money is to be used to capitalise the Umsobomvu Fund, which will be used for job creation.

Tax experts said the budget contained no major surprises, apart from the windfall tax. Deloitte & Touche tax partner Billy Joubert described the demutualisation tax as an unexpected "curve ball", but said otherwise the budget had demonstrated "there seems to be an ongoing commitment to reducing the tax burden".

Exchange controls were also relaxed further for both individuals and companies.

There was no increase in value-added tax, although the government will restrict some VAT export tax incentives which were being abused. As expected, "taxes on indulgences", the so-called sin taxes on cigarettes, alcohol and the like, went up.

There were further cuts in the use of potential tax-reducing measures such as medical-aid schemes and car allowances as part of the government's strategy to remove tax planning as an incentive in the structuring of salary packages.

The budget also saw the announcement of changes to the taxation faced by trusts, which commentators said could particularly hit companies using trading trusts.

Although a rise in the tax rate faced by pension funds on rental and interest income had been expected, the hike from 17% to 25% was above most expectations.

Absa pointed out that the increased tax on retirement funds could be counter-productive in reducing domestic savings. Ernst & Young principal tax consultant Sean Kruger said the measure was not surprising, given the state's intention to tax retirement fund income as it arises, rather than when it is paid out.

As far as state pensions go, Minister of Welfare and Population Development Geraldine Fraser-Moleketi announced a 4,3% increase in social security grants following the budget. Old-age, disability and care-dependency grants will rise R20 to R490, while war veterans' grants will increase by the same amount to R508.

Foster-care grants will go up by R10 to R350, while from the beginning of April, carers of children under seven will receive R100 a month per child, if they pass the means test.

Walking softly, selling hard, carrying a big stick

(49) M+G 13-19/3/98

Charlene Smith

Trevor Manuel's budget speech was littered with wisecracks, designed to lighten the serious business of balancing the country's pressing priorities — creating jobs, cutting a bloated bureaucracy, accelerating infrastructural development and attacking corruption.

But behind the gentle banter of the amiable finance minister were tough policies and strategies that spoke directly to investors backpedalling from South Africa

Ignoring the protests of the African National Congress's left-wing allies, including the Congress of South African Trade Unions, which walked out of the budget process, Manuel maintained a tough line on government spending. "We can only plan to spend what we collect in taxes and what we borrow. There will be no bail-outs "

Politically, Manuel knows that the ANC has to give more this year if it wants the disaffected voters who swept it into power in 1994 to return to the ballot booths Indicators already suggest that the second democratic election will reflect a stayaway poll. But economically — and for different reasons — foreign investors are also showing signs of the stayaway syndrome.

Government and business were shaken by the World Economic Forum's competitiveness report which ranked South Africa seventh in a list of 23 African nations More damaging was the recent downgrading by Standard & Poor of South Africa's credit rating.

Standard & Poor said the government's structural reforms were unlikely to boost the gross domestic product (GDP) and criticised economic growth, poor domestic savings, the labour market and a debt burden that limits policy flexibility Its view of South Africa's inability to attract foreign investors was gloomy

Manuel's first task was to take the knife to state spending He said bloated bureaucracies were hampering development "Excessive increases in administrative and personnel expenditure and weak financial administration characterised many [local and provincial] budgets, squeezing their capacity to deliver on Reconstruction and Development Programme objectives," he declared

Clearly, the ability of the ANC to get it right at provincial and local level will determine the overall success of its economic policies

Manuel said growth demanded that private and government consumption should be kept in check He noted that personnel costs and social security benefits account for 80% of provincial expenditure and that "in many cases, limits on numbers of employees or administrative costs have not been enforced"

In the Eastern Cape, 23 400 civil servants "do not even go to work, but are still paid each month" The rigidity of the public service makes their dismissal difficult. Their salaries amount to R1-billion of taxpayers' money and renders the province less able to render quality services.

Local government has to be trimmed, provinces have to become streamlined and both must ensure better revenue collection and financial administration. Without that, the magic word "delivery" is rendered meaningless The Johannesburg Metropolitan Council manages one of the wealthiest cities in Africa, but has had four budget cuts in one year and staff have to bring their own toilet paper to the office.

The MEC for public works in the Northern Cape recently resigned because 97% of his budget went to salaries. The remaining 3% was barely enough to pay for administration, and nothing was left for the infrastructural projects Standard & Poor said South Africa needs, particularly if it is to create jobs The situation is little different in the Eastern Cape, where 80% of the public-works budget is spent on wages

Manuel cautioned that, though the country is four years into democratic rule, it remains bedevilled by its inherited problems. For example, Department of Public Works representative Zaid Nordien disclosed it saved R70-million by cancelling many of the 5 000 leases the old government had held for years.

A new register of state properties found 126 000 properties in 1997, and that figure is now up to 214 800. "We may never know what the real figure is," Nordien said. "The previous government kept no records of these assets "

Bureaucracy still rules the day A R70-million road project between Middelburg and Graaff-Reinet has been halted since November, but the workers still get paid

Manuel recognises that the government cannot fund all development alone and that public/private-sector partnerships are the key to solving some of its fiscal challenges "Business partnerships between municipalities and the private sector in 18 pilot projects in urban and rural areas saw the private sector spend R5 for every R1 spent by the government," he said

The wild card is corruption Manuel spoke of management tools and monitoring systems that have become "a top priority" to increase efficiency and make corruption more difficult The Department of State Expenditure has developed an early-warning system for provincial budgets.

A supplementary allocation of R2,8-billion for provinces "will be disbursed on condition that provinces prepare budgets that accommodate all statutory and contractual expenditure"

Improved management systems in provincial education will cost R200-million; R100-million has been set aside to enhance financial management, another R10-million has been set aside for the welfare department for the development of information systems to ensure pension fraud and mismanagement are eliminated

Manuel echoed President Nelson Mandela's words at the opening of Parliament that the government was not an employment agency and civil service jobs would have to be cut But at the same time he had to concur that job creation elsewhere in the economy was imperative

A R2,3-billion trade-and-industry budget includes increased support for small business development. Small farmers will be primary beneficiaries of R737-million expenditure from the agriculture department, and tourism promotion, a key job creator, will receive R71-million

Serious business: Trevor Manuel's gentle banter belied a tough budget that comes down hard on government spending and inefficiency. PHOTO: RODGER BOSCH/AFRIKA

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Budget in line with Gear goals, say economists

Sowetan 13/3/98 (49)

By Abdul Milazi

ECONOMISTS yesterday described the Budget as being consistent with the objectives of the Government's Growth, Employment and Redistribution (Gear) strategy.

Although tax to Gross Domestic Produce (GDP) is still above the 25 percent level, commentators said people should bear in mind that the economy went through a short-term adjustment phase and economic activity was lower than expected.

Absa's economist Dick Downing said less attention was, however, paid to economic services and this may pose a problem in the future infrastructure necessary for a growing economy.

He said large emphasis was still placed on the social functions of Government, a move which did not deviate from the priorities set down in Gear.

"Capital expenditure is estimated to be less than in the previous fiscal year, but with the deficit as a percentage of the GDP brought down to 3,5 percent, the dissaving should decrease further, leaving more capital for private sector investment," said Downing.

Downing argued that the increase in current expenditure, budgeted to increase by about 2,8 percent in real terms, was at the expense of capital expenditure.

Remuneration of employees is estimated to increase by 12,9 percent, an increase of about 6,5 percent in real terms and might seem to be excessive.

On the revenue side, Downing said the addressing of fiscal drag may be welcomed, while the increase in indirect taxes may assist in correcting the balance between direct and indirect taxes.

Tax consultant Patrick McGurk argued that the increased tax on the retirement fund industry would be counter-productive as far as domestic savings were concerned, while the fuel levy would filter through to all prices and lead to higher inflation.

He said this would force fund managers to move the bulk of their investment from interest bearings to equities, resulting in a negative effect on the economy.

Judged from a macro-economic policy point of view, economists said Finance Minister Trevor Manuel indicated consistency in his drive to achieve long-term fiscal objectives.

The Medium-term Expenditure Framework (MTEF) allows for setting affordable goals as far as the provision of services by Government is concerned.

Downing said the only drawback might be that the economic growth and inflationary targets, which formed the basis for the Budget, were not achieved.

"This might lead to economic imbalances and financing problems."

Coalition calls for public input in the Budget

(49)

Sowetan 13/3/98

THE need for public participation and input in the Budget had never been greater, the anti-poverty coalition said yesterday.

The coalition – which includes the Congress of South African Trade Unions (Cosatu), the South African Council of Churches (SACC), the South African non-governmental organisation coalition (Sangoco) and the South African Catholic Bishops Conference's justice and peace department – called for the speedy introduction of legislation to enable civil society and Parliament to play their constitutional role in the Budget.

Cosatu spokesman Neil Coleman reiterated that the federation would not participate in Parliament's hearings on the Budget this year as "we would not want to repeat a symbolic exercise".

He called for legislation to allow Parliament to have a real say in the Budget, in terms of the Constitution.

Endorsing this view, the South African Catholic Bishops Conference (SANBC) and the SACC nevertheless said they would participate in the public hearings.

Sangoco's Jacqui Boulle said the matter was still being debated within the NGO community, although it was likely the coalition would make a written submission rather than an oral presentation.

At a media briefing in Cape Town, the anti-poverty coalition said it was deeply disappointed that no effective employment strategy was underpinning the Budget.

It would scrutinise how much of the Budget impacted on the lives of the poor, while specific line department allocations would be analysed to ensure that the bulk of the new spending benefited the poor.

The coalition also questioned the rigid commitment to budget deficit targets and said this limited the potential for development and redistribution.

This approach had resulted in reduced spending on basic needs and loss of jobs.

The coalition also repeated an earlier call for the country's public debt to be restructured.

"This would release up to R15 billion a year for poverty eradication and infrastructure development," Anglican Archbishop of Cape Town, the Most Reverend Njongonkulu Ndungane said. The repayment of this debt continued to drain resources that could be used to eradicate poverty. – *Sapa.*

(49) BRU 14/3/98

Manuel raids pension savings

Low income earners hit the hardest

BRUCE CAMERON

Government has launched an attack on retirement funds that could result in significantly reduced benefits for retirement fund members and individuals drifting away from retirement saving vehicles

And the life assurance industry warned that following the government's decision to increase the tax on the gross interest and net rental income of the funds from 17 to 25 percent that the hardest hit would be low income earners

Apart from the direct hit it also means that low income earners, who would be paying no tax or a marginal rate lower than 25 percent, are penalised, while high income earners with a marginal rate of 45 percent, get off comparatively lightly

The blow to low income earners should have been balanced out by a proposal to subsidise pensions of low income fund members, which is still under government consideration.

The industry reacted with both surprise and anger to the increased tax. The industry, including the Institute of Retirement Funds, was not consulted by government about the effects prior to the announcement.

The industry believes that the tax will make retirement funds unattractive to members, particularly of defined contribution funds, and could severely damage the substantial retirement annuity industry

Sanlam says that those people who switched from defined benefit funds to defined contribution funds have taken a nasty rap for their decision

The industry is still crunching the numbers to establish the full extent of the damage.

Initial calculations done by Old Mutual Actuaries and Consultants show that retirement fund members could lose up to 25 percent of their final benefits as a result of the tax.

Worst hit will be provident fund members because their contributions to funds are not tax deductible Consequences for members of defined benefit funds could also be significant if employers refuse to make up any shortfall caused by the tax This would mean members would either have to contribute more or take lower end benefits.

Pre-budget speculation was that the tax rate would increase from 17 percent to 19 percent, in line with the lowest rate of income tax.

Old Mutual Actuaries and Consultants estimate that the effect of this increase will be to reduce fund investment yields by about 0.3 percent a year – taking the total yield reduction since the tax was introduced in 1996 to almost one percent a year

"For members of defined contribution funds, the effect of the rate change is to reduce the retirement capital which a member could expect to accumulate over a working lifetime by around eight percent. Compared with the situation before the tax was introduced, retirement expectations have been reduced by roughly 25 percent."

Jurie Wessels, director of the Life Offices Association, says this should be seen as a tax on pensioners and future pensioners.

"The increase in the levy rate is difficult to understand against a background where the National Retirement Consultative Forum (NRCF) has accepted a recommendation that ad hoc changes should not be made.

"The NRCF's holistic review of the country's retirement funding system is severely undermined by this announcement."

BRUCE CAMERON

Finance Minister Trevor Manuel has been true to his word in keeping to the faith he proclaimed in his first Budget, but to achieve this he has attacked some soft targets and set some nasty precedents.

Granted he has also attacked, through his jacked up revenue collection service, some hard targets, namely tax dodgers and high income earners who have used loopholes to reduce their tax commitment

The broad sweep of his commitment to use the Budget to deal with the acute deprivation of the majority of South Africans, within the constraints of the pain that can be withstood by taxpayers and without resorting to a borrowing spree, is clearly evident.

The problem occurs when he puts a new slant on Robin Hood. Not only is he using the normal tactic of robbing the rich to pay the poor, but now he is also robbing the poor to pay the poor.

Unfortunately this is the impression he creates by his levy on the capital build-up in retirement funds, and to a lesser extent that on the windfall that will come the way of policyholders of Old Mutual and Sanlam if they demutualise.

Many low income people who are not taxpayers or have a low marginal rate of tax are members of retirement funds and are policyholders who stand to benefit from the demutualisation. Manuel is now reducing their already low benefits.

What is worse is that the Department of Finance does not seem to have properly considered the consequence of their actions on retirement funds but adopted an approach of looking for soft targets.

The answers forthcoming from government spokesmen in the wake of the Budget have been unsatisfactory.

At the very least the increased taxes should have been held back until the entire retirement industry could be restructured in terms of the recommendations of various committees and commissions, which are currently under review by government.

What has happened is that the downside of the recommendations have been introduced without any of the advantages, particularly for the less well off.

Apart from going for easy targets to meet his commitment to reduce state borrowing, Manuel has again done a laudable job that should in years to come benefit all taxpayers and non-taxpayers.

The penalties that had to be paid by everyone to get the government books back into order after years of abuse in the apartheid era should now start paying dividends in a more sound economy and hopefully better job opportunities.

Public naming and shaming lies in wait for tax dodgers

CHARLOTTE MATHEWS

Duck your taxes and your neighbours may soon know all about it The tax laws are to be amended to allow the names of tax offenders to be published in the Government Gazette

"Tax evasion imposes higher tax rates on honest taxpayers. It is only right that those who pay their due should know whose tax default they are paying for," Finance Minister Trevor Manuel told Parliament

The Commissioner of the SA Revenue Services (SARS) already has the power to publish the names of certain people convicted of offences under the Value-Added Tax Act It is now proposed to extend this to, for example, taxpayers who give false information or fail to furnish documents when asked for them, employers who do not deduct employees' tax or issue false certificates, or anyone who contravenes provisions of the Customs and Excise Act.

The various tax acts contain secrecy provisions to prevent details of individual taxpayers affairs being made known. The government intends to look at these provisions to see how they could be amended to "enhance tax morality and effective revenue collection" It proposes to provide some taxpayer information, in consolidated format rather than on an individual taxpayer basis, to the Central Statistical Service to assist in the collation of data.

SARS has also launched a campaign to broaden the tax base by registering individuals, businesses and employers who are not yet registered.

It was also discovered, by analysing the declaration of good standing which had to be completed by those using their R200 000 foreign investment allowance, that 17 percent of the applicants were either behind with their tax returns, not registered for tax, or in arrears with their tax. SARS is following up these irregularities and the government will now require South Africans using their foreign allowances to secure a clearance certificate from SARS before they will receive approval to take funds offshore

Keep wages at low level, warns leading economist

Unions' demands may increase joblessness

By DESMOND BLOW

Inflation may be down, but one of the greatest problems facing the finance minister is the public wage bill, which devours 40 percent of the country's annual revenue. This is a recipe for further unemployment, says an economist.

SOUTH AFRICA faces growing unemployment unless the unions and the government accept that wages should be kept at a low level, Old Mutual economist Riaan le Roux warned this week.

Unions demands for higher wages and the government's inflexible stand in supporting the workers would lead to a steady increase in unemployment, Le Roux said.

Finance minister Trevor Manuel's Budget this week revealed that although inflation had dropped to about 6 percent, wages were rising at 9 and 10 percent.

This meant there would be less jobs, both in the public and private sector, but unions appeared to be unwilling to accept lower wages.

The Budget revealed that there were two enormous difficulties for Manuel to overcome. One was the enormous national debt left by the apartheid government of more than R320 billion – which is about three times the debt a developing country like South Africa can afford, and which is costing South Africa about 20 percent of its annual revenue and the public wage bill, which is costing about 40 percent.

This leaves only about 40 percent left in the kitty.

The consensus is that Manuel and his finance department have used deft footwork in producing a Budget that although it has not really satisfied anyone, has not disturbed anyone too badly.

Cosatu had demanded a "people's Budget" to assist not only the workers, but the unemployed and the poor.

Last week, Cosatu general secretary Zwelinzima Vavi said that its opposition to GEAR (the Growth, Employment and Redistribution policy) was because it dictated the slashing of 300 000 public sector jobs by the year 2000.

He said this crisis would worsen the standards of living of the poor.

Vavi said the fiscal deficit for South Africa could be as high as 12 percent of GDP, and not about 3 percent, because the World Bank had concluded that the higher growth pattern would gradually generate more public savings, so that by the year 2000 the country would experience fiscal surplus.

However the World Bank's Gene Tidrick this week denied this.

He said if the World Bank had ever expressed such a view, it no longer applied and that he agreed that about 3 percent for South Africa was sustainable.

Economists this week said that the privatisation of some of the state's assets could greatly reduce the foreign debt to about a third, which was a sustainable level for South Africa.

Cosatu is opposed to privatisation and it was not mentioned in the budget this week.

The ANC had been left with the enormous debt of the Nationalist government, which borrowed billions to implement the bantustans, the defence force and the development of nuclear weapons.

If the foreign debts were reduced, a strong economy could follow.

With the general elections next year, the budget was politically correct.

Manuel told Parliament that since 1994 the number of children going to school had been increased by 10 percent, that there were now 13 million students at learning institutions and that five million meals were provided to primary school children daily.

Five hundred new clinics had been built, which brought health services closer to five million people, and 32 million people who did not have medical aid were provided with free health care.

Since 1994, a million women and children in rural areas had been given a clean water supply, and 1,5 million homes had been connected with electricity, which had created new income-earning opportunities for over four million people.

More than a third of a million – 385 000 – houses had been built, and subsidies for 700 000 had been earmarked.

Nine hundred projects had been implemented, creating about 40 000 jobs.

A surprise in the budget was the increase in tax on retirement funds, from 17 percent to 25 percent.

A small increase was expected, and at a pre-budget scenario, Dave Mohr, Old Mutual's chief economist, predicted that it would be raised from 17 to 19 percent.

At the Nedbank/Old Mutual budget forum after the Budget, Mike Levett, the chairman of Old Mutual, said this was a bigger surprise than the minister's decision to tax 2,5 percent of the funds of the country's two largest mutual insurers, Sanlam and Old Mutual.

The companies are demutualising and giving shares to millions of policy holders, who include people of all races and organisations, including pension funds and unions.

Manuel said it was a one-off charge and that the money would not be used to finance current expenditure. It would be used to capitalise a fund to be known as Umsobomvu, which would train people for employment.

Old Mutual issued a statement that the tax would not affect policy-holders' benefits.

"The tax will only be levied on the value of free reserves at the time of the envisioned conversion of Old Mutual," the company's chief actuary, Theo Hartwig, said.

The tax would be paid by Old Mutual, he said.

About R1 billion is expected to accrue to Umsobomvu, and Levett said that "although one does not like these things, as it is for job training, it is for a good cause".

(49) CP 15/3/98

POINTING THE WAY... Finance Minister Trevor Manuel's Budget neither satisfied nor disturbed anyone

Two major difficulties for Manuel in Budget

EP 15/3/98 (49)

By DESMOND BLOW

THE BUDGET this week revealed that there were two enormous difficulties for Finance Minister Trevor Manuel to overcome.

One was the enormous national debt left by the apartheid government of more than R320 billion – which is an amount about three times the debt which a developing country like South Africa can afford

This is costing South Africa about 20 percent of its annual revenue.

The second difficulty is the public wage bill which is costing the country about 40 percent of its annual revenue.

This leaves only about 40 percent in the kitty.

The general reaction to the Budget was that although few were satisfied, few were too distressed by it.

Cosatu had demanded a "people's Budget" to assist not only the workers, but the unemployed and the poor.

Last week Cosatu general secretary Zwelinzima Vavi said Cosatu's opposition to Gear (Growth, Employment and Redistribution policy) was because it dictated the slashing of 300 000 public sector jobs by 2000.

He said this crisis would worsen standards of living for the poor.

He said that the fiscal deficit for South Africa could be as high as 12 percent of GDP and not about 3 percent because the World Bank had concluded that the higher growth pattern would gradually generate more public savings and so by the year 2000 the country would experience fiscal surplus.

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The ANC has been left with the enormous debt by the Nationalist government which borrowed billions to implement the bantustans, the defence force and the development of nuclear weapons.

If the foreign debts were reduced a strong economy could follow.

With the general elections next year the Budget was politically correct. Manuel told Parliament that since 1994 the number of children going to school had increased by 10 percent and there were now 13 million students at learning institutions. He said five million meals were provided to primary school children daily.

Five hundred new clinics had been built which brought health services closer to five million people, and 32 million people who did not gave medical aid were largely provided with with free health care.

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Stals endorses Manuel's course

(49) ST(PT) 15/3/98

THE BUDGET

By MARCIA KLEIN

FINANCE Minister Trevor Manuel's Budget has received the thumbs up from the Reserve Bank. Governor Chris Stals said in Parliament on Friday that the Budget placed the Bank in a better position to look at easing monetary policy and dismantling the remaining exchange control regulations.

He said that from a monetary policy point of view, the deficit target of 3.5% of GDP was "the most important aggregate" in the Budget.

Stals confirmed that Manuel's 3% GDP growth and 6% inflation forecasts for the 1998/99 fiscal year, considered by some critics to be unrealistic, were in line with Bank forecasts. He warned, however, that the current account deficit could almost double in 1998 to R15-billion from R8.8-billion last year.

Meanwhile, Manuel said on Friday that he was looking at ways to change the Bank's structure in order to allow government to set inflation-based targets. "There has been the tendency in the past that bands and targets have been set by the Bank and we seek to change that," Manuel told Parliament's finance committee. "This is something we are in discussion with the Reserve Bank about."

He said the arrangement whereby the Bank's board of governors delegated the power to manage monetary policy to the governor and his deputy would change with the launch of the new market-based repurchase rate system.

Manuel's Budget has gained broad acceptance, apart from the traditional outcries from opposition parties and labour.

In an interview, he said that, on the revenue side, criticism that government was siding with a certain constituency was wrong. "Revenue initiatives are consistent with our policy objectives .... What we are doing is also entirely in line with the first Katz tax proposals which stressed the need for equity and a level playing field."

Picture: RICHARD SHOREY

THUMBS UP ... Trevor Manuel at the Budget presentation

Commenting on what he called "the unpopular choice" of taxing retirement funds, Manuel said the Budget only dealt with interest and rental earnings of retirement funds. He made no excuses for his decision, saying there was a tax advantage for retirement funds that was not offered for other savings.

He believed it was significant that the Budget addressed bracket creep, putting R3.7-billion into the pockets of working people.

Criticised for his optimistic view of economic growth in the next year, as well as for job creation targets set out in his Gear strategy, Manuel said that at the time Gear was drafted, the balance of payments constraint was severe and the rand was in free fall.

Now that inflation is coming down, SA's export performance is proceeding apace.

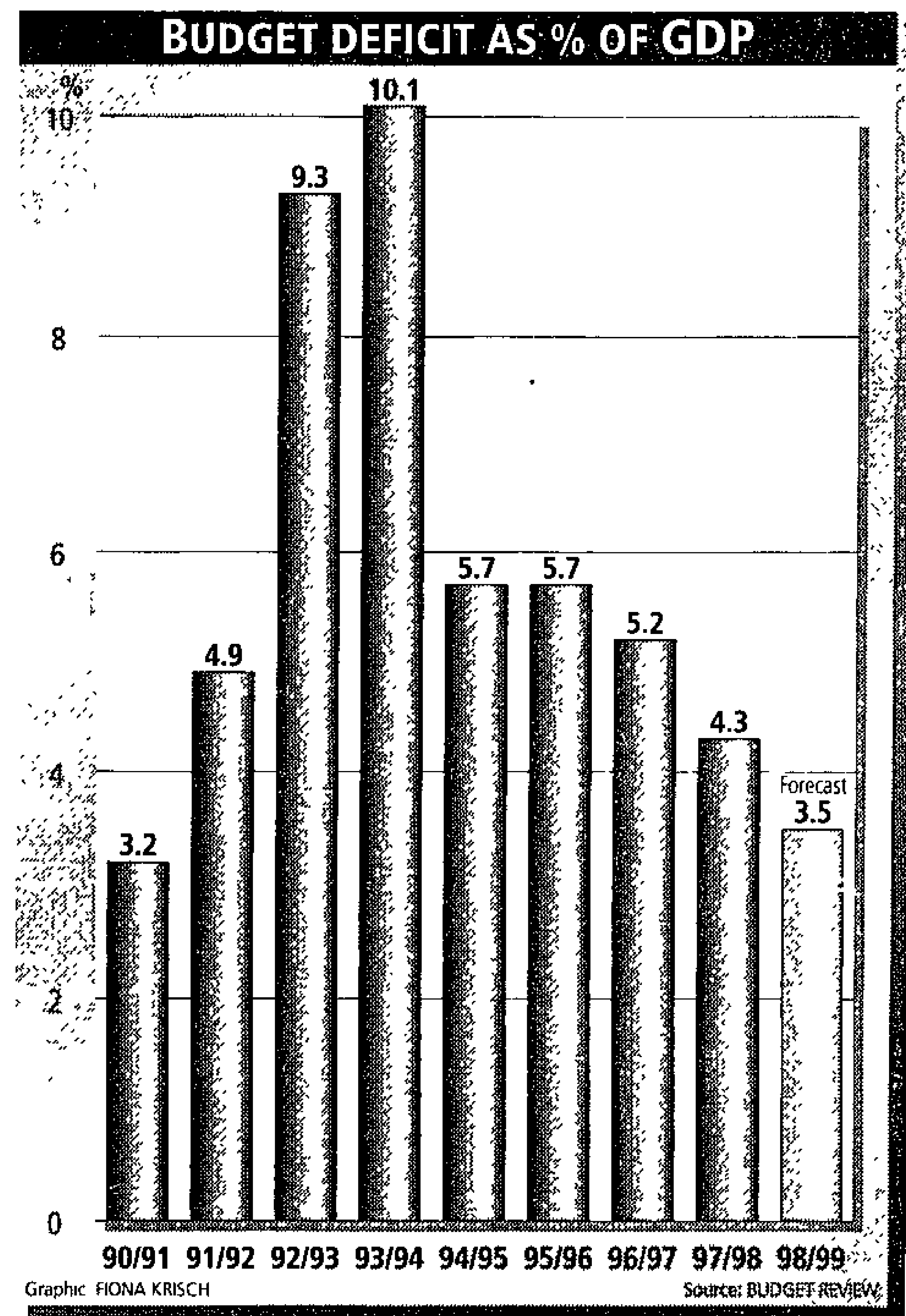
"The course we are pursuing will kick in, maybe not with the speed or alacrity we would all want, but the fact that we are on the trajectory for economic transformation that will be lasting cannot be disputed."

● See pages 2, 12, 13 and 14 for more Budget coverage

Manuel gives, and grabs, as he two-steps for election

The government's commitment to continued fiscal discipline has been received well, writes MARCIA KLEIN

(49) ST (BT) 15/3/98



SHIFTS towards social spending, tax relief for low- and middle-income earners and numerous other Budget strategies confirm that this is, as touted, an election Budget.

At the same time, the demutualisation of Old Mutual and Sanlam, which spreads huge amounts of money into the economy and will make a wide spectrum of voting individuals prosperous, has been said to be the biggest pre-election gift the ANC could ever have wished for.

It seems strange therefore that the only real surprises in Finance Minister Trevor Manuel's Budget — a 2.5% levy on the free reserves of the two mutuals and a rise in tax on retirement funds to 25% from 17% — picked out the insurance industry as the target for extricating much-needed additional revenue in order to meet the targeted 3.5% budget deficit.

The mutuals, who were apparently given no prior warning, have grudgingly accepted the 2.5% levy, even though there is no precedent. They are clearly upset about the increased tax on retirement funds.

As usual and in line with tradition, all opposition parties and other stakeholders, including Cosatu, have voiced their disapproval. Cosatu said this week inconsistencies in the Budget "are in large part a product of chasing the magic deficit reduction figures of the growth, equity and redistribution strategy (Gear)".

But the Budget, and government's commitment to fiscal discipline, was generally well received. Transparency with regard to its fiscal planning has meant that most aspects of the Budget were not unexpected.

It is based on the ambitious target of 3% economic growth in the next fiscal year, but takes into account a lower inflationary environment than was expected when government released its medium term expenditure framework last year. Manuel announced a targeted 3.5% deficit for 1998/99 and an expected deficit of 3% in the following two years. The budget deficit was 4.3% last fiscal year, slightly higher than budget but in the right direction.

The Budget, for the first time reflecting both short- and long-term decisions and presented in the framework of the new constitution, shows expected revenue of R177.6-billion in 1998/99, equivalent to 26.5% of gross domestic product and unchanged on last year.

Expenditure of R201-billion is expected, an increase of 6.4% over last year. After state debt, spending will be R159-billion, of which 60% is allocated to social services. About 12% or R19-billion goes to welfare and social grants, 14% or R23-billion is allocated to health services, 28% or over R45-billion to education and R3.5-billion to housing.

These reflect a commitment to increase social spending.

Provinces receive an equitable share of R79.1-billion and conditional grants, raising the provincial allocation to over R90-billion. The Eastern Cape will receive R15-billion, Gauteng R14.1-billion, KwaZulu-Natal R17.6-billion, Northern Province R11.1-billion and Western Cape R9.5-billion.

The Budget provides tax relief to low- and middle-income earners, who will benefit to the tune of R3.7-billion.

At the other end of the income spectrum, individuals with spare cash are now permitted to take more money offshore. As a further relaxation in exchange controls, the limit for individuals has been increased to R400 000 from R200 000. Those with policies at Old Mutual and Sanlam face a 2.5% charge on the free reserves of the two groups on demutualisation.

As usual, smokers and drinkers suffer. Excise duties on tobacco are up 46c for a packet of 20 cigarettes. SA's 50% tax on tobacco products compares with 52.1% in Asia, 28.5% in the Middle East, 47.4% in North America and 42.5% in Africa. Because of the price differential with other African countries, contraband and smuggling have become a big problem. This means it is unlikely cigarette tax will be raised higher than 50%.

It will cost 1.6c more for a can of beer, 65.7c more per 750ml of cane spirits, and 48.2c more for grain spirits. Unfortified wine goes up by 5.9c per 750ml.

PRESSURE . . . Trevor Manuel's Budget reveals rising personnel spending

Big shift to social spending belies unions' claims

ST(BT) 15/3/98) (49)

The government has fulfilled its promise to revise budgetary priorities. SVEN LUNSCHE looks at the ways in which the money is being allocated

FINANCE Minister Trevor Manuel's legacy on the Budget has been twofold: a continuing shift towards social services and a worrying surge in personnel spending at the expense of capital projects.

The 1998/99 Budget is the first in SA's history to provide a three-year timetable. A closer analysis of the trend confirms that the ANC government has met its promise of reprioritising state spending towards social services.

Jac Laubscher, chief economist at Sanlam, says the shift towards social spending is "striking", pointing out that 60% of non-interest expenditure in the Budget — an amount equal to R102-billion — was devoted towards the social ministries (housing, education, health and welfare).

The shift has come at the expense of economic services, which in 1998/99 face a cut in their allocations to R17.1-billion from R18.9-billion in 1997/98, and defence, whose budget since 1995/96 has fallen from R11.6-billion to R11-billion this ...

The poor efficacy of the education budget — pupils seem to be getting fewer school books despite ever-increasing budgets for their departments — is largely out of Manuel's control.

However, he does have the power to arrest one key expenditure trend that contributes to poor delivery of social services, namely the rise in the salary bill at the expense of capital expenditure on school buildings, clinics, etc.

The figures for 1998/99 make particularly depressing reading. Total personnel spending at R83.3-billion is up almost 13% on the previous year, accounting for more than 53% of non-interest expenditure.

Manuel's Budget review also reveals that government is experiencing increasing pressure from rising personnel spending.

Personnel spending is projected to rise 6.9% and 5.8% over the next two years, still 2.9% real growth a year.

Manuel admitted the trend was worrying but said government was obliged

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The shift has come at the expense of economic services, which in 1998/99 face a cut in their allocations to R17.1-billion from R18.9-billion in 1997/98, and defence, whose budget since 1995/96 has fallen from R11.6-billion to R11-billion this year. However, Manuel continues to give more funds to the other protection services, particularly the SA Police Services, whose budget this year is R14.1-billion, up from R9.3-billion four years ago.

The trend towards increased allocations to social spending shows no sign of abating. The three-year forecasts show that spending on social services will increase by an average 3.2% in real terms from 1998/99 to 2000/01, with spending in health rising 5.8% and education 3.4% a year.

At R46.8-billion in 1998/99 — 16.3% up on 1997/98 — education has surpassed interest payments as the largest single spending item in the Budget. The health budget was raised by a staggering 24.2% this year to R25.1-billion.

The figures provide the government with much-needed ammunition as it confronts Cosatu's allegations that it presents Budgets for Business. Nothing could be further from the truth although the unions have a point when they say the spending does not always mean real benefits for the poor.

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Manuel's Budget review also reveals that government is experiencing increasing pressure from rising personnel spending.

Personnel spending is projected to rise 6.9% and 5.8% over the next two years, still 2.9% real growth a year.

Manuel admitted the trend was worrying but said government was obliged by regulations under public service agreements and labour legislation.

Rising salaries have forced government to cut back on capital expenditure. In 1998/99 capital costs have been cut from R14.8-billion previously to R14.4-billion. Even more worrying is that until 2000/01 capital spending will decline by 2% a year in real terms.

This, warns stockbrokers Huysamer Stals in their analysis of the Budget, "bodes poorly for future growth".

That is putting it mildly. The cutback in capital expenditure will result, among others, in fewer schools and clinics being built.

Manuel counters that the percentage figures do not paint the true picture in that public-private partnerships and capital programmes by parastatals "are increasingly replacing the direct spending on infrastructure". However this applies only to areas where parastatals operate — namely electrification by Eskom and phones by Telkom, among others. The schools and hospitals still have to be built by government and there is less and less money available for that.

WHERE THE MONEY GOES?

	1997/98		1998/99	
	Estimate R-billion	% of total	Estimate R-billion	% of total
General services	13.2	6.9	9.0	4.4
Protection services	29.6	15.6	33.0	16.1
Defence	10.7	5.6	11.0	5.3
Police	13.1	6.9	14.1	6.9
Prisons	3.9	2.0	5.6	2.6
Courts of Law	2.0	1.0	2.5	1.2
Social services	88.6	46.6	102.2	49.8
Education	40.3	21.2	46.8	22.8
Health	20.2	10.6	25.1	12.2
Social security & welfare	18.4	9.7	19.8	9.6
Housing	4.2	2.2	4.0	1.9
Other	5.5	2.9	6.5	3.2
Economic services	18.9	10.0	17.1	8.3
Water schemes & related services	1.9	1.0	1.9	0.9
Fuel and energy	0.2	0.1	0.1	0.1
Agriculture, forestry & fishing	4.5	2.4	4.3	2.1
Mining	0.3	0.2	0.3	0.2
Manufacturing	1.1	0.6	0.6	0.3
Regional development	0.9	0.5	0.7	0.3
Transport & communication	7.3	3.8	6.5	3.2
Other economic services	2.8	1.5	2.6	1.3
Interest	38.6	20.3	43.0	21.0
Reserve	1.3	0.7	1.0	0.5
Total estimated expenditure	190.2		205.2	

Graphic: FIONA KRISCH

Source: DEPT OF FINANCE

Easier now to buy property in London

RAND-HEDGE INVESTMENTS

By TOM HOOD

THE rush of wealthy South Africans to buy a chunk of London is expected to become a flood following Finance Minister Trevor Manuel's easing of foreign exchange controls

The cash private individuals may invest abroad has been doubled to R400 000

"South Africans were forming syndicates and pooling their R200 000 allowances to use as deposits and get a foot in the door," says Anne Mackie, MD of the SA subsidiary of Savills, the London-based property giant. "The R800 000 allowed a husband and wife will make buying much easier"

By using the allowance as a deposit, investors could buy a freehold flat for £200 000 in Docklands and the London areas of new developments and then lease it for a return of 12% gross Bond rates are about 8% and repayments can be covered by rental income

The London market has recovered, showing growth of up to 20% last year, says Mackie

Seven out of 10 investors attending the company's seminars in Johannesburg and Cape Town earlier this year bought property in London, she says

Another property group, Pam Golding International, reported inquiries from hundreds of serious SA buyers wanting to get into the British property market as an overseas rand hedge

MD Andrew Golding says the company has mandates from 110 investors to find properties after running seminars led by British property experts

Investors seek a net annual return of 8% after property costs

GOLD FIELDS PROPERTY COMPANY LIMITED
(Registration number 01/01078/06)
("GFP")

RAND LEASES
RAND LEASES PROPERTIES LIMITED
(Registration number 78/00870/06)
("RLP")

Restructuring of GFP and RLP

1. THE RESTRUCTURING

Further to the recent joint cautionary announcements by GFP and RLP, Capital Alliance Bank Limited is authorised to announce that, subject to the fulfilment of certain conditions precedent, agreement in principle has been reached in terms of which GFP will:

- increase its authorised ordinary share capital by the creation of 38 000 000 ordinary shares of 2.5 cents each ("the increase in authorised share capital");
- undertake a share split by subdividing each existing GFP ordinary share of 2.5 cents each into 5 new GFP ordinary shares of 0.5 cents each ("new GFP shares") ("the share split"),
- acquire from Consolidated African Mines Limited ("CAM") its entire property portfolio for a purchase consideration of R84.5 million, which consideration will be settled by way of a R20.5 million payment in cash and the issue of 35 555 556 new GFP shares ("the CAM transaction");
- acquire from CAM 5 555 556 ordinary shares in Capital Alliance Holdings Limited ("Capital Alliance") at R27.00 per share, with a total value of R150 million, which Capital Alliance shares CAM will receive in terms of the unbundling of Saflife Limited announced in the press on 4 February 1998, in consideration for which GFP will issue 83 333 333 new GFP shares ("the Capital Alliance transaction");
- place the Capital Alliance shares received from CAM with certain financial institutions at R27.00 per share in order to recapitalise GFP ("the recapitalisation"); and
- change its name to Randfields Properties Limited ("the change of name").

Furthermore, agreement has been reached in terms of which RLP will, subject to the fulfilment of certain conditions precedent, dispose of the 4 410 000 GFP shares (22 050 000 new GFP shares) held by RLP to CAM (representing an interest of 43.1% in GFP prior to the transactions mentioned above) for a purchase consideration of R52.9 million in cash ("the RLP transaction").

Subsequent to the CAM transaction, the Capital Alliance transaction and the RLP transaction, CAM will control approximately 89% of the issued share capital of GFP. CAM has undertaken to distribute its entire interest in GFP to its shareholders and as a consequence has obtained dispensation from the Securities Regulation Panel ("the SRP") that an offer to the minority shareholders of GFP will not be required.

2. RATIONALE

2.1 GFP

The rationale for the aforementioned transactions (excluding the share split and the change of name) is to enable GFP to become a significant property holding company which:

Tinged with a sense of grasping desperation

(49 ST(BT) 15/3/98

ERNIE LAI-KING of Sentrachem, head of the taxation committee of the SA Chamber of Business, says the Budget is a mixture of populism, pragmatism and fiscal redistribution

THE message that came out of the ANC Mafikeng conference was that it was not going to be business as usual The previously privileged were going to have to resign themselves to the fact that they wouldn't be able to continue enjoying their privileges People would have to make sacrifices to build SA into a successful and better country During Wednesday's Budget speech, I was reminded of that message.

The Budget was done under very limiting economic and political circumstances

Elections are looming, the ANC has been harshly criticised for poor delivery, the economy has performed poorly and the avenues to raise additional tax revenues are painfully limited.

The government was warned that VAT rates could not be raised without a severe political backlash, while an increase in corporate tax rates would undermine business and investor confidence. Individual tax rates are already too high

The solution has been a Budget which is a mixture of populism, pragmatism, economic sense, fiscal redistribution, but one nevertheless tinged with a hint of desperation.

There was a bit of populism in the Budget in that he gave handouts to everyone Exchange controls were relaxed further to please the businessman.

The unions and other ANC members must have been pleased by substantial increased spending on social grants, pensions, health, housing, education and safety and security

Furthermore, the Budget offers relief from fiscal drag mainly in the lower end of the salary scales, while an increase in VAT was studiously avoided.

The Budget also showed strong elements of pragmatism. In the face of almost unlimited demands and limited resources, there was the realisation that government would have to spend less on salary bills, root out corruption and fraud and become more efficient.

The overall strategy presented in the Budget is sound but more than ever the devil will lie in the implementation of this strategy

Downsizing of the public service before an election year will prove very tricky and a cynic will note that no downsizing targets or timetables were set.

Economic sense prevailed in that corporate tax rates were not raised and nothing was done, apart from the additional taxes in the retirement industry, to cause major shocks to investor/business confidence.

Under previous finance ministers, we may well have seen ad-hoc increases in company taxes. Under the present climate where businesses are coming to terms with their uncompetitiveness in the world market, tax increases would have exacerbated the adversity of their situation.

Improved and more aggressive tax collection to close the "tax gap" estimated by the Katz Commission to be as high as R20-billion makes more sense than increasing tax rates.

The perceived abuse of trusts has been combated through a proposal to "ring-fence" tax losses incurred by trading trusts and to tax undistributed trust income at 35% on income up to R100 000 and at 45% in excess of R100 000.

The budget continued the recent trend of fiscal redistribution. It was always expected that higher income earners would have to contribute to the provision of relief to lower income earners.

The progress to tax fringe benefits on the same basis as cash remuneration continued apace, with so-called "salary sacrifice" schemes involving non-contributory medical aid schemes being severely curtailed. My concern is that employers will come under intense pressure especially from union members to gross up the salary and wage packages to make up for the additional tax payable, with consequent effects on inflation and competitiveness.

There are presently very aggressive salary sacrifice schemes in operation with many crossing the line from avoidance into evasion. My further concern is that contrary to curtailing salary sacrifices this amendment will cause employers to adopt more aggressive schemes, using loopholes that still exist.

There is a hint of desperation when a nation's retirement savings are taxed instead of encouraged. When the tax rate increases by 47% from 17% to 25% in one leap and considering that the minimum individual tax rate is 19%, no justification can withstand objective scrutiny, other than that Government was desperate for funds.

When an ad-hoc 2.5% tax is imposed on gains enjoyed by policyholders when mutual insurers demutualise and when that tax has no technical basis or precedent in our tax history and does not adhere to any sound tax principle, the only conclusion is that the fiscus saw a big pot of money and decided it wanted a piece of it.

The only saving grace of the demutualising tax is that it has been set aside for job-creation, which is a national priority. Taxpayers must insist this money be used wisely, efficiently and only for the purpose of job-creation. Most of all there must be accountability and transparency — the Budget itself provided no details

The Budget was always going to be a difficult one under the circumstances It gets 6.5 out of 10 in my book.

Picture: ANDRZEJ SAWA

REPORT-CARD ... Ernie Lai-King gives Manuel 6.5 out of 10

Business Day

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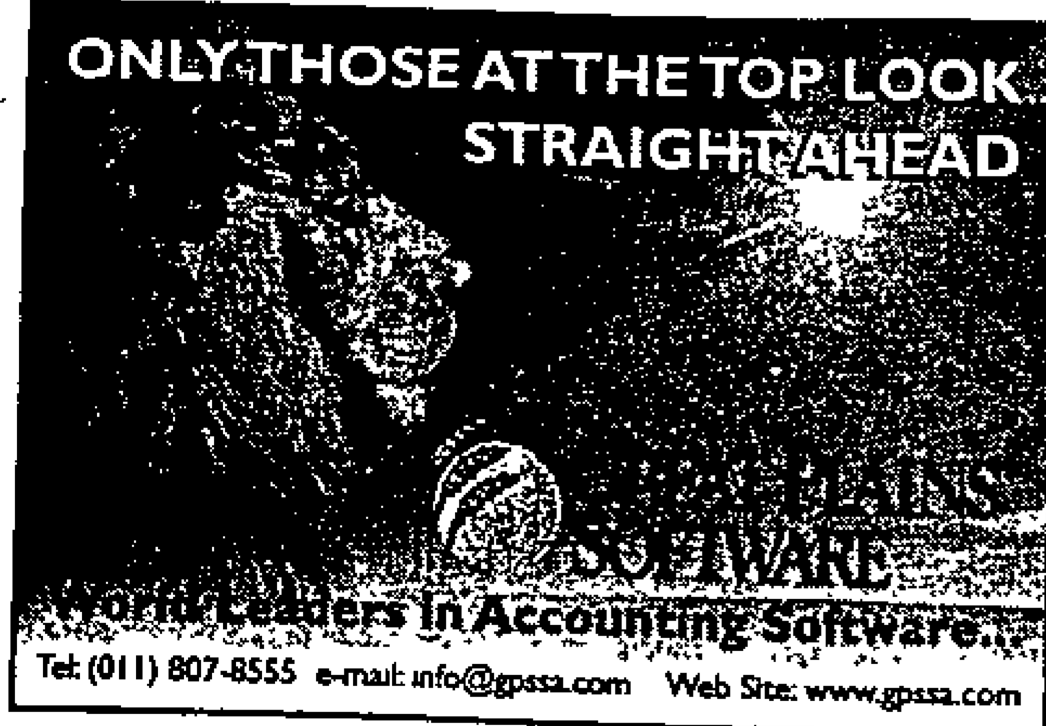


Govt to set inflation targets and establish monetary policy board

(49) BD 16/3/98

Linda Ensor

CAPE TOWN — Government is moving ahead with plans to set specific inflation targets, aimed at giving the Reserve Bank's monetary policy a more clearly defined goal.

Reserve Bank governor Chris Stals said SA was not ready for such a move.

Finance director-general Maria Ramos said inflation targets were in line with international practice, providing a benchmark against which Parliament and the electorate could evaluate the Bank's performance. The aim would be greater transparency.

"We work to targets in everything and clearly the money supply target is not a very predictable target to be working to any more," Ramos said.

Parliament's finance committee is expected to propose this month that a monetary policy board be set up within the Bank to help achieve the targets.

Stals said he supported the idea of inflation targets set by government but he did not believe they could be introduced within the next two years as they would have to be worked into the growth, employment and redistribution (Gear) strategy.

Finance Minister Trevor Manuel indicated his support for inflation targets to Parliament's finance portfolio committee on Friday.

Ramos said government setting inflation targets would not interfere with the constitutionally enshrined independence of the Reserve Bank as the Bank would continue independently to control the instruments required to achieve the monetary policy goals. "Every constitution of every central bank operates along these lines, drawing a distinction between goal independence and instrument independence."

Stals said: "Inflation targeting is an interesting objective for the future but it is very difficult for the government to commit itself to an inflation target — all policies, wages and salaries, trade policies must fit into it. I have always been in favour of inflation targets but the Reserve Bank on its own cannot introduce them. It is something that the country must decide on. I just think we are not ready for it."

It would damage SA's credibility to set an inflation target much higher than that of its major trading partners.

Ben Turok, head of a finance committee subcommittee probing the Bank's role in monetary policy, said a monetary policy board would bring fresh, diverse input to monetary policy. The Bank's monetary policy committee — consisting of Stals and three deputy governors — was "rather closed". Stals said board members would have to be full-time employees of the Bank.

City Budget rally fails to move the masses

(49) ARG 16/3/98

STAFF REPORTER

Workers' organisations, Pagad and Qibla members joined forces at a rally on the Grand Parade yesterday to protest over the Budget.

Under the auspices of the Concerned Action Group, speakers delivered scathing attacks on people and topics ranging from US colonialism to veteran anti-apartheid politician Helen Suzman.

But on a hot Sunday afternoon, the crowd, apparently mainly Pagad supporters, seemed unresponsive to the speakers standing on the back of a flatbed truck.

One speaker estimated the crowd at 3 000, but it seemed more like 500 had turned up for the meeting, which had been billed as a "mass rally" similar to those held in struggle years.

Efforts to get the crowd fired up failed. Only the fire and brimstone oratory of Qibla leader Achmat Cassiem got the crowd's attention as he spoke at length about US "dictatorship" and apartheid terrorism.

Pagad spokeswoman Abidah Roberts said it was "shocking" to see a situation like that in Manenberg, where people could not collect pensions or pay bills for fear of gangsters.

National co-ordinator for education Madelief Botha called Mrs Suzman and Western Cape Police Minister Gerald Morkel "political gangsters" for agreeing to hold talks with gangsters.

Unions up in arms over Budget

Minister Manuel in trouble over promised R6,5 billion

(49) (850) Sowetan 16/3/98

By Abdul Milazi

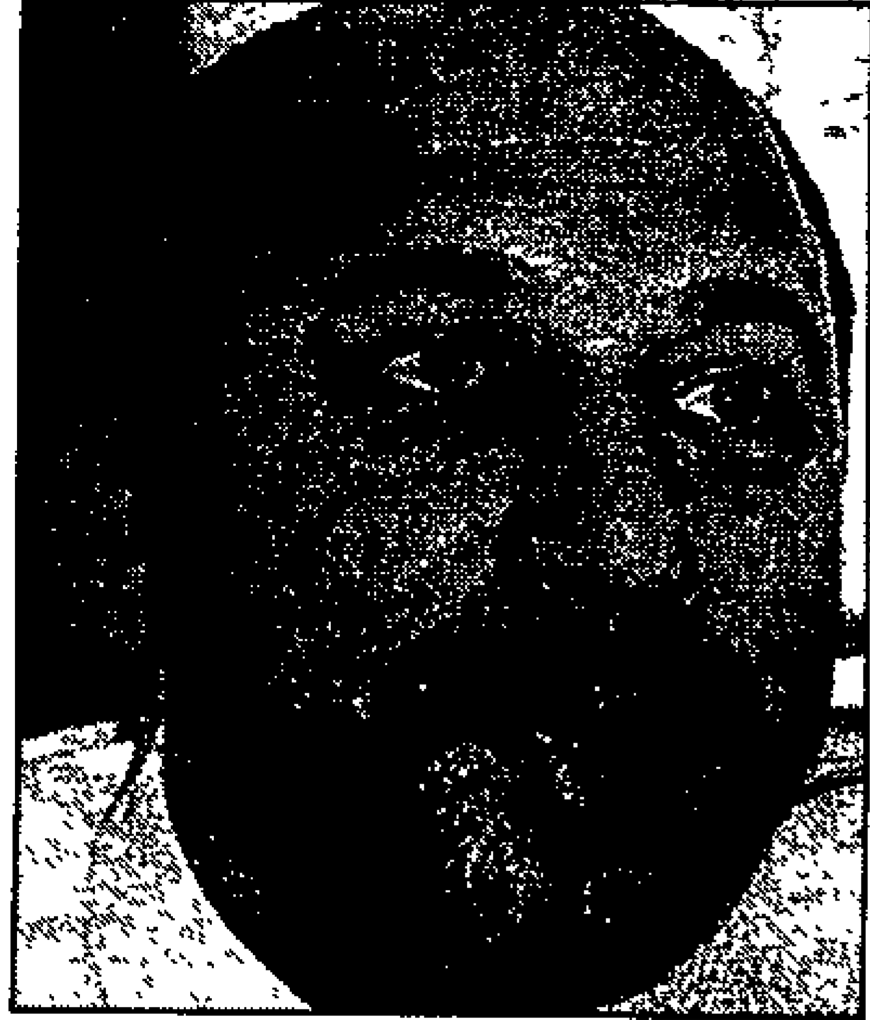
FINANCE MINISTER Trevor Manuel has landed the Government in hot water with the public service unions for allocating only R3 billion of the R6,5 billion promised for the salary bill of the public service.

Unions are now baying for his blood and threatening industrial action as they see this as Government reneging on the three-year wage agreement between the state and unions in 1996.

At the time the union demanded a nine percent across-the-board wage increase for professionals and between 20 and 23 percent for the lowest-paid workers to close the gap between top and bottom earners.

After protracted negotiations marked by sporadic strikes, the Government only offered 7,5 percent across the board and promised to allocate R6,5 billion towards the public service salary bill to allow it to implement decent wage increases.

Federation of South African Labour (Fedusa) public finance chamber representative at the National Economic Development and Labour Council



Finance Minister Trevor Manuel.

(Nedlac) Albert Wocke said the Budget had made it clear that the Government would not meet its obligations on the agreement.

"We have no doubt that this will lead to industrial action and a deterioration of industrial relations in the public service. The amount allocated amounts to a four percent increase on the salary bill of the public service," said Wocke.

He argued that planned retrenchment of 300 000 public service employees would add further to the stress placed on the social welfare systems.

Wocke said Fedusa would declare a dispute with the Government at the coming Public Service Coordinating Bargaining Council on March 30. It would then initiate programmes to enforce the 1996 agreement, and these would include legal action and mass action.

Police and Prisons Civil Rights Union (Popcru) general secretary Jacob Tsumane said: "By failing to honour this agreement the Government is setting a bad example to the private sector that it is okay to go against your word even when you have signed an agreement."

Tsumane also threatened that Popcru would embark on protest action to ensure that the Government kept its side of the bargain.

"The three-year agreement clearly stated that an amount of R6,5 billion was going to be allocated during the 1998-99 budget but this has been cut to R3,5 billion.

"This leaves us wondering where the rest of the money is going to come from to ensure the agreement is honoured."

The South African Municipal Workers Union criticised Manuel for "using the Budget to renew the Government's threat" on public service jobs.

Samwu spokeswoman Anna Weekes said: "The Budget is largely based on discretionary spending by provinces rather than concrete plans to rebuild the economy and create jobs."

"There is clearly no link between the proposed downsizing of the public service and the promised transformation of the public sector," said Weekes.

The concern among public service unions is the glaring gap between the highest paid and lowest paid workers in the sector, which led to the call for a wage freeze for executives.

They demanded a wage freeze for management personnel up to director-general but the Government offered directors and their deputies a five percent increase. Only director-generals did not get increases.

"Minister Manuel says that we need to keep Government consumption spending in check in order to create attractive investment conditions. Samwu believes that cuts to Government spending will take place at great cost to ordinary people," said Weekes.

Weekes said cutting consumption spending for the Government meant contracting most of its service delivery services, and this would have a negative effect on communities and the delivery of basic services in general.

She said the planned retrenchments had been devised merely to fit the Government's macro-economic strategy, Gear, which had failed to create jobs.

"As part of Samwu's anti-privatisation campaign, we will continue to vigorously oppose any restructuring schemes which pave way for privatisation of public services," said Weekes.

Real power is economic

Govt to spend R17-bn on projects

Sowetan 17/3/98 (49)

By Shadrack Mashalaba

Increase in Pension Tax fund amid low savings rate worries Sacob

CENTRAL government will spend about R17 billion on infrastructure development projects over the next three years, said the Ministry of Finance director general Maria Ramos.

Ramos, who was addressing the Old Mutual Budget Forum in Cape Town recently, said some of the projects include water-related projects and public works.

"This is possible in an environment where there is a private-public sector partnership."

She said the Government was also committed to achieving its three percent economic growth rate target. She also said the Government would maintain its projections.

"Until there are compelling reasons to change our minds, we will stick to them (projections).

"If developments turn out not to be what we projected, we will revise our targets in line with market developments. The Government will always endeavour to create a stable economy by keeping its expenses lower," Ramos said.

She revealed that the Government was committed to eliminating dissaving within the fiscal year.

Finance Ministry director-general Maria Ramos.
PIC: SHADRACK MASHALABA

Ramos said the Growth, Employment and Redistribution Strategy (Gear) was a holistic tool which focused on both the expenditure and revenue aspects.

The Government had made provisions by putting aside R3 billion in the supplementary budget for possible salary increases.

South African Chamber of Business (Sacob)'s Raymond Parsons said the three percent target was too ambitious a growth to achieve despite the Government's aim to create growth.

Parsons said South Africans were living in times of uncertainties and demanding challenges. He was concerned by the increase in the Pension Fund tax from 17 percent to 25 percent.

"The trend is worrying when one considers the low savings ratios."

Parsons said it was essential that building blocks be put in place ahead of the Job Summit to make it a success

Commissioner of the South African Revenue Services (SARS) Trevor van Heerden said the organisation will be putting in place systems to be able to collect more taxes efficiently.

He said tax efficiency capacity in South Africa would improve because of the planned measures.

"The collection of more taxes is attainable," van Heerden said.

Govt raises R2bn from sale of oil stocks

BD 18/3/98 (49)

Kevin O'Grady
and Greta Steyn

GOVERNMENT raised R2bn this year from the sale of part of its strategic oil stocks, the Strategic Fuel Fund confirmed yesterday.

Reuter reports fund acting GM Brian Casey said "instructions to sell sufficient crude oil to raise approximately R2bn for the fiscus" were received at the end of last year.

Economists suggested yesterday that a portion of the R2bn was slipped into the budget. Finance Minister Trevor Manuel placed R800m into the budget for the proceeds of the sale of state assets while officially stating that no provision had been made.

Economists pointed out that one of the tables at the back of the budget review, B12, gave a figure of R800m for "sales of stock". They said the figure appeared to refer to the disposal of oil stockpiles. This compared with last year's R1,05bn oil proceeds.

They said if the proceeds exceeded the budgeted amount, it would still accrue to government.

Casey's announcement came after the United Democratic Movement (UDM) accused government yesterday of selling off its coastal oil reserves to below authorised minimum levels in order to raise additional revenue and stick to its budget deficit target.

Coen Kruger, head of the finance department's asset and liability management, said conservative budgeting had resulted in the R800m being left out of the financing figures. While planning the budget, it was not clear that the proceeds would be available.

Kruger said a similar approach had to be adopted to privatisation proceeds — one could budget only for amounts over which there was certainty. Until the deal was done, one could not say with certainty what the proceeds would be. Also, budgeting for privatisation proceeds would send a signal and influence negotiations.

Market sources said there was speculation that government had kept the oil figure hidden because the finance department had realised even before the start of the fiscal year that it would have to finance overspending. There was also talk that oil reserves had been run down too much.

Casey said there were still 10-million barrels stored in mine shafts at Ogies, and government had an option on some of the 25-million barrels stored at tanks at Saldanha Bay, north of Cape Town.

The official figures for the financing

Continued on Page 2

Oil stocks

(49)

Continued from Page 1

BD 18/3/98

requirement show zero provision for the sale of state assets, which include oil, privatisation and the use of assets of the SA Special Risk Insurance Association. They show that government will meet its financing need of R41,5bn only through borrowing on the capital and money markets.

In the last fiscal year sale of state assets — including oil and privatisation — netted almost R3bn.

Economists noted that proceeds from privatisation, with the oil sales, should reduce the borrowing requirement — if there is no overspending. Most have pencilled in a figure of about R1,2bn for privatisation proceeds.

Equisec economist Dawie Roodt said: "I cannot understand why government would hide the fact that it will get in cash from the sale of oil stockpiles. This should be bullish news, as it reduces the borrowing requirement."

In the 1997/98 fiscal year, government also underbudgeted for the proceeds from privatisation. It nevertheless ended up borrowing more than budgeted for the fiscal year, as a result of overspending. Roodt predicted the same would happen this fiscal year, with the deficit ending up at 4% of GDP instead of the budgeted 3,5%.

Casey would not say exactly what quantity of oil had been sold, but said stocks were down significantly from the 35-million barrels, or three months' supply, in October last year.

UDM coleader Roelf Meyer said the cabinet had not publicly revised its stipulation that a minimum of 39-million barrels should be retained. The UDM believed that revenue from oil sales in the 1997/98 and 1998/99 budgets — R2,05bn in total — was far more than could have been generated if the minimum reserves were maintained.

It was unacceptable that, in an attempt to make the ANC government and Manuel "look good" by sticking to its deficit target, "SA now finds itself in a situation where the slightest crisis in the oil producing countries can potentially paralyse the SA economy".

Casey said: "Circumstances requiring the taxpayer to fund stocks of this nature are no longer in place. If government feels these funds can be put to better use, then tying up that money in stocks is not the right thing to do."

Sapa reports Casey said the Strategic Fuel Fund was awaiting ministerial instructions concerning the specific amount to be remitted to the treasury from the proceeds of the sales.

The structure of the futures markets for crude made it possible to coordinate the sales so that the oil would remain in storage for quite some time, with the fuel fund having the option to buy back if necessary. "Virtually no crude has left Saldanha," Casey said.

Picture: Page 3

maads were rife.

No civil action against Mufamadi yet

SAFETY and Security Minister Sydney Mufamadi had by yesterday not received notice that he was to be sued after two police officers allegedly stole R2,1m from a German businessman.

A police spokesman said the two officers, Louis de Jager and Jan Myburgh, had since been suspended from the police pending the outcome of a theft trial.

They allegedly went on a spending spree with cash belonging to Jurgen Harksen, who is wanted in his home country on tax evasion and fraud charges involving more than R980m.

International news agencies earlier reported that the trustees of Harksen's estate on Monday announced their intention to sue Mufamadi.

Council responds to ultimatum

THE Butterworth town council responded to an ultimatum from Eastern Cape local government MEC Smuts Ngonyama to step aside and allow its affairs to be taken over by the province, Ngonyama's spokesman Litha Twaku said yesterday.

Twaku said Ngonyama was considering the council's response, which reportedly asked for clarity on the functions to be assumed by government administrators, and would decide soon on the next step.

The ultimatum — the first of its kind in SA — is based on section 139 of the constitution stipulating a province can intervene if a municipality fails to or is unable to fulfil its executive obligations.

Cape DP councillor Belinda Walker

BUSINESS Day incorrectly referred to Cape Town Democratic Party councillor as Melanie Walker in yesterday's newspaper. She is in fact Belinda Walker. We apologise for the error.

REPORTS: Business Day Reporters, Sapa.

New law 'will enhance financial management'

BD 18/3/98 (49)

Linda Ensor

CAPE TOWN — The introduction of a single law this year to replace the 10 exchequer acts at national and provincial level would enhance the system of financial management in the country, state expenditure director-general Cassiem Gassiep said yesterday.

Gassiep was speaking after his appearance at Parliament's portfolio committee on finance to discuss the 1998/99 budget.

The bill being drafted, called the Treasury Control Bill, would allow the national treasury to have greater influence over provincial treasuries in regard to their performance. There would also be a greater sharing of information, Gassiep said.

The proposed legislation would implement section 216 of the Constitution, which authorises the national treasury to lay down standards, rules and regulations on accounting and financial reporting for provincial treasuries. In terms of the interim constitution, each province was independent and the power of the national treasury to perform an oversight function was constrained, Gassiep said.

Drastic changes were envisaged, including the introduction of Draconian penalties if budgets were exceeded, he told the finance committee.

Care had to be taken, however, not to discourage people from spending what was necessary. "There is quite a debate going on as to the level of punishment which would be suitable," Gassiep said.

There would probably be a range of penalties, from minor to the more serious, depending on the level of overexpenditure and its character, he said.

Nols du Plessis, chief director of planning in state expenditure, who is involved in drafting the legislation, said the basic principle was that an appropriation was an act of Parliament and overexpenditure a breach of the law. However, enforcement was a key issue.

"You can add all those penalties, but if you don't enforce them, they are not worth the paper they are written on. Under the current Exchequer Act overexpenditures can be recovered from those responsible. But in fact it is very difficult to do this when the amounts involve total millions of rands," he said.

Among the questions being examined by the drafters were what to do if overexpenditure was to the benefit of government, and who would be the judge of what was to government's advantage.

Numsa highlights toll of public service retrenchments

BD 18/3/98

Reneé Grawitzky

The first round of retrenchments in the public service would affect 20 000 people in the Eastern Cape, 15 000 in the Northern Province and a further 20 000 in the other provinces, Peter Dantjie, assistant general secretary of the National Union of Metalworkers of SA (Numsa) said yesterday.

At the start of Numsa's national bargaining conference in Johannesburg, Dantjie said the retrenchments were "a possible area" of disagreement with the African National Congress. He also said that 114 345 jobs were lost in the engineering sector since 1990.

Delegates from the union's Wits central west region have called for a moratorium on job cuts in the public service between now and the presidential job summit meeting later this year.

Eastern Cape delegates have proposed a campaign against retrenchments and are demanding government review its trade policy and tariff reductions.

Numsa general secretary Mbuyiselo Ngwenda said discussions had been held with Trade and Industry Minister Alec Erwin to highlight the effect on local industries of the continued reduction in tariffs. Numsa did not get a sense of the trade ministry's willingness to review the tariff-reduction programme, he said.

Delegates are to use the conference to frame an approach to the presidential job summit and to approve labour's employment strategy.

In submissions to the conference, all Numsa's regions believed that job creation could not be achieved within the framework of the growth, employment and redistribution strategy.

Ngwenda said some controversial issues to be debated included training and wages. Delegates would have to decide whether negotiations would focus on principles underpinning training or whether to continue demanding 200 paid hours for training a year.

Unions meet employers

Pearl Sebolao

EMPLOYERS and trade unions participating in a national transport strike were due to meet for talks under the auspices of the Commission for Conciliation, Mediation and Arbitration (CCMA) today, in the hope of ending the dispute.

Professional Transport Workers' Union spokesman Emily Fourie said that two senior CCMA commissioners from Durban and Cape Town had already been approached to mediate.

The strike is expected to intensify, with about 20 000 bus drivers joining the truckers.

The bus drivers are demanding a 10,5% increase while employers are offering 7,5%.

BD 18/3/98

Nine out of 10 adults oblivious to Gear

(49) BD 23/3/98

Business Day Reporter

NINE out of 10 urban adults have not heard of Gear — government's growth, employment and redistribution strategy — a survey conducted for Business Day late last year by ACNielsen•MRA (Market Research Africa) indicates.

The survey investigated public perceptions of government programmes such as Gear, the reconstruction and development programme (RDP), and the Masakhane campaign to encourage people to pay for municipal services.

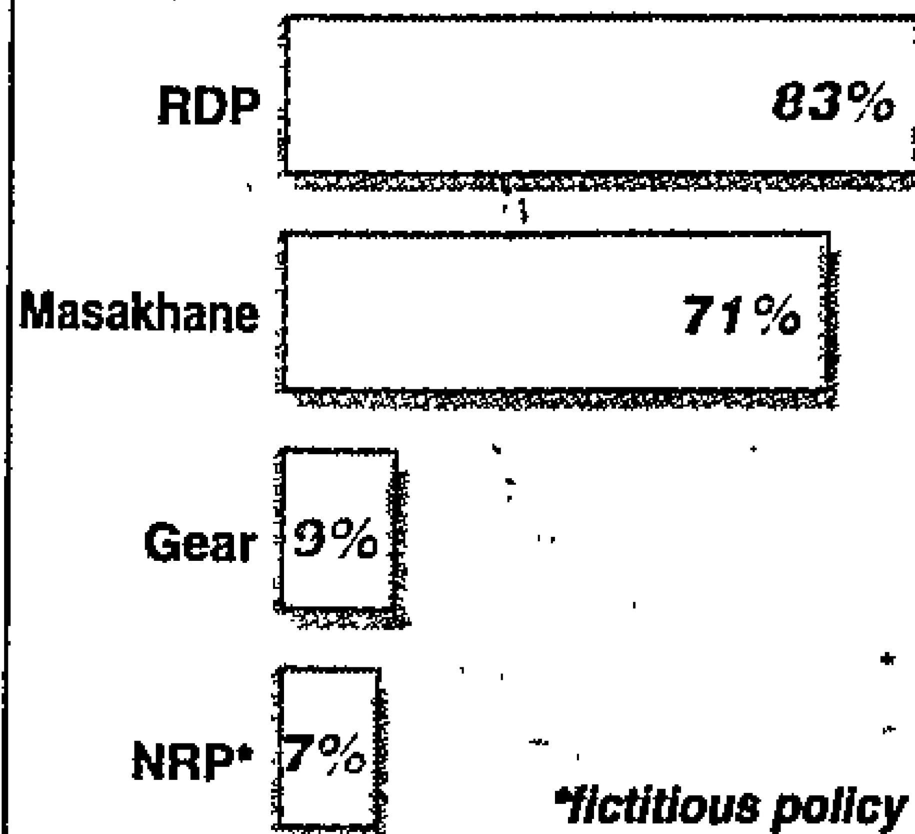
While respondents were hazy about Gear, the RDP and the Masakhane campaign were well-known.

The area-stratified, all-race survey of 2 498 adults scientifically represented 92% of the country's urban population and 53% of the total population.

The survey asked whether the RDP, Masakhane and Gear had benefited people and the country as a whole.

The RDP was known to 83% of urban adults, followed by Masakhane at 71%, but only 9% of respondents claimed to have heard of Gear.

ACNielsen•MRA director Brian Culross said the lack of awareness of Gear was a cause for deep concern. "We included a nonexistent policy which we called the National Renewal Programme (NRP) as a control. The result suggests that acronyms and the word 'renewal' may be overused (in politics). When one considers that 7% of people claimed to have heard of the nonexistent NRP, the true figure for Gear awareness could be as low as 2%.



Graphic: KAREN MOOLMAN Source: MRA MULTIBUS

"We found that Gear was best known to whites (18%), although even this figure could shrink to as little as 5% if we apply the NRP factor."

The results showed that while there was still a high awareness of the RDP, the expectation that it would bring benefits was dwindling in all population groups. "We carried out a similar survey in late 1994, asking people (whether) they thought they would benefit from the RDP over the next three years. Optimism among blacks was as high as 90%. Now, that figure has dropped to 67%, with optimism among the rest of the urban population down from 37% to 22%.

"We feel these declines stem from a mixture of programme shortfalls and unduly high expectations. Currently, about 30% of the urban population

Continued on Page 2

Gear

(49) BD 23/3/98

Continued from Page 1

believes their household has benefited from the RDP. On an even more positive note, 48% believe the policy will have some benefit to the country as a whole, with the greatest optimism coming from the Eastern Cape at 59%."

While figures for Masakhane fell short of those for the RDP, they were in the same league. Overall awareness stood at 71%, concentrated in the black community (81%), but dropping as low as 46% among Indians. Awareness also decreased with age: 74% of under-50s had heard of the programme compared with 57% of over-50s.

Thirty percent of blacks believed their household had benefited from Masakhane and 48% that they would still see benefits. A similar proportion expected it would benefit the country.

"Gear is a different matter Just more than 1% of urban adults think their household has benefited from Gear and 3% believe they will gain benefits. For a policy with a macroeconomic dimension, it is noteworthy that only 4% foresee benefits accruing for the country. While the RDP scored from being first in the field and from the political climate of the time, government has failed to excite the popular imagination with Gear. This must make its value as a lever in the forthcoming election very questionable."

□ The Gear strategy was released in June 1996. It is a macroeconomic framework within which development goals can be achieved. Its implementation will see to it that SA cuts its coat according to its cloth. For example, the country cannot run excessive budget deficits or current account deficits. Gear sets the macroeconomic parameters within which the RDP's development goals can safely be attained.

Demutualisation 'a boost for SA economy'

CT 23/3/98 (49)

WINNIE GRAHAM

JOHANNESBURG: South Africa will enjoy a new era of prosperity when assurance giants Old Mutual and Sanlam go public, injecting some R65 billion into the economy, financial sources predict.

The "demutualisation" process — due to start at Sanlam towards the end of this year and the Old Mutual at the end of next year — is expected to unleash a major spending spree as many policyholders cash in their shares.

Independent research shows the spending will have a huge impact on the manufacturing and leisure industries.

Financial sources note that when mutual societies started "demutualising" in Britain (where people are more prone to save and less likely to spend), some 23% of the cashed-in shares were spent on home improvements, 23% on holidays, 10% on cars and 10% on white appliances (washing machines, fridges, stoves etc).

bottom line

In South Africa, where people are less prone to save, financial experts predicting that they would spend most of their new-found wealth.

Some 30% of Sanlam's clients and between 40% and 50% of Old Mutual's are people of colour.

Wisely managed, the spending could propel South Africa into a new era of prosperity, stimulating growth and creating jobs.

This is how Sanlam's economists think money from the sale of Sanlam shares will be spent:

- 25% on big household items such as stoves, TVs, audio equipment.
- 25% on semi-durables, such as clothing and footwear.
- 20% on home improvements.
- 10% on transport and accessories.
- 10% on travel/holidays.
- 10% on other items.

In the case of the Old Mutual, the benefits of demutualisation will extend well beyond the borders of South Africa. It has policyholders as far afield as Malawi, Zimbabwe, Namibia and even Hong Kong.

Independent financial sources believe sensible economic policies have already done much to prepare South Africa for growth.

Demutualisation to bring fleeting gains

Demutualisation is expected to boost the economy. But a consumer boom will not be all good news, writes economics editor **Greta Steyn**

BD 25/3/98 (49)

GET ready for the demutualisation bonanza. Consumer spending will roar ahead, the stock exchange will get a boost and government will cream off extra revenue. A good time will be had by all. But there might well be a hangover after the party.

The demutualisation of Sanlam and Old Mutual and their listing on the stock exchange will create millions of new shareholders who will receive billions of rands in free shares. Many of the new shareholders will cash in their shares, and will spend the proceeds on consumer goods, setting off a chain reaction.

The spending spree will affect economic growth, the balance of payments and economic policy decisions. Suddenly the economic outlook has become much less predictable than usual.

There are three major difficulties in trying to forecast the effects of demutualisation on the economy. Firstly, what will the market capitalisation of the two institutions be? Secondly, how long will the time lag be between the two listings? Thirdly, how will SA consumers respond?

Predicting SA consumers' behaviour is much less straightforward than it might seem.

Economists generally use the experience in the UK as a point of departure for their forecasts, where private consumption spending was boosted by 1% in real terms last year as a result of demutualisation.

Merrill Lynch economist Jos Gerson, working on a combined market capitalisation of R90bn, points out that demutualisation in SA will be much bigger than it was in the UK.

The wealth put into SA shareholders hands will be three times bigger as a percentage of consumer spending than it was in the UK. Gerson argues the boost to consumption will therefore be three times larger. A substantial three percentage points should be added to real growth in private consumption next year.

But Gerson adds that SA consumers might not simply mimic their British counterparts.

On the one hand, one could argue that cash-strapped SA consumers have more debt than their UK counterparts, and that they will use some of the windfall to reduce their debts.

On the other hand, Gerson says, the opposite might happen. SA consumers are well known for their inability to save. They might well completely disregard their high debt levels and embark on a spending binge.

Gerson's comments illustrate that predicting SA consumers' behaviour is by no means a simple matter of using the British example. Nevertheless, economists will come under increasing pressure to gaze into their crystal balls.

Sanlam is expected to list before the end of the year, and Old Mutual is expected to follow about a year later.

Sanlam economist Jac Laubscher estimates the combined market capitalisation of the two institutions at R80bn, but he notes that analysts' estimates vary between R70bn and R110bn.

Laubscher says consumers can be expected to start spending on credit even before Sanlam's listing, as they will anticipate the windfalls. So the effects will be felt in a small way this year already. Next year will see a big spending spree, especially as the "anticipation" spending will gather momentum. The splurge will continue into 2000.

Laubscher notes that the boost to consumption will also depend on how much of the free shares actually go to individuals, as opposed to group clients such as pension funds.

"Some of the windfalls will be saved, or used to reduce debt. Taking all these things into account, we see a boost of R12bn-R17bn to private consumption spending, which will probably mostly take place next year. There will be a chain reaction that will begin before Sanlam's listing this year. For instance, companies will start building inventories sooner, as they will anticipate the rise in consumer spending," he says.

Laubscher believes the total boost to real private consumption spending will be 2,5% over three years. The impact will be to take the growth rate in consumer spending closer to 2% this year, from initial projections of below 1,5%, and to lift it over 3% next year, from previous expectations of about 2,5%.

Laubscher expects the extra spending to add 1%-1,5% to gross domestic product (GDP) over the three-year period — a noticeable boost for a country which this year is still struggling to reach a 2% growth rate.

A surge in consumption is likely to lift imports, but Laubscher does not foresee a rise of more than R4bn. In any case, the pressure on the current account of the balance of payments (BoP) will be offset, he says, by capital inflows. "Foreign investment in the newly listed companies will be enough to finance the increase in the current account deficit," he predicts.

However, Laubscher believes BoP pressures and heightened consumption spending will lead to more caution on the monetary policy front. He sees no more than a further 1,5 percentage points decline in interest rates this year.

Old Mutual economist Dave Mohr agrees that if SA follows the British experience, the impact on GDP will be 1%-2%, over a period of more than two years. "But the big difference between SA and the UK is that the effects will be spread out over a longer period, as we will have had a long time to anticipate the windfalls.

"There will be less of a shock to the economy. We do not foresee the need for dramatic policy adjustments."

Mohr also raises the point that it is dangerous to make assumptions about SA consumers' behaviour to forecast a consumer boom. "It is true that SA has a relatively low propensity to save but the people who will receive the biggest payouts are those with the highest propensity to save."

Other economists emphasise concerns about the current account deficit. Nedcor economist Dennis Dykes notes that analysts tend to underestimate the rise in imports flowing from increased consumption, as they take into account final consumer goods. "My guess is that there will be a lot of spending on white goods, cars, video machines and TV sets. They have a high import component."

The bottom line is that it is virtually impossible to forecast at this stage what the effects of demutualisation will be on consumer spending and the BoP. But it is safe to say that there will be a noticeable boost to the economy which will be seen in increased spending on durable goods. Shares in companies selling consumer goods are likely to gain in popularity.

But as is usually the case with "the dismal science" of economics there is no such a thing as a free lunch. If there is a consumption boom it could have a severe effect on the current account, as imports will rise sharply. Matters could be made worse by upward pressure on inflation.

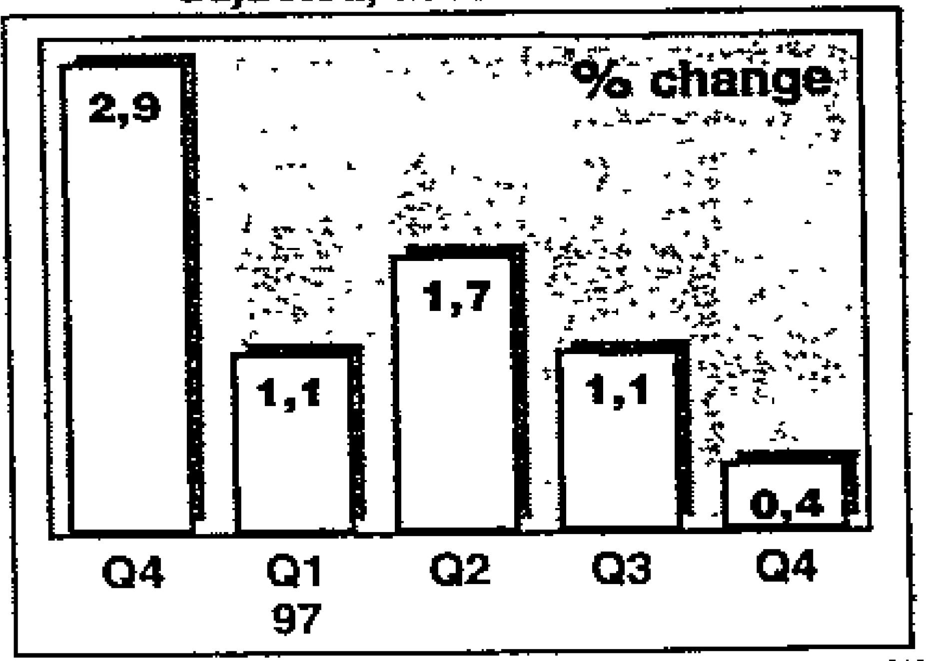
The threat to the BoP and the pressure on inflation are likely to lead to tighter monetary policy. The Reserve Bank might well prevent a boom from happening. The chances are good that at most we will experience a "boomlet".

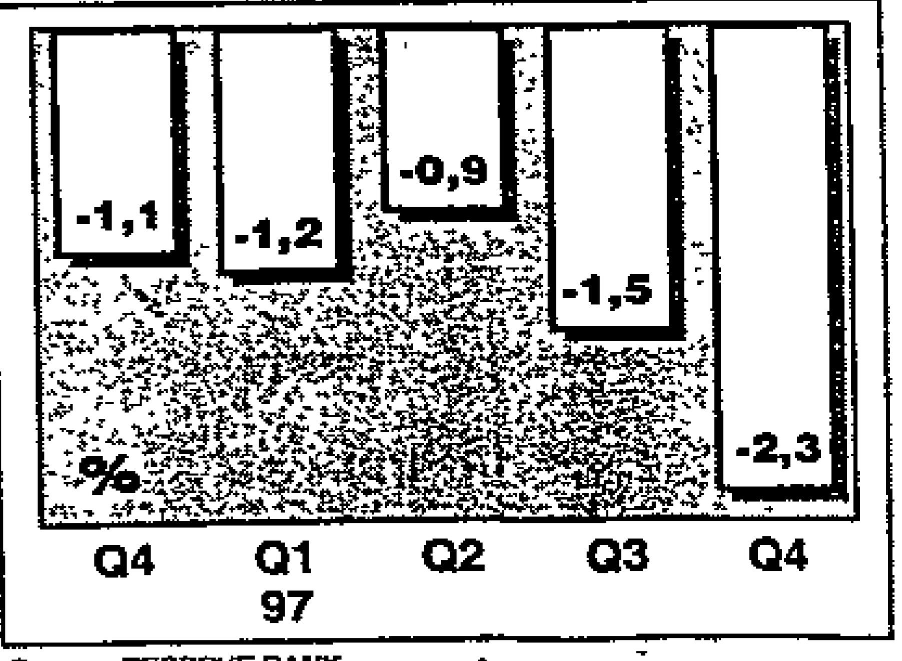
We should hold thumbs that the rise in consumption is not dramatic. A consumption boom is almost inevitably followed by a bust.

A boost in demand fuelled by the financial markets can only create the illusion of economic growth.

The financial bubble will eventually burst. Reality will set in afterwards and it could be really painful.

Consumption will rebound ... knocking the current account





Graphic: KAREN MOOLMAN Source: RESERVE BANK

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Democratic Party voices its objection to Manuel budget

Linda Ensor (49) BD 25/3/98

CAPE TOWN — The Democratic Party (DP) would vote against Finance Minister Trevor Manuel's 1998/99 budget, the party indicated at the start of the three-day debate on government's revenue and expenditure plans.

The DP was joined by other opposition parties in a chorus of objections about government's failure to implement its growth, employment and redistribution (Gear) strategy. In particular, the failure to reach the strategy's job-creation targets was criticised with the Congress of SA Trade Unions receiving much of the blame for the nonperformance.

DP finance spokesman Ken Andrew highlighted the need to generate domestic savings for investment, saying the lack of sufficient savings was due to government's high consumption expenditure and its crowding out of the private sector. Also, tax rates were too high.

"Instead of domestic savings increasing, as provided for in Gear, from 17% to 19% of GDP (gross domestic product), they have fallen to 15%. That amounts to a shortfall of R25bn in savings in 1997 required to finance investment," Andrew said.

National Party leader Marthinus van Schalkwyk called for the cabinet to appoint a "credible expert" from outside Parliament to take charge of Gear because "the skills to do it properly are clearly not in the African National Congress" (ANC).

Van Schalkwyk said government policies were destroying jobs, not creating them and suggested that the ANC was "deeply divided" over the Gear strategy.

Meanwhile, the National Council of Provinces yesterday adopted the Adjustment Estimates Bill, the debate on which was postponed a few weeks ago by chairman Patrick Lekota because of the absence of cabinet ministers, apart from Manuel, to answer questions on the additional funds allocated to their departments. These funds were allocated in addition to those earmarked in last year's budget.

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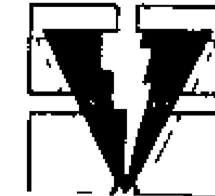


Opposition parties air Budget gripes

(49) CT (BR) 26/3/98

LYNDA LOXTON

PARLIAMENTARY CORRESPONDENT

Cape Town — Job creation, concern that the 3 percent growth target for 1998-99 was over-ambitious and speculation about tensions within the ANC alliance dominated the first day of the Budget debate in the national assembly yesterday.

Opposition parties claimed that the Congress of South African Trade Unions (Cosatu) was holding the government hostage and preventing it from fully implementing the growth, employment and redistribution strategy, with serious knock-on effects for the economy as a whole.

But ANC members pointed to the fact that both business and economists had applauded the government for sticking to pledges to cut the deficit, bring down inflation and reduce debt, while the rand had stabilised and foreign exchange reserves had improved.

Rob Davies, the chairman of the portfolio committee on trade and industry, admitted there was debate in the ANC-Cosatu-South African Communist Party alliance about the relationship between the need to achieve and maintain macroeconomic stability "and the imperative to deliver services to the poor and historically disadvantaged and thus reduce the social deficit".

Ken Andrew, the Democratic Party spokesman, said government continued to crowd out the private sector by allowing real government consumption expenditure to grow too rapidly, mainly because its wage bill was excessive.

It had also discouraged investment by increasing the tax burden and not doing enough on privatisation and labour market deregulation.

Gavin Woods, the Inkatha Freedom Party finance spokesman, said the Budget appeared, at face value, to be a sound and cleverly crafted piece of work, but there were doubts about "whether what you see is what you will get".

He said the growth target of 3 percent appeared over-ambitious, with many economists saying that growth of between 2 and 2,5 percent was more likely.

Theo Alant, the National Party finance spokesman, said that the demutualisation levy was nothing short of confiscation.

Inflexible labour regulations and constant attacks on private property ownership by some ministers were deterring foreign investment, he said.

Realistic economic answers must replace discredited dogma

The growth, employment and redistribution strategy must adapt or die, writes **Hein Marais**. An earnest search for alternatives is required

(49) BD 26/3/98

DRAMA is afoot when Finance Minister Trevor Manuel quotes Marx to justify fiscal austerity, while the vice-president of the World Bank rails against the "Washington consensus" like a leftist heretic. The least we mortals can do is prick up our ears.

Manuel's quip — "While balanced budgets are the stuff of market orthodoxy now, Karl Marx warned against public debt in Das Kapital" (Business Day, March 9) — has become a favourite riposte of growth, employment and redistribution's (Gear's) guardians in the inner circles of the African National Congress. It is not the content of the remark but its tone that speaks volumes — forlorn and defensive, like rolling out a lone cannon, so to speak, to fend off compelling evidence that Gear maps a desultory path of low growth and compounded social misery.

Indeed, our key economic indicators formed a sepulchral backdrop to Manuel's budget speech last week: last year's gross domestic product growth stooped to 1,7%; gross domestic fixed investment (a key generator of growth) grew only 3,5% last year (compared to 8% in 1996) and job losses ballooned to 116 200.

As if this were not enough, Manuel now has to contend with the fact that both international evidence and the ruminations of erstwhile pointsmen of neoliberalism suggest that strategies like Gear do not simply take time to yield results: they tend not to work.

The latest critical foray comes from Joseph Stiglitz, vice-president and chief economist of the World Bank. He withers many of the most fondly held beliefs about the providence of adjustments heeding the dictates of the Washington consensus: fiscal austerity, monetary conservatism, free trade, privatisation and financial liberalisation.

He argues that these types of policies "ignored other important ingredients required to make an effective market economy, most notably competition".

□ Inflation. High inflation is costly (especially when it crosses the threshold of 40% a year, springing a high inflation-low growth trap), but "pushing low inflation even lower is not likely to significantly improve the functioning of the markets".

□ Budget deficits. Large deficits harm economic performance but the obsession to reach rigid, low targets ignores the fact that "there is no simple optimum level of the budget deficit".

The latter depends on a range of factors, including "the cyclical state of the economy, prospects for future growth, the uses of government spending, the depth of financial markets, and the levels of national savings and investment".

□ Macroeconomic stability. The trend has been to play down "stabilising output or unemployment". Good macroeconomic policy is "certainly necessary" but it should not overshadow the importance of avoiding "credit rationing and banking and firm failures".

□ Liberalising financial markets. "Freeing markets, in the case of financial market liberalisation, may have had an adverse effect and contributed to macro-instability," he argues, using the Asian meltdown as a case in point. Observation of financial markets show they do not self-correct, prompting his verdict that "the key issue should not be liberalisation or deregulation, but the construction of the regulatory framework which ensures an effective financial market".

MANUEL

□ Privatisation. Based on the experiences of transition economies, the "gamble" of rapid privatisation seems "much less justified".

Privatisation remains important, but its possible benefits accrue "only in the context of competitive markets", which require more, not less, regulation.

□ Free trade. Typically, protectionism is seen as a prime barrier against international competitiveness.

Stiglitz demurs: "It was the failure to create competition internally, more than protection from abroad, which caused stagnation" in Latin American countries in the 1970s.

Trade liberalisation "is neither necessary nor sufficient for creating a competitive and innovative economy".

Stiglitz covers a lot more ground, including a reminder that foreign direct investment is eminently preferable to volatile short-term portfolio flows — a point sometimes lost on Gear aficionados as they drum up enthusiasm for the plan. In our case, foreign direct investment continues to rise, but at a much slower pace than foreign purchases of bonds and equities (which rocketed from R3,4bn in 1996 to R14,8bn last year).

Perhaps most profound is the conclusion he reaches on the role of the state in the economy. "I do not believe in blanket statements like 'government is worse than markets'," he declares.

"The state has an important role to play in appropriate regulation, industrial policy, social protection and welfare. The choice should not be whether the state should or should not be involved. Instead, it is often a matter of how it gets involved." Whatever consensus now emerges, Stiglitz finally suggests, "it cannot be based in Washington" but "must receive ownership by developing countries".

It is a wake-up call to Manuel and Gear's other trustees, a warning that the line they are toeing is theoretically threadbare and empirically perilous.

That in itself is welcome and long-overdue. It also announces an urgent task: not only should there be a fundamental rethinking of Gear, but an earnest search must be launched for alternatives that fit our economic realities rather than match the precepts of a discredited dogma.

□ *Marais is the author of a new book, South Africa: Limits to Change — The Political Economy*

Germany likely focus of public borrowing

Greta Steyn

GOVERNMENT is set to announce that Germany will be the main focus of its foreign borrowing programme this year, with a medium-term DM1bn bond issue likely.

Bankers said government had also informed them it was considering bond issues in the Italian lira and eurocurrency markets.

About a dozen banks have been asked to pitch for the German issue and the appointment of the lead manager is expected this week. Market talk is that Deutsche Bank will lead the issue, with SBC rumoured as co-lead. The timing of the bond issues will depend on market conditions in European bond markets.

There is speculation German interest rates will rise in the next few months as part of the convergence of European yields in the run-up to European monetary union. A banker said government would want to move quickly to avoid the danger of the Bundesbank tightening monetary policy.

At current exchange rates, the German issue would bring in about R2,7bn of total budgeted foreign borrowings of R5bn. Last year government borrowed about R4bn offshore, mainly in Japanese yen and US dollars.

The foreign borrowings will help boost the country's foreign exchange reserves, but are small compared with

(49)

Continued on Page 2

BD 31/3/98

Borrowing (49)

BD 31/3/98

Continued from Page 1

other emerging economies. Government has followed a policy of limiting its foreign borrowings to the minimum required to maintain a presence in offshore markets without building up a debt mountain.

Government's total foreign debt amounted to R14,3bn at the time of the budget — about 4% of total government debt. Of the foreign debt, a small portion was in Deutschmark — about DM500m. About $1,6bn of government's debt is denominated in dollars.

Government has to repay R1,1bn of its foreign debt this year, mostly reflecting debt to the International Monetary Fund. Interest payments on foreign loans are estimated at R1,5bn.

One of the reasons government is avoiding the US market for the time being is the failure of credit rating agency Standard & Poor's to upgrade SA's rating to investment grade.

Nine out of ten have never heard of Gear

(49)

Star 11/1/98

STAFF REPORTER

According to a recent survey on current key government programmes aimed at upliftment in South Africa, as many as nine out of 10 people had not heard of Gear.

The Multibus survey of 2 498 adults scientifically represented 92% of the country's urban population and 53% of the total population.

The survey asked whether the RDP, Masakhane and Gear policies have benefited people's lives and the country as a whole. "Of the policies surveyed, the RDP is known to 83% of urban adults, followed by Masakhane at 71%," says Brian Culross, director of ACNielsen•MRA (Market Research Africa), who conducted the survey on behalf of *Business Day* late last year. "We also included a non-existent policy which we called the National Renewal Programme (NRP), as a control. The result suggests that acronyms and the word 'renewal' may be overused in the current political arena.

"It is the lack of awareness of Gear that should be cause for deep concern. Only 9% of urban adults claim to have heard of it. When one considers that 7% of people claim to have heard of the non-existent NRP, the true figure for Gear awareness could even be as low as 2%. We found Gear was best known to whites (18%), although even this figure could shrink to as little as 5% if we apply the 'NRP' factor."

The results also showed that while there is still a high awareness of the RDP, the expectation that it will bring benefits is dwindling in all population groups. "We carried out a similar survey in late 1994," says Culross, "asking people if they thought they would benefit from the RDP over the next three years. Optimism among blacks was as high as 90% then. Now that figure has dropped to 67%, with the rest of the urban population down from 37 to 22%. We feel these slumps are a fallout from a mixture of programme shortfalls and unduly high expectations at the start of the campaign.

MARKETING

"Currently about 30% of the urban population believes their household has benefited from the RDP. On an even more positive note, 48% believe that the policy will have some benefit to the country as a whole, with the greatest optimism coming from the Eastern Cape (59%)."

While figures for the Masakhane campaign fell short of those for the RDP, they were nonetheless in the same league. Overall awareness stood at 71%, concentrated in the black community (81%) and dropping as low as 46% among Indians. Awareness also decreased with age: 74% of the under 50s have heard of the programme against 57% of the over 50s.

Some 30% of the black community believe their household has already benefited and 48% that they will see benefits in the future. A similar proportion expect that it will benefit the country in general. Culross points to "evidence that Masakhane's benefits are flowing, as intended, to the disadvantaged – only seven whites in a hundred believe it has aided their household, while 23% expect the country to benefit as a whole.

"Gear is a very different matter," he says. "Only little more than one in a hundred urban adults think their household has benefited from Gear and only 3% believe they will gain any future benefits. These figures are much the same across all demographic categories. For a policy with a macro-economic dimension, it is noteworthy that only 4% foresee benefits accruing for the country.

"Clearly," concludes Culross, "while the RDP obviously scored from being first in the field and from the political climate of the time, the Government has failed to excite the popular imagination with Gear. This must make its value as a lever in the forthcoming election very questionable."

Nehawu to reaffirm its rejection of Gear

(49) Sowetan 23/4/98

By Sowetan Business Reporter

THE National Education, Health and Allied Workers Union (Nehawu) is set to reaffirm its rejection of the Growth, Employment and Redistribution strategy when it begins its fifth congress in Durban next week.

Nehawu, whose four-day congress starts on April 26, will also look at its ongoing commitment to the African National Congress-South African Communist Party-Congress of South African Trade Union alliance.

Other debates on the policy framework of the union will include Nehawu's socialist vision and the role that the union and the alliance partners should be playing in the transformation process.

Nehawu president Vusi Nhlapho and Cosatu general secretary Sam Shilowa are expected to present key speeches on the opening day of the congress.

Speakers will also include SACP chairman Blade Nzimande, Finance Minister Trevor Manuel, Public Service and Administration Minister Zola Skweyiya and an international guest who is still to be named.

Nehawu says its congress will earnestly begin on April 27 when the delegates discuss such issues as the role of the alliance, the civic movement, rural issues, next year's elections, service delivery and transformation.

On the same day, there will be a panel discussion where speakers with a wide range of experience and expertise will look at many of the policies of the union from a critical angle.

"We expect to focus on the Government's socio-economic policy and reaffirming our rejection of the Growth, Employment and Redistribution strategy on Tuesday April 28," a spokesman says.

The union will also offer to join forces with Government and the private sector to fight corruption.

It will suggest that its members and employers contribute to a fund to create jobs, as part of a united effort by all South Africans to reduce unemployment.

Financial situation

On Wednesday the union will debate its financial situation, dealing with overspending and the critical auditor's report, and will also elect the six national office bearers.

According to the union, poor management skills and lack of capacity within it has affected its financial control.

"The congress will be asked to support a strategy to put the union on a secure footing," Nehawu's statement says.

On elections, Nehawu says it is likely that there will be a number of changes, particularly as members will seek to fill 50 percent of the posts with women.

By Adrienne Roberts — Email: roberts@tml co za

World's most competitive countries

FM 1/5/98

SA is not one of them

SA moved up two places in the International Institute for Management Development's *World Competitiveness Yearbook* last week. SA is fifth weakest contender out of 46 countries. Only Russia (46th), Poland, Colombia and Venezuela fared worse

The biggest climbers in the survey were Ireland, which posted 8,3% growth last year and climbed four places, Mexico (up 6), Taiwan (up 7) and Hungary (up 8).

The biggest losers were Korea (down 5) Japan (down 9) and Thailand (down 10). The institute says Japan's fall reflects "the complete disarray of the economy".

Two-thirds of the data for the rankings are based on countries' statistics, and the remainder come from an opinion survey of more than 4 000 business executives. There are eight categories. The winners:

TOP 12

1 US
2 Singapore
3 Hong Kong
4 Netherlands
5 Finland
6 Norway
7 Switzerland
8 Denmark
9 Luxembourg
10 Canada
11 Ireland
12 UK

SOURCE: IMD

- Infrastructure: The US scored highest, followed by Norway and Finland;
- Internationalisation: judged on criteria such as trade, foreign direct investment and protectionism. The category was led by the US, Singapore and Hong Kong,
- Management, which includes factors like productivity and corporate culture was dominated by the US, Singapore and the Netherlands,
- Science & Technology: highest scores went to the US, Japan and Germany,
- Finance, including cost and availability of capital, dynamism of stock markets and efficiency of banking, was led by the US, the Netherlands, and Switzerland,
- The "people" category — which takes into account life expectancy, labour skills, employment, education, quality of life and "attitudes & values" including incidence of alcohol and drug abuse and violence — was led by Singapore, Denmark and Finland,
- The government category, which measures factors like national debt, financial policy, State efficiency and State intervention, was led by Singapore, Hong Kong and Malaysia, and
- The domestic economy category (for example GDP, savings and inflation) was led by the US, Singapore and Malaysia

SA's overall rank of 42nd may be better than last year's 44th, but it's just a return to its 1994 level The biggest gains were in finance and government, where it rose three places, and domestic economy, where it rose two It dropped two places in the infrastructure category and one in management. SA was bottom of the list on the people criterion, for the fifth year running. ■

SA'S SCORECARD

	Score (out of 100)	Rank (out of 46)
Government	48	37
Finance	49	31
Infrastructure	46	35
Management	42	38
Science & Tech.	42	39
Domestic economy	45	40
Internationalisation	38	45
People	16	46

SA Foundation document shows change in attitude toward Gear

BD 5/5/98 (49)

Reneé Grawitzky

BUSINESS had realised that macro economic stability was insufficient to generate jobs and that a more targeted growth strategy was needed, according to an SA Foundation discussion document on the presidential job SUMMIT meeting.

This represented a marked shift from earlier views that government's growth, employment and redistribution strategy (Gear) would achieve both objectives.

The document said that although Gear contributed towards macro economic stability, it failed, partly due to events beyond its control, to create jobs. The foundation said "it may be necessary to revisit the Gear programme, particularly the assumptions on which it is based".

Foundation economist Philip Black said the document attempted to recommend policies to supplement Gear in areas where it had not delivered. The document focused heavily on government's failure to comply with the Gear requirements to ensure flexible labour-market policies. The foundation said an appropriate growth strategy required flexible labour markets which were "an important source of job creation".

Gear acknowledged the need for such policies but "government seems to be procrastinating and is instead passing legislation that is decreasing this flexibility".

The document said policy co-ordination was crucial, while it was necessary to ensure "positive steps undertaken by one ministry are not undermined by the actions taken by another". An appropriate growth strategy should also incorporate skills development, directing investment to relatively labour-intensive sectors and incentives to generate jobs, training and investment instead of punitive measures. The foundation argued for incentives such as tax breaks and subsidies.

In terms of sector-specific measures to generate jobs, the document proposed sector social plans and measures to boost exports and promote the informal sector and small, medium and micro-sized enterprises. Establishing alternative trade organisations could help promote small and rural business, while the foundation also supported export processing zones and spatial development initiatives to generate jobs.

The document remained cautious, however, about public works programmes and said "government does not have the fiscal capabilities for public works schemes to make a significant dent in unemployment".

Call to write off R225-billion apartheid debt

(49) Sowetan 5/5/98

LONDON – Western banks must cancel debts of about R225 billion accrued by Southern African states because of apartheid, according to a report released yesterday.

The report by the World Development Movement and Action for Southern Africa says people in the region are effectively paying twice for the sins of apartheid.

American and European banks lent heavily to South Africa's apartheid regime in the 1970s and 1980s, leaving President Nelson Mandela's Government with a bill of R90 billion.

"If South Africa's debts are cancelled, it will send a message to banks who consider funding oppressive regimes that odious debts don't pay," the report says.

It says that South Africa's neighbours amassed debts of around R135 billion in fighting apartheid.

"Their stance was costly and mostly financed by loans from governments and international financial institutions such as the World Bank, who now expect repayment," says the report, titled "Paying for Apartheid Twice".

Mr Ben Jackson, director of Action for Southern Africa, said the people of the region "have already paid for apartheid once: now they are being forced to pay again."

"The debt that was built up during apartheid still hangs around (their) necks," he said.

In 1996, Mozambique paid about R640 million to service its foreign debts, compared to R125 million on health and R175 million on education, Jackson said.

"Unlike the people of Southern Africa, the creditors which lent to both sides in the apartheid war will not forgive."

The two organisations have urged Britain to use its chairmanship of this month's summit of the world's eight richest nations to argue for the cancellation of southern Africa's debts.

"If you don't have fuel, you can't have fire," said Jessica Woodroffe, head of campaigns at the World Development Movement.

Oppressive regimes

"Without outside funding, the Government of South Africa would not have been able to pursue apartheid at home and destabilisation next door."

"Unless we tackle this issue, we run the risk of banks and companies continuing to lend to oppressive regimes, confident that they'll get their money back," she said.

The successor to Britain's Anti-Apartheid Movement, Action for Southern Africa, was formed in 1994 after South Africa's first all-race elections. The London-based World Development Movement is a pressure group that fights for the rights of the poor – *Sapa-AP.*

The country is one of the top 10 investment destinations

Erwin says SA rates highly among developing nations

CT (MR) 7/5/98 (49)

LYNDA LOXTON
PARLIAMENTARY CORRESPONDENT

Cape Town — South Africa had moved into the top 10 developing-country investment destinations and was becoming increasingly competitive globally, Alec Erwin, the trade and industry minister, said yesterday.

This was despite the difficulties involved in restructuring its industrial base.

Instead of losing jobs, South Africa was creating employment and the fact that this was not yet reflected in national statistics was receiving urgent Cabinet attention, Erwin said in a mini-debate in the national assembly.

But MPs expressed concern that the move to make South African industry internationally competitive had instead opened up the domestic market to cheap, subsidised imports and more capital-intensive manufacturing techniques.

This had resulted in thousands of jobs being lost.

They also said it appeared that efforts to improve South Africa's industrial base were being dampened by policy decisions in other areas of the economy such as labour and monetary policy.

Erwin said his department had contested recent figures released by the Central Statistical Service showing that 22 700 jobs had been lost in manufacturing last year.

A joint study by the clothing federation and his department indicated that in the clothing industry employment had not only stabilised, but had grown by about 20 000.

"Investment in South Africa in terms of fixed domestic investment is excellent," Erwin said, adding that the latest estimates put this at R12 billion last year, or between $2 billion and $3 billion.

"This puts South Africa in the top 10 of foreign investment receivers ... We have graduated from a situation of getting nothing to being in the top 10," Erwin said.

Among developing countries, China had last year received the most foreign investment at about $30 billion while India had received $2 billion.

Looking at total investment last year, Erwin said that 398 projects had received investment totalling R82 billion, creating about 77 000 jobs.

"South Africa's industry and manufacturing sector is strengthening, and we are highly competitive," he said.

He added, however, that a "magical formula or short cut to the immediate creation of employment (did) not exist".

The South African economy had been in "a very serious and precarious state" for several decades and had required "considerable structural change".

This was a difficult task and it would be "very dangerous" for political parties to attempt to score points on this.

"We have no option but to open our economy," he said.

"You will not get sustainable employment if you are not capable of competing on world markets."

To counter the threat of subsidised imports, the government had developed "one of the most effective anti-dumping units in the world today".

South Africa had, in fact, instituted more anti-dumping actions than the US, which had created "certain problems".

ANALYSIS

Low-key plan belies its impact on Anglovaal

The unbundling of Anglovaal will mean the end of one SA's largest family dynasties. But the families still have a lot of work to do in order to return the company to the investment community's good books, writes **Amanda Vermuelen** (49) BD 13/6/98

ANGLOVAAL chairman Basil Hersov asked analysts this week for congratulations for the group's restructuring strategy, designed in conjunction with merchant bank Morgan Stanley

"We invented the nonvoting share Now we're doing away with it," he said

Hersov was referring to plans to collapse Anglovaal Holdings (AVH) — through which the Hersov and Menell families control the group — into Anglovaal Ltd (AVL) and do away with the five types of listed shares in AVL and AVH. At the end of a complex process, Anglovaal will comprise two stand-alone entities in the industrial and mining sectors, with a single class of listed ordinary shares in each company

The key elements of the long-awaited restructuring plan for the beleaguered and convoluted conglomerate will have a fundamental impact on the nature of the Anglovaal group. The Menell and Hersov families, which have dominated the company since its inception in the 1930s, will give up control, but only after a maximum of three years.

Hersov's low-key presentation to the analysts on Monday belied the importance of this move — not only to the families concerned, but also because the restructuring represents SA's first unbundling of a family-controlled group.

Dynastic empires in SA have been tightly controlled by the families, raising questions about corporate governance. This week's announcement heralds a new era for Anglovaal It promotes a clearer management focus on the individual mining and industrial companies without the potential conflicts inherent in a family control structure

Anglovaal's controlling families have maintained a firm grip for over half a century and there is a belief that the decision to wait three more years before scaling down their dominance has as much to do with the emotional ties that Hersov has forged with the family company as with economic realities

The official rationale for the cooling down period is to allow the families to continue the value-unlocking process which has been taking place for some time in both the industrial and mining arms, Anglovaal Industries (AVI) and Avmin respectively.

MENELL

HERSOV

Recently, both the industrial and the mining businesses have suffered the vagaries of the slow-down in consumer spending, high interest rates and a slide in commodity prices, especially bullion.

AVI's food businesses, particularly National Brands, have been among the many victims But Hersov admitted this week that National Brand's problems could not be blamed solely on external factors.

He said management did not pay enough attention to sorting out the business — a factor which did not go unnoticed by analysts New management is now in place and AVI said the company was back on track.

Hersov said there was room for the company to trim down further, which could mean a few more disposals were in the pipeline Last year it refocused Consol by selling the tyre, rubber and paper packaging operations, while Grinaker's electronics division was sold to black business.

However, analysts said there was little logic in the business mix, citing fishing and construction as being somewhat incongruous in the same company. There is also the likelihood of acquisitions at some stage, with Hersov saying that any deals done would enhance rather than diversify the range of companies in AVI. New capital would be unnecessary, as AVI had "plenty of cash" at the centre, he said.

AVI is relying heavily on an improvement in gross domestic product in the next three years, coupled with the expected bounty flowing from the demutualisation of Sanlam and Old Mutual, to improve its fortunes. It is not expecting manna from heaven, however — costs have been addressed and measures taken to make the company more efficient.

This is also the theme at work in Avmin, which was restructured in 1996 to create a separately listed gold company, Avgold Avmin has a number of underperforming mining assets which prompted it, in the wake of the downturn in commodity prices, to close or downscale some, such as Lorraine and Hartebeesfontein. Fortunately for Avmin, the shining light in this gloomy scenario is Free State gold mine Target.

The only problem there, however, is that Avgold must raise close to R1bn to develop this property, which is rated one of the best gold resources on the planet, if not the best. Avgold appears to be jealously protecting Target, rebuffing approaches from the likes of Canadian mining group Placer Dome to enter into a joint venture.

Avmin's plan is to reach critical mass to enable it to pursue the type of mining ventures it needs to smooth the effects of sharp downturns in commodity pricing. Base metals are top of the list, but thus far it has not made much progress in this area. It narrowly failed in its bid for Consolidated Metallurgical Industries to help beef up its ferrous metals interests already in Associated Manganese and it is still trying to settle on a price, together with its consortium partners, in the privatisation of Zambian copper mines.

Over the next three years, Anglovaal, which has been trading substantially below its net asset value, has to meet the challenge of improving its operating companies and restoring a positive market rating. If the Menells and Hersovs fail and when they cede control as planned, Anglovaal may be a prime target for a corporate raider to strip out its best assets.

Hersov said the challenge was to make Anglovaal "too expensive" for a successful take-over attempt. But there is also another unknown factor. Its two largest shareholders, outside of the families, are Old Mutual and Sanlam, which together own about 30% of the group.

Both plan to demutualise and possibly list on the Johannesburg Stock Exchange. This will put pressure on them to focus attention on the performance of their investments. If Anglovaal fails to meet expectations, the two families could find themselves facing major shareholders who are then likely to take a more proactive interest in the future of the group.

CT (BR) 18/5/98

Erwin rejects 'misleading' policy criticisms

(49)

LYNDA LOXTON
PARLIAMENTARY CORRESPONDENT

Cape Town — Alec Erwin, the trade and industry minister, on Friday rejected claims that the government's industrial progress was being driven by outside forces and was compounding the problem of jobless growth.

He also warned that the success of pending free trade agreements with the European Union (EU) and the Southern African Development Community (SADC) depended on a degree of give and take by both sides, but that this would benefit not only South Africa but the SADC as a whole.

Erwin dismissed the common claim that South Africa's industrial policies had led to jobless growth as "a misleading simplification, as it takes no account of the crucial structural changes (being undertaken) that will sustain growth in the future".

FEISTY *Alec Erwin, who claims critics have ignored structural changes in industry*

He said many analyses of manufacturing did not consider the longer-term cycle of investment and extensive restructuring that had taken place.

For example, he said, the textile industry had seen the average age of capital equipment being reduced from 18 years in 1994 to 11 years in 1997. This was projected to fall even further to eight years in the near future.

"Employment dropped in the textile sector but grew in the clothing sector," he said.

"Other industries have experienced similar deep structural change, yet the overall level of employment in the manufacturing sector has in aggregate remained roughly constant from 1994 to 1997."

These structural changes had been accompanied by various support programmes to improve technology and human resource skills and innovation in industry.

"We can say with some justification that we are on track to generate 100 000 new and sustainable jobs in the manufacturing sector."

The tariff reform programme had been managed to assist the structural reforms needed in industry, and it was expected to take between five and 10 years to realise its full potential. He said there were problems, but despite them the "integrity of the tariff changes must be kept".

Trade negotiations with the EU were "finely poised" and offered prospects of a stable trade and investment framework with South Africa's major trading partners in the developed world.

He said South Africa was prepared to make the structural changes because they "coincide with our basic strategy". The EU should see the negotiations as a "contribution to economic stability in Africa".

He also said South Africa had to overcome vested interests and take the lead in offering SADC partners greater market access.

Fiscal commission cuts the money cake – and apportions the slices

ARG 22/5/98 (49)

CHARLES PHAHLANE

Financial problems and constraints of provinces came to the fore this week during debate on the bill which determines how the cake is cut between national government, provinces and local government.

Chairman of the Finance Committee Mandisi Mpahlwa said revenue was divided according to a formula which placed weighting on six items – education, health, social welfare, basic share of provinces with 50% of ruralness and underdevelopment, economic output share and institutional grants.

The Financial and Fiscal Commission (FFC) decides on the weighting and presents it to the Government.

The FFC is there to provide an independent and expert view on the division of revenue since there is a danger that the Government could use finances for political gain in provinces.

Political parties supported the Division of Revenue Bill, but raised concern about other issues.

The Democratic Party's Ken Andrew said the issue of supernumeries – civil servants who were not doing any work but getting a salary – was a burden on provinces.

Mr Andrew said the management of delivery was an area of weakness for provinces which needed more attention, apart from the shortage of funds.

He asked when legislation to enable provinces to raise their own revenue, as contained in the constitution, would be tabled before Parliament.

Finance Minister Trevor Manuel said he would be meeting with the budget council to discuss the issue, but said there were problems with provinces raising their own revenue since this would cause "distortions" in revenue collection.

The Inkatha Freedom Party's Dr Gavin Woods questioned how the national share was reached.

He said there was no clarity on the matterand it was not acceptable that the determination was "historic."

Mr Manuel said the key question was where powers lay between provinces and national government.

Were powers vested first with national government and then transferred to provinces or were provincial problems passed back to the Government to be solved? – Parliamentary Bureau.

AUDITOR-GENERAL'

State spent R183m without authority

(49) BD 26/5/98

Linda Ensor

CAPE TOWN — Unauthorised expenditure of R183m was notched up by government departments in the 1996/97 fiscal year compared with R152m the previous year, Auditor-General Henri Kluever reported to Parliament yesterday.

The amount, much of it related to the failure to comply with state tender board directives, excluded the secret services account's total budget of R831m, which was technically unauthorised because its expenditure did not get the required approvals.

Presenting his annual report on the national accounts to the standing committee on public accounts, Kluever noted that while there had been improvements in the financial management of some departments, such as education and health, others had remained either stagnant or had deteriorated.

Audit structures

He said that the general lack of proper financial management in the provinces and municipalities was cause for concern, and threatened the provision of services.

Kluever's report criticised the lack of priority afforded to financial management within government. He said there had been no significant improvement since last year. No holistic approach to rectifying the shortcomings had been adopted by government. In many departments, there were inadequate or no internal audit structures.

He urged that "a comprehensive initiative be launched to improve financial management in the public sector".

The nonadherence to procurement procedures and the inadequate accounting for stock, assets and equipment was also worrying.

He expressed "grave" concern at the state of financial administration in the provinces which often misspent the large transfers made by central government. "Parliament might have to exercise some kind of control over these transfers," he said.

Kluever noted a "serious lack of internal checking and control over a wide spectrum of the activities of certain provinces". The Northern and Eastern Cape were the worst offenders, while Gauteng and the Western Cape were the best managed.

The financial position of municipalities was poor, and in some cases deteriorating. "The future functioning of local government and the maintenance of adequate service levels could be seriously affected as a result of the continuing deterioration. An outflow of financial expertise and the lack of proper training at municipalities has had a further detrimental effect."

Most of the financial problems arising from amalgamation of the former homelands and "independent" states remained unresolved, seriously undermining the effectiveness of departments responsible for undertaking the task. A salaries audit of the former states for the period to end-March 1995 showed salary overpayments amounting to R1,5bn were made to former employees.

Full details of the unauthorised expenditure would have to await the tabling of the remaining 27 audit reports on individual departments, scheduled for the next two weeks.

Among the larger cases of unauthorised expenditure were: police R117m, finance department R34m and public works R24m. Health had unauthorised expenditure of R400 326 and education R8,6m. In agriculture, false claims had been made in a production loan scheme for small and beginner farmers.

Departments spent a total of R2,5m without state tender board approval.

ACCOUNTING SYSTEMS DEFICIENT

Govt R1,1bn over budget

ACCOUNTING SYSTEMS in government are outdated and proper procedures are often ignored, says Henri Kluever. **JOVIAL RANTAO** of our Parliamentary Bureau reports.

(49) CT 26/6/98

THE flight of expertise and poor training at every level has hampered government financial management and led to the overexpenditure of R1,1 billion, Auditor-General Henri Kluever reported yesterday.

He said in Parliament that basic accounting systems were also sorely lacking and information systems and technology in use were more than 20 years out of date.

"Any further loss of skills from departments and institutions may cause grave problems. Positive steps to prevent this should be taken as a matter of urgency," Kluever warned.

However, he said the bulk of the unauthorised expenditure — R831 million — related to the secret services budget and was declared unauthorised due to a technicality.

Last year, in the auditor-general's report for 1995/96, the overspend figure was R9,2m.

Kluever said planning was not being done in a formal and structured manner. The absence of measurable objectives and performance criteria made effective performance measurement impossible.

He emphasised, however, that unauthorised expenditure did not mean the money had been wasted. Rather, proper procedures had not been followed in the use of the funds.

Kluever said although shortcomings were reported to Parliament regularly and corrective steps were being taken by managers in the civil service, no holistic approach to rectify the shortcomings identified in the audit reports had been followed.

"No up-to-date statistics on the status of, and progress in, the appointment of financial managers and strategic planning departments were available at the time of compilation of this report.

"As reported in previous years, many instances of non-adherence to procurement procedures were reported in various votes this year. The reasons range from ignorance of, to deliberately ignoring, the rules and regulations. Accounting and disclosure in the financial statement of assets, stores and equipment are inadequate and the amount of the total investment is also not readily available.

"Accounting officers will increasingly have to pay urgent attention to the effective employment of funds by limiting the investment in stock and equipment to the absolute minimum," Kluever said.

The reasons range from ignorance to deliberately ignoring rules

His other findings were that organisational structures were not reviewed regularly enough, the training of staff was often inadequate or unstructured and human resource management was deficient.

Internal reporting was often deficient and was not regularly evaluated.

Among the items highlighted as unauthorised expenditure which required further investigation were:

- The Department of Labour paid over R90 000 in overtime to a contractor hired to maintain its computer services.
- The Department of Land Affairs paid over R1m to a software training consultancy — after the contracts had lapsed. A fraud investigation is likely to follow.
- R14m was mistakenly paid by the Reconstruction and Development Programme (RDP) to the Eastern Cape Province.
- "Fruitless expenditure" of R102 453 by the Central Statistical Service on a workshop that was cancelled.
- The leasing of the World Trade Centre for the multi-party negotiating process by the Department of Constitutional Development for over R66m.
- The Department of Health spent over R160 000 on printing contracts without following the proper tender procedures.

Kluever had some good news, too, though.

Bucking the trend, the Departments of Health and Education had shown "remarkable" improvement in their financial management.

But there were departments where financial management had deteriorated, he said.

Kluever queried more items on the budget of the South African Police Service than he did for any other department.

The department spent R135m on promoting policemen from the former homelands without authorisation.

More than R76m approved for Reconstruction and Development Programme projects had been used by the police for other purposes.

The Department of Health already trying to recoup R10,5m found by the auditor-general two years ago to be unauthorised expenditure, overspent R400 326 during the financial year under review.

Of this, R98 989 was spent on printing a report, R75 000 on reprinting and distributing it and R71 976 on paying a consultant whose contract was extended beyond the 20% excess limit, without State Tender Board permission.

● See Page 6

Finance inefficiency blamed on affirmative action

(49) OT 27/5/98

JOVIAL RANTAO

THE National Party and the Freedom Front have blamed the shortcomings in government financial management on the ANC-led government affirmative action policies.

NP spokesperson on finance Theo Alant said: "It is clear that South Africa is paying dearly for the way in which ANC-controlled departments and institutions apply affirmative action. In spite of the heavy tax burden on the taxpayer the financial administration of the country deteriorates every year."

Yesterday he tabled a notice of motion asking Parliament to agree that SA was "paying dearly for the way in which ANC-controlled departments and institutions apply affirmative action".

Auditor-General Henri Kluever has asked the government to urgently consider taking steps to prevent the further flight of skilled and experienced staff. Kluever said the departure of skilled staff and the lack of proper training for newly appointed staff were largely responsible for the deterioration of finance management in government at national, provincial and local levels.

He said the shortcomings had led to unauthorised expenditure of R1,1-billion by state departments.

The FF's Willie Botha said the overhastiness of the ANC in applying affirmative action was largely to blame for the poor financial controls. The ANC had no moral right to continue with tax increases until it had placed its financial management in order.

SA NEARS TOP OF THE CHARTS

Fund managers take notice

FM 29/5/98 (49)

SA was the fourth most popular emerging market in the last quarter of 1997, according to the Micropal *Emerging Market Fund Monitor*, which polls 50 asset management groups

"The Middle East and Africa region attracted the second-highest level of net flows during the year, behind Asia, at close to US$1,05bn Most of the flows went to SA ($965m) while around $150m found its way into Egyptian stocks "

THE TOP 10

Dec 1997 weightings

1	Brazil	14,5%
2	Mexico	13,9%
3	India	5,9%
4	**SA**	**5,7%**
5	China/HK	5,2%
6	Russia	4,7%
7	Argentina	4,6%
8	Chile	3,4%
9	Turkey	3,1%
10	Taiwan	2,8%

SOURCE: MICROPAL S&P

Fund managers' average weighting in SA was 5,7% in December 1997— almost 30% up from 4,43% in 1996 (see chart)

The keenest investors, all with more than 10% exposure, included some heavy hitters They were US-based LGT Asset Management (12,9%), US mutual fund organisation Vanguard (12,8%), Dutch investment fund manager Robeco (12,1%), Swiss-based Vontobel group (10,7%) and London-based investment management group Framlington (10,4%)

The second quarter 1998 *Monitor* is still being compiled, but Virginia-based editor Ian Wilson says SA is still as popular

Economic Trends

By Adrienne Roberts

At the end of March LGT's funds had a 12,4%-12,5% weighting in SA Vanguard's exposure had climbed to 13,46% and Robeco's to 14%-14,2% Framlington made the only real reduction, to 8,6% ■

Short-term debt blamed for SA's rating

BD 29/5/98 (49)

Tim Cohen

LONDON — The decision of rating agency Fitch IBCA to effectively downgrade SA's debt rating was due to the fact that about 65% of SA's external debt could be considered short term — precisely the kind of problem which caused Asia's economic crisis, the agency said yesterday.

This problem and the accumulated uncovered forward liabilities incurred by the Reserve Bank in defence of the rand, combined in a context of high volatility in emerging markets to expose fragile elements of the SA economy. Fitch confirmed SA's long-term foreign currency rating unchanged at double B, removing the "positive rating watch" epithet.

Fitch is the second agency that recently declined to upgrade SA's rating after Standard and Poor's made a similar decision in March. Fitch rates SA two notches below investment grade, while Standard and Poor's rates SA just below investment grade. Moody's rating is just above.

Fitch sovereign debt analyst Christopher Pryce said the flow of investment to and from SA appeared to be stable, but the volatile situation in emerging markets overall made the SA's position fragile. SA's high level of short-term foreign debt was a particular concern.

The other immediate problem was the Reserve Bank's net open foreign-exchange position on its forward book, which Pryce pointed out greatly exceeded actual foreign reserves.

Pryce said there was a danger that the recent speculative attack on the rand could result in the position worsening further.

Fitch said SA had made great progress in healing the wounds of the past and securing a smooth transition of power from President Nelson Mandela to Thabo Mbeki. However, it warned serious challenges, including violent crime, low economic growth and SA's mixed record on structural reform remained obstacles to investment.

Bid to mend watchdog relations

BD 2/6/98 (49)

Linda Ensor

CAPE TOWN — Deputy president Thabo Mbeki has set up a task team consisting of Finance Minister Trevor Manuel, auditor-general Henri Kluever and members of his office in a bid to forge a better relationship between government and its financial watchdog.

Corporate executive manager for the auditor-general's office, Clarence Benjamin, told reporters yesterday the task team would discuss uncertainties and "clear the air" between the two parties.

The decision to set up the task team was taken after Kluever briefed the cabinet on April 1 on reports pending from his office about different departments.

He wished to initiate a closer liaison with the cabinet in a bid to close the "big expectation gap" between his office and the executive, without this interfering with the independence and integrity of his office, said Benjamin

There was a feeling that the executive and the auditor-general's office did not communicate "timeously and properly", hearing of each other's views only through the media.

Benjamin said while directors-general were aware of the contents of the auditor-general's reports before they were published, their briefings to ministers tended to be one sided and critical of the auditor-general's office instead of taking on board the criticisms made of their departments.

Directors-general and ministers received copies of the auditor-general's reports before they were tabled in Parliament, to give the department an opportunity to reply to allegations made.

Benjamin noted that the Association of Public Accounts Committees, which represented the provincial and national committees, was concerned about the classification of government's unauthorised expenditure, which last week involved Manuel in a public outburst against Kluever.

Manuel objected to the inclusion of the total secret services budget of R831m in unauthorised expenditure for the 1996/97 financial year on a mere technicality. This had the effect of boosting unauthorised expenditure to R1,1bn, thereby creating negative perceptions about government's financial management On legal advice, Kluever felt impelled to include the sum in the total amount.

While the auditor-general's report already made a distinction between technical infringements and proper unauthorised expenditure, the new Treasury Control Bill, which would replace the Exchequer Act, would clarify the difference between overspending, noncompliance and unapproved expenditures, said Benjamin.

Meanwhile, the inquiry by Public Protector Selby Baqwa into allegations by Mineral and Energy Affairs Minister Penuell Maduna that Kluever had covered up the loss of R170m in his report on the Strategic Fuel Fund began in Pretoria yesterday.

The hearing was postponed twice after objections by Kluever's legal team to the objectivity of a member of the panel leading the inquiry, Zodwa Manase, who had been appointed by Maduna to the Soekor board. The hearing is expected to take at least a month.

Micro indicators guide to SA strengths — global report

The latest competitiveness report highlights the fact that microeconomic indicators are also important when ranking a country, says London correspondent Tim Cohen

(49) BD 4/6/98

THIS year's annual competitiveness report by the World Economic Forum demonstrates in statistical form what South Africans already know intuitively. from a macro viewpoint, SA's international competitiveness is dire.

Of 53 countries measured, SA's ranking this year of 42 places it below a country like Vietnam despite that country's civil war and years of communist government. Economic mismanagement in a doomed bid to make the apartheid economy work has left SA ill-equipped to take on the world.

SA's marginal improvement on its ranking last year shows the difficulty its new government has had in turning the ship around and the lack of a determined institutional effort to improve the country's competitiveness. Yet at least the direction is right and the corner has been turned.

Even the reasons for SA's poor showing, as well as its bright points, are well known: sophisticated financial markets, good infrastructure, good management, but a poor education system, inflexible labour markets and the least effective police force of all countries measured.

The consequence of SA's low ranking is a matter of grave concern as the link between long-term economic growth and competitiveness ranking of those nations can be statistically proved.

Yet this year's report contains an innovation that to some extent sets the cat among the pigeons. The innovation measures for the first time microeconomic indicators and on this scale, SA's overall ranking is much higher, coming in 25th of the 52 countries measured.

The microeconomic index essentially deals with the issues at company level rather than at national level, measuring such factors as demand conditions, access to venture capital, local rivalry and information infrastructure.

The inclusion of the microeconomic index is in part a response to the Asian crisis. The crisis has highlighted in technicolour that even though a country's macro indicators — prudent government finances, high rates of domestic savings, and sound political and legal institutions — might be well above average, these factors do not in themselves ensure success or even stability.

So, if Singapore and Hong Kong, the Asian countries least affected by the Asian crisis, win the macro-competitiveness race, it is the US which wins the microeconomic prize. As logic suggests, while the national environment for business is better in the dynamic and open Asian trading states, the business environment in the US — with its huge market and intense competition — is marginally better.

In the microeconomic index, SA's position is something of an anomaly. This is because the relationship between the micro index and per capita gross domestic product (GDP) suggests that although SA's micro ranking is better than its macro ranking, it is still under performing badly even by the micro measure.

In fact, the comparison between the micro index and per capita GDP suggests SA has the highest disparity between actual wealth (or poverty in this case) of its citizens and the microeconomic foundations on which business takes place in the country.

In a sense this is very good news because it means that SA already contains the micro conditions necessary for a surge in wealth creation.

So, apart from macro improvements, what is required for SA to live up to its promise?

The micro survey measured two things: company operations and strategy on the one hand and microeconomic business environment on the other. This measure indicates that SA's business environment is better than the state of its companies, mainly because, despite relatively advanced business conditions, SA's leading companies are heavily involved in basic enterprises such as natural resource extraction.

The report points out stable, prudent macroeconomic policies have long been seen as the cornerstone for achieving a high standard of living. However report co-writer Michael Porter, professor of Business Administration at the Harvard Business School, suggests more than 80% of the variations in GDP per capita can be explained by microeconomic variables. Sound macro policies are necessary but not sufficient for national prosperity, he writes.

Porter makes the point that when the Asian crisis hit, the International Monetary Fund (IMF) was counselling macroeconomic reforms — which invariably involved hardship and pain for ordinary people.

Microeconomic reforms on the other hand, such as the breaking up of cartels, are almost always seen positively by ordinary people. The IMF ought to have been pushing micro reforms as hard as macro reforms, Porter said.

For SA, macro reforms remain the priority, but as the report has demonstrated they will not, by themselves, improve the condition of the poor.

COMPETITIVE DISADVANTAGES

Another poor report for SA

SA is the 42nd most competitive out of 53 countries Or, for those who prefer to see the glass as half empty, it is the 12th least competitive in the world. This uninspiring message comes from the World Economic Forum's *Global Competitiveness Report 1998*.

SA'S SCOREBOARD	
Overall ranking	42
Infrastructure	24
Finance	28
Technology	30
Government	31
Management	33
Openness	46
Institutions	46
Labour	53

Singapore (first), Hong Kong and the US were judged most competitive, with Zimbabwe, Russia and the Ukraine (53rd) bringing up the rear

SA came in last out of 53 on effectiveness of police force, average years of schooling, and maths & science education It rated second-worst in the world for organised crime, industrial relations, primary and secondary education, collective bargaining power, gross domestic investment and public-sector competence.

But the news was not all bad.

SA came 10th on licensing of foreign technology and ranked 11th for "sophistication of financial markets".

And it still scores well in the infrastructure category (see chart). Overall, SA comes 24th, with 13th place for private investment in infrastructure and 16th for roads, railways and ports.

Though SA comes 33rd overall in the management category, it rates 13th to 15th for professional managers, management education, brand names and effectiveness of corporate boards. And in the finance category it ranks 13th to 16th for banks' financial condition, adequacy of financial regulation and participation of foreign banks. ■

ANC/SACP/COSATU

FAILING TO GET INTO TOP GEAR

(49) FM 19/6/98

Never in its history has the tripartite alliance been so unhappy

The irony will not have been lost on the leaders of the ANC, SA Communist Party (SACP) and Cosatu as they sat this week for a meeting they would rather not have had.

On June 14 this year, the controversial Growth, Employment & Redistribution strategy (Gear) celebrated its second birthday. Three days later on June 17-18 the long-standing alliance met to sort out bitter divisions over the strategy.

The meeting, a follow-up to a similar encounter last year, was aimed at glossing over deep fissures over the strategy regarded by the ANC as the country's saviour, and by Cosatu and the SACP as the road to poverty.

The meeting took place ahead of two pivotal events, which could render agreements reached at the summit void. Cosatu holds a three-day central committee meeting from Monday to Thursday next week The federation's national congress last year delegated the committee — comprised of delegates from all affiliates — to deal with all socio-economic resolutions.

The powers of this central committee on socio-economic issues are equal to those of the national congress, Cosatu's highest decision-making body. This means it can change any socio-economic policy of the federation. Once policy is adopted by the central committee it can only be changed by the next national congress in 2000.

The SACP holds its 10th congress soon after Cosatu's central committee meeting from July 1-5 in Johannesburg The congress is the party's highest decision-making body, and will take wide-ranging resolutions on macro-economic policy Both meetings will consider and reject or accept whatever agreements the alliance summit has reached. Judging by discussion documents drafted for these meetings, the ANC would have to reject Gear outright to keep its allies happy.

Among issues on the agenda at the summit this week were: transformation of the public service and stemming the resultant job losses; trade and industry issues; fiscal and monetary issues as well as an election strategy.

With an election approaching, Cosatu and the SACP appeared to be leaving little room for the ANC to manoeuvre.

The only possible compromises were on the public sector and job summit fronts. ANC president Thabo Mbeki was leading the team working on managing public-sector transformation and Cosatu leaders said last week it was expected that he might have worked out a compromise. Details, in light of government's resolution to slash the civil service, were not known.

In the run-up to the summit, Labour Minister Tito Mboweni, SACP deputy general secretary Jeremy Cronin and Cosatu deputy general secretary Zwelinzima Vavi were also expected to hammer out a common approach for the finalisation of the three parties' position for the job summit. The alliance approach, however, would not necessarily be similar to that of government.

INTO STORMY WATERS

Blade Nzimande — Party: SACP, Formed: 1921, Members: 85 000

Sam Shilowa — Union: Cosatu, Formed: 1985, Members: 1,85m

Thabo Mbeki — Party: ANC, Formed: 1912, Members: 200 000

Key Indicators
- Born out of the defiance campaign in the 1950s
- Strengthened during long years of exile
- Started showing strains in post-apartheid SA
- Major area of disagreement — the Growth Employment & Redistribution strategy

But all these issues could be classified as peripheral to tensions in the tripartite alliance. Unless a compromise emerged — which is unlikely — macro-economic policy remains the main issue

In discussion documents for its central committee meeting, Cosatu says "the federation reaffirms its rejection of Gear and government's macro-economic practices" It says government should avoid binding itself to specified deficit targets without first assessing their impact on: service delivery, ability of the State to extend services to poor communities and institutional capacity of the State

"We reject the obsession around the deficit reduction," it says.

The SACP's Economic Transformation document, prepared for its congress, is in similar vein. It says it rejects "all approaches suggesting that essential developmental transformations should be postponed until growth has been achieved".

"The SACP is convinced that the integrated approach to growth and development called for in the Reconstruction & Development Programme remains the only way forward," it says.

ANC secretary-general Kgalema Motlanthe and the organisation's deputy president, Jacob Zuma, have told the *FM* in the past that the alliance is not in danger and some form of agreement will be reached.

But what do the deep fissures mean for the ANC's hopes of a two-thirds majority in the 1999 elections? It will go into an election year with allies who will continue to snipe at its heels about Gear

Though there is no doubt that they will support the ANC election campaign, they will go into the arrangement uneasily.

The ANC itself cannot compromise on Gear. Its policy conference last November and its national congress have underwritten the strategy, but with the proviso that details will be revisited.

The divisions over Gear are the deepest that the tripartite alliance has experienced. The idea to have summits was mooted last year to avert public brawls over policy

But the differences over Gear have been so deep that it has been inevitable that they have, and will continue to, spill into the public domain

In an election year, this may prove to be an expensive blow to the ANC.

Justice Malala

Cosatu criticises Bank for 'squandering' resources

BD 23/6/98 (49)

Reneé Grawitzky

GOVERNMENT yesterday faced renewed attack by the Congress of SA Trade Unions (Cosatu) over its macroeconomic policy while the SA Reserve Bank came under fire for "squandering" in excess of R26bn in one month to prop up the rand.

Cosatu general secretary Mbhazima Shilowa said the rand should be allowed to find its own level. He also called on the federation's central committee to adopt a resolution rejecting demutualisation if the intention was going to be capital flight. This was in response to an announcement that Old Mutual planned to list in London.

This emerged at the start of the federation's four-day central committee meeting which was marked by a vicious attack on the growth, employment and redistribution strategy (Gear) by Cosatu's first vice-president, Connie September.

However, SA Communist Party general secretary Charles Nqakula said not everything in the strategy was problematic. "There are things in Gear which can be utilised for a more progressive policy."

September said there was mounting evidence that Gear had failed because it was an inappropriate growth model for SA.

"Gear must go now — we are issuing the red card to Gear," she said.

Business was attacked for calling for the postponement of the job summit.

Shilowa said those opposing the summit should "go to hell. There shall be a jobs summit sooner than you think."

Cosatu would go to the meeting when it had had enough time to study government's proposals. Shilowa said the time required to prepare was irrelevant. "Two months is not a magic number. Once government has tabled its document, we might only need two weeks' preparation," he said.

The real issue was whether business was still committed to the summit. Parties faced a real problem if that was not the case.

September said business should form a new political party, or ask the Democratic Party and United Democratic Movement to adopt its policies. "The African National Congress is not their party and they should stop attempting to use the ANC to do their dirty work."

Strengthing the agenda: Page 13

Congress of SA Trade Unions general secretary Mbhazima Shilowa, far rig... ng central committee meeting in Johannesburg yesterday.

'Give poor place in Gear, Budget'

(49) CT 29/6/98

MIKE MASIPA

JOHANNESBURG: Church leaders have appealed to the government to re-examine its Growth, Employment and Redistribution strategy (Gear) and the Budget and to place greater emphasis on the needs of the poor.

Addressing the media after the Poverty Summit in Midrand yesterday, the Anglican Archbishop of Cape Town, Njongonkulu Ndungane, said there was a need to "accommodate the poor" in the next Budget.

Sheena Duncan, president of the World Council for Religion and Peace, said "Gear is clearly not doing anything to eradicate poverty". Some aspects of Gear needed to prioritise the poor, she said.

Gear has been criticised by opposition parties and the ANC's allies, Cosatu and the SA Communist Party, for its perceived failure to resuscitate the economy.

More than 100 representatives of a range of denominations and independent church groups attended the summit. It is expected their resolutions will be released today.

Ndungane said that although the United Nations had targeted the year 2015 for the elimination of poverty worldwide, South Africa had the capability to eradicate poverty well before then.

"South Africa possesses the resources and the technology," he said. "All that is required is the political will and the economic commitment."

That the government had the will was illustrated by Deputy President Thabo Mbeki's report on poverty and Minister of Labour Tito Mboweni's announcement that R1 billion would be set aside to create jobs.

A partnership between the government, the labour movement and the private sector was required to turn the tide, Ndungane said. However, the church was under no illusion that eradicating poverty would be child's play.

"Tackling poverty in South Africa is like eating an elephant — where do you start?," Ndungane said.

"Our emphasis should be moving from words to action. People need to put their money where their mouths are.

"We have taken special note of the way in which poor people have spoken (at the Poverty Hearings) of their willingness and initiatives to help solve (their) plight. They do not look for handouts. What they require are the resources and the capacity to be equal partners with all others involved."

State tenders should be reviewed to ensure that the poor benefited, Ndungane said.

Church leaders would try to persuade the government and the National Economic Labour and Development Council to allow unemployed people and their representatives to attend the jobs summit.

Ndungane appealed to political parties not to use poverty as a political football in the elections.

"What we want is commitment from all sectors of society."

Mandela hits out as allies attack Gear

(49)

BD 2/7/98

Vuyo Mvoko

PRESIDENT Nelson Mandela yesterday launched his most vicious attack yet on the African National Congress's allies — the SA Communist Party (SACP) and the Congress of SA Trade Unions (Cosatu) — for their vehement criticism of government's macro-economic strategy, Gear.

Speaking at the SACP's congress in Johannesburg, Mandela departed from an otherwise conciliatory speech he said had been written for him and stated: "Gear, as I have said before, is the fundamental policy of the ANC. We will not change it because of your pressure. If you feel you cannot get your way (then) you go out and shout like opposition parties. Prepare to face the full implications of that line."

Mandela then called on the party to "choose a role you want to play". He did not elaborate.

He said there had been differences before between the ANC, SACP and Cosatu "on certain issues". Such differences had at times been fundamental, but they were "natural".

"To insult the ANC, that is your right.... We are prepared to listen, even when we are not convinced they (SACP and Cosatu) are correct. And we will make concessions."

Mandela said each member of the alliance was entitled to state its views. "That is a right we fought for and won."

However, the alliance partners had been consulted during the formulation of Gear, and all seven editions that were compiled on the policy document were circulated for comment.

The kind of criticism alliance partners were now levelling against Gear, "that type of behaviour makes me determined not to listen".

Mandela said he would urge Deputy President Thabo Mbeki, when he took over as president of SA, "that this is the healthiest policy for this country".

Mandela said there was no organisation that he respected more than the SACP, which had suffered and was persecuted even more than the ANC. "I will go to my grave, with deep respect for the SACP," he said later.

There was no immediate response to Mandela's attack. Thenjiwe Mthintso, who chaired the session, thanked Mandela and said: "You made clear your unmandated position."

SACP general secretary Charles Nqakula, the central committee and delegates sat stunned as Mandela greeted special guests before leaving.

Before Mandela's speech, Nqakula told the congress that the "manifest failure of Gear to meet most of its targets has confirmed us in our belief that it is the wrong macroeconomic policy".

Gear was too rigid, had been a "hurried and narrowly technical exercise" with "little strategic political oversight and none of the alliance partners, including the ANC itself, had been adequately consulted", he said.

Mandela's words come a week after Mbeki asked Cosatu at its central committee meeting whether the union federation still wanted to remain part of the tripartite alliance and whether its actions represented "the true spirit of the congress movement". Mbeki is to address the SACP congress today.

Picture: Page 2

NO COMPROMISE . . . Cosatu's Sam Shilowa who wants the Reserve Bank to be democratised.

Cosatu start mass-action on economy

CP 5/7/98 (49)

They are upset that the government seems to be failing to save the Rand

Hit below the belt by Cosatu, the ANC must deal with a new turn of disloyalty, ZOLILE NQAYI reports.

THE embattled Reserve Bank, commercial banks, pharmaceutical companies and the Eskom Bill, will be the target of the Congress of South African Trade Unions' mass actions from this month.

This is contained in a document of resolutions reached at Cosatu's central committee meeting last week in Johannesburg.

Preceding the various campaigns, will be Cosatu's regional congresses and workers forums to "discuss and popularise" the campaigns.

Cosatu has been critical of the Reserve Bank in the wake of the decline in the value of the rand. It has called for "greater democratisation of the bank".

Cosatu general secretary, Sam Shilowa, this week allegedly criticised the Reserve Bank for its failure to deal with speculators' attack on the local currency, which saw the Rand sinking to its lowest levels against the US Dollar and the British Pound Sterling.

The government on the other hand, expressed its confidence in the ability of the Reserve Bank to fend off speculators and thus prevent a further decline of the SA currency.

The wide-ranging Cosatu mass action campaign is expected to run until the end of October this year.

According to Cosatu, leading to the job summit will be "marches of the employed and the unemployed for job creation and in defence of our jobs".

"The marches in the different regions, will collect demands of the employed and unemployed," states the document.

The marches, the documents reveal, will culminate in a "massive national march" on the day of the summit, organised in the region in which it is to be held.

Campaigns against business include marches on Sanlam and Old Mutual.

Cosatu has indicated that it is opposed to the companies' decision to undergo an "unilateral demutualisation" process.

Cosatu accuses the two companies of not consulting workers while their money was being used to fund the demutualisation processes.

The trade union federation has targetted the Reserve Bank and commercial banks "to protest against their irresponsible handling of interest rates and monetary polices, excessive profiteering, and the abuse of consumers."

Cosatu will also support the making health care accessible to all South Africans.

Certain pharmaceutical companies are perceived to be opposed to measures intended to make medicine affordable.

Big business and labour back Mboweni

(49)

THABO KOBOKOANE and ANDREW GILL

ST 5/7/98

SA BUSINESS and labour have given a provisional thumbs up to the appointment of Tito Mboweni as the next Reserve Bank governor.

But they say Mboweni must prove he is independent enough to take unpopular decisions, especially with regard to interest rates.

Anglo American said it was correct to announce Stals's successor well ahead of the changeover and that Mboweni was "assured of our support" when he takes over.

Johnnic chairman Cyril Ramaphosa said he was pleased with Mboweni's appointment, describing him as very astute.

"No doubt he will be equal to the task of Reserve Bank governor. We should not allow political affiliations to blur Tito's wealth of skills and ability. He has enormous ability and is able to come to grips with the job of being a central banker."

SUPPORTING TITO: Chris Liebenberg

Reuel Khoza, chairman of Eskom, said Mboweni should able to dislodge a political stance from his professional job. "This is national duty as opposed to a party duty."

Former finance minister Chris Liebenberg said making the announcement early was astute.

"When I worked with him, he ran an excellent administration. He has taken some very tough decisions, some of them against the unions," he said.

"I think with the period we are going into it is not that bad to have a political appointment."

Saki Macozoma, MD of Transnet, said Mboweni cannot be steamrollered into decisions: "He has the character to take his own decisions. It was about time an important institution such as the Bank was put in the hands of someone who understood transformation . . . and the imperatives of the country."

He echoed sentiment that Mboweni's appointment would enable better co-ordination of fiscal and monetary policy.

Mike Vosloo, chief executive of Standard Bank Group, said he would adopt a "wait and see attitude".

" I am sure he is going to respect the independence of the central bank. Obviously, the way he does his job is going to be carefully watched by the markets," Vosloo said.

Mbhazima Shilowa, secretary general of the Congress of South African Trade Unions, said: "I welcome the appointment of Tito Mboweni to understudy Chris Stals and take over when he goes, and I think Cosatu will have no problem with that.

"We have always said that it is important to ensure that you place someone — not as a political hack — but someone who, on the basis of agreed policy of the ANC and the government, will be able to work in that framework. We hope he won't work in the same way Stals did.

"But this leaves a vacuum. Tito was someone we had learned to work with. But what he was implementing was not his own policy but the ANC's policy.

"We hope the new minister will follow this. We hope there will be further consultation and meetings so he can understand where we are coming from and transform the labour market in a way that does not lead to a loss of jobs."

The National Party said it was shocked and surprised at the appointment of Mboweni.

NP spokesman Dirk Bakker said in a sharply critical statement: "The appointment is an extremely short-sighted step for which the country will pay dearly.

"It is a political appointment, which cannot in any way be justified on merit and which is unheard of for a country striving to achieve a healthy economic system.

"This step by the ANC points to the beginning of the onslaught against the independence of the Reserve Bank."

Bakker said Mboweni's appointment could result in a further damaging blow being dealt to waning investor confidence in South Africa.

'Low Gear drives blacks to despair'

(49) CP 5/7/98

By JIMMY SEEPE

THE GOVERNMENT economic policy, which was heavily defended by President Nelson Mandela and his deputy, Thabo Mbeki, after it came under attack from the SA Communist Party, was again criticised yesterday at the 14th national congress of the Azanian People's Organisation.

Azapo's president, Mosibudi Mangena, in his state-of-the-nation address at Pretoria Technikon, criticised the government macro-economic strategy which he described as a "rightwing economic policy" decreed by the World Bank and the International Monitory Fund.

The conference, attended by more than 1 000 delegates from across the country, was held as the organisation, for the first time, prepared itself to take part in next year's general elections.

The government's Growth, Employment and Redistribution (Gear) policy was described by Mangena as a policy that would never be able to redistribute wealth in this country nor empower the poor economically.

Mangena told delegates Gear was a strategy which was destined to make the rich richer and condemn the poor to a life of hope that the riches would trickle down some day.

He said, since its implementation, Gear had produced neither economic growth, nor employment nor redistribution.

"Instead of producing jobs, workers are being retrenched by the thousand in every sector of the economy.

"As for redistribution of wealth, it is indeed discordant to mention the concept within the realm of unfettered capitalism.

He said Gear has absolutely nothing to do with redistribution of wealth.

Mangena said government's privatisation plan was also destined to cause massive unemployment in a country where "we don't need less government in the economy but more".

He said state assets such as Eskom and Transet were providing an important function to the majority of the population that could be lost once these parastatals were privatised.

Mangena, who did not have any kind words for government perfomance in the last four years, criticised every aspect of the state's programmes.

"Four years after the liberal democratic order, every aspect of social life is in disarray.

"To rub salt into our open wounds, this government addresses the homelessness problem by building pondokies for blacks that are worse than the matchboxes provided by the racist regime.

"Does this government have such low regard for blacks that it will provide structures akin to toilets and pass them as houses to blacks?"

He also lambasted the education, health and welfare department for being total disasters.

He said the welfare department, which earlier this year declared 94 000 Northern Province elderly citizens as ghost pensioners, was treating black pensioners in a "callous, arrogant, insensitive" way.

A rand nosedive greets Tito

ARG 6/7/98 (49)

BUSINESS EDITOR

The rand plunged today as the announcement of Labour Minister Tito Mboweni's appointment to the Reserve Bank shook the markets, hurtling to a new low of R6,75 to the dollar before recovering later.

At midday the currency was trading at R6,61 to the dollar and R10,87 to the British pound, compared to Friday's close of R6,39 and R10,50. Economists had expected the currency to sag initially on the announcement of Mr Mboweni's appointment to succeed Reserve Bank governor Chris Stals when he retires in August 1998.

Deputy President Thabo Mbeki announced Mr Mboweni's appointment at the weekend, putting an end to months of speculation about a successor for Dr Stals.

The appointment of Mr Mboweni has triggered fears that under him the Reserve Bank could give in to popular pressure and ease the bank's high interest rate policy. In an attempt to protect the rand, under pressure from speculators since the end of May, the Reserve Bank has allowed its lending rates to banks to rise sharply, prompting the banks to hike overdraft rates three times and home loan rates twice in the last few weeks.

Today First National Bank hiked its overdraft rate to 24% from 22,5% and its basic home loan rate to 21,5%. The other major banks raised their rates last week.

Mr Mboweni will resign all his political positions within the ANC when he steps down as minister on July 18. He will be replaced by Shepherd Mdladlana, deputy chair of the parliamentary education committee.

SACP commits itself to finding alternative to Gear

Vuyo Mvoko

BD 6/7/98 (49)

AN AFFLICTED but stubborn SA Communist Party (SACP) concluded its five-day congress yesterday saying government's macroeconomic strategy of growth, employment and redistribution (Gear), was inappropriate and that its "overall thrust must be rejected".

However, in the absence of an alternative framework, the SACP congress resolved to engage its two alliance partners — the African National Congress (ANC) and the Congress of SA Trade Unions (Cosatu) — in a search for a new framework during the upcoming alliance summit.

The SACP took a beating from President Nelson Mandela and ANC president Thabo Mbeki last week for, among other things, criticising the ANC outside alliance structures and for giving the impression that government was selling out on the reconstruction and development programme.

New party deputy chairman, Welfare Minister Geraldine Fraser-Moleketi, said Mbeki's "candid" speech might have made some "uncomfortable", but the issues would be "unpacked" at the alliance summit.

Charles Nqakula, SACP chairman and previously general secretary, said the SACP's criticism of some of government's positions might have given the impression that the party did not support initiatives such as the African renaissance.

CRONIN

The SACP said it would press for a macroeconomic policy underpinned by a job-creation strategy, social security nets and "an active, progressive and integrated industrial policy".

The party wanted a "restructuring" of the Public Sector Pension Fund, and called for a national retirement fund.

Interest rates must be reduced and priority of monetary policy be shifted from reducing inflation to creating employment.

On fiscal policy the party wanted social deficit targets to be "prioritised over" budget deficit targets, and for "regressive" tax structures to be changed.

The SACP would "continue to build and strengthen" itself as an "autonomous formation within the context of the ANC-led tripartite alliance", and would work towards ensuring an overwhelming ANC victory in next year's election, party general secretary Blade Nzimande said.

"This commitment is not due to sentimentality on the part of our membership, or because we do not believe that the SACP can survive without the alliance," Nzimande said.

Market thumbs-down for Mboweni

Star 6/7/98 (49)

BY JOVIAL RANTAO AND DOW JONES NEWSWIRE

Speculators have seized on the surprise announcement of Tito Mboweni as the eventual successor to Reserve Bank Governor Chris Stals to deliver another drubbing to the rand early today.

Any hope the Government might have had that their hasty announcement over the weekend of Labour Minister Mboweni's appointment would remove widespread uncertainty on the succession issue in the markets will have been rapidly snuffed out as the dollar charged higher in thin opening dealings.

From R6,38 late on Friday it soared to R6,66 as the first trades went through the local market and it had sunk to a new low of over R10,80 to the pound.

As feared by economists over the weekend, the market appears concerned that the appointment of Mboweni, a senior cabinet member and a long-standing ANC official, could compromise the Reserve Bank's independence.

"It may be an over-reaction but you can't change the perception within the market, no matter how wrong it might be," said one dealer. "The fact is that an ex-ANC man will be in charge of the Reserve Bank.

Destined for the hot seat ... Tito Mboweni.

"I think perhaps the market would have been more comfortable with (deputy governor) James Cross, given his experience in the job," he said.

Yields on local bonds also have soared on the news.

Mboweni had no illusions about the challenges ahead.

"It's a tough call," said Mboweni, minutes after Deputy President Thabo Mbeki had announced the Government's third cabinet reshuffle.

Mboweni (39), a respected economist within and outside the ANC, received his appointment with mixed feelings.

He said he was happy at his "redeployment" to the Reserve Bank, but sad at having to leave the organisation he joined as a young activist from Northern Province.

He will serve as a special assistant to Stals until July 1999.

When he steps down as minister on July 18, to be replaced by former trade unionist Shepherd Mdladlana, Mboweni will resign all his political positions within the ANC.

Mboweni dismissed fears that his strong ANC links would compromise the independence of the Reserve Bank.

Mbeki reiterated Mboweni's sentiments. "There are no fears that the constitutional independence of the Reserve Bank will be threatened.

"The Government has to behave in a manner which recognises the fact that we're part of the world financial community. The Government won't shoot itself in the foot by compromising the independence of the Reserve Bank. The Government won't act foolishly."

He added that the decision to appoint Mboweni was made after serious consideration of other candidates. The ANC and Cosatu welcomed Mboweni's appointment.

▶ **New minister** ... *Page 3*

Mboweni takes reins at Reserve Bank

(58) (49) ARG 6/7/98

CLYDE RUSSELL

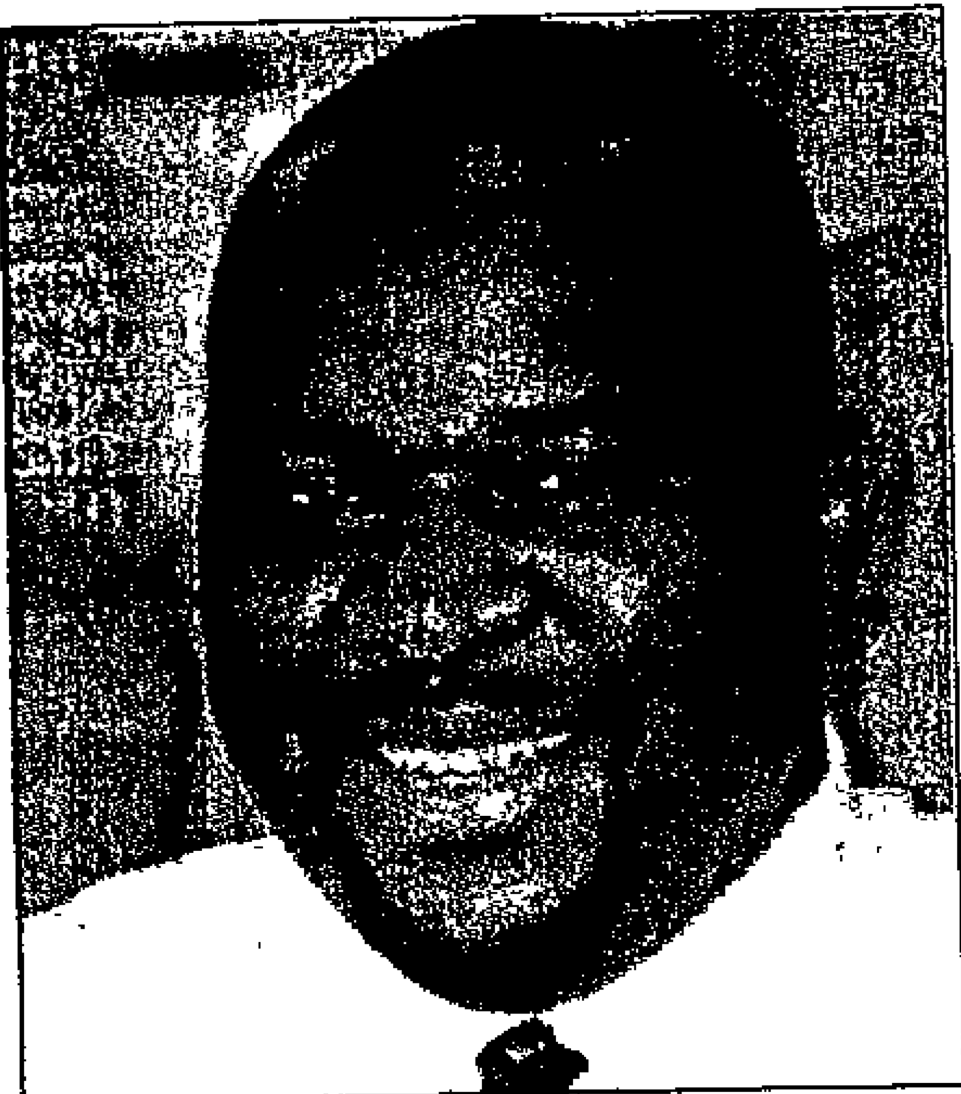
Pretoria – Tito Mboweni, named on Saturday as the next governor of the Reserve Bank, is one of the leading economic thinkers in the African National Congress.

Mr Mboweni, labour minister since the ANC came to power in 1994, has steered controversial labour policies through Parliament and is at the forefront of the battle to ease South Africa's chronic unemployment, estimated at 30% of the workforce.

The 39-year-old British-trained development economist acknowledges that he has very little know-how when it comes to central banking, saying it will be a "tough call" to get up to speed by August 8, 1999, when he formally takes over as Reserve Bank governor from Dr Chris Stals.

Mr Mboweni has used his labour portfolio to reform labour laws and introduce often controversial measures to attempt to eradicate decades of racial inequality in the workplace.

He was the architect of the new Labour Relations Act, endorsed by unions but criticised by business for making the labour market too rigid by enforcing central bargaining in major industries.



Bank boss: Tito Mboweni

The Basic Conditions of Employment Act has also been used by Mr Mboweni to guarantee the rights of workers, but business complains it makes it more difficult to hire workers, encouraging mechanisation and hurting job creation.

Mr Mboweni's most controversial legacy will be the Employment Equity law, which is still to be ratified by parliament.

The bill will require employers to produce plans on how they aim to use affirmative action to further previously disadvantaged groups.

It is Mr Mboweni's tendency to interventionist policies at the Department of Labour that could lead to concerns he will do the same at the Reserve Bank.

In August last year, Mr Mboweni said that he believed the Government should play a more active role in monetary policy, in order to help job creation.

Mr Mboweni spent a number of years in exile during the fight against apartheid and is seen as being close to Deputy President Thabo Mbeki, expected to succeed President Mandela when he retires next year.

Mr Mboweni grew up in Northern Province, although visits to Johannesburg, where his father worked, introduced him to the indignity of apartheid laws.

He became involved in politics when he enrolled for a commerce degree at the University of the North.

He left South Africa for Lesotho in 1980 where he became involved in ANC politics and studied for a degree in economics and political science at the National University of Lesotho.

Mr Mboweni left Lesotho at the end of 1985, moving to England where he obtained a masters degree in development economics from the University of East Anglia in 1987.

He went to work for the ANC in Zambia in 1988, eventually ending up in the economic policy department.

He returned to South Africa in 1990 after the National Party government unbanned the ANC and freed political prisoners.

He played a leading role in formulating the ANC's economic strategies, including the conservative macro-economic policy for Growth, Employment and Redistribution, Gear.

He was an observer at the 1991, 1992 and 1993 IMF-World Bank summits and in 1995 was selected by the World Economic Forum as one of its global leaders of tomorrow.

Recently his focus has shifted to preparing the presidential jobs summit, bringing together labour, government and business in an attempt to solve the unemployment millstone.– Reuters

IMF report finds SA economy's fundamentals solid

Simon Barber

WASHINGTON — An International Monetary Fund (IMF) staff report prepared for the fund's executive board as the basis of its annual consultations with SA is understood to paint a positive picture of the economy's fundamentals, but to raise concerns about government's slow progress in implementing its growth and employment strategies.

This means that should SA need to approach the fund to bolster its foreign reserves, government will not be required to take steps it is not already taking or has announced it intends to take. SA has a "good adjustment programme", IMF first MD Stanley Fischer said last week.

The board is to discuss the report, based on a staff mission to SA in April, before the current rand crisis erupted, on July 17. A summary of the report's findings and the board's recommendations should be released soon thereafter.

This year's staff mission paid particular attention to SA's financial sector, and is said to have found it essentially healthy and efficiently supervised.

The soundness of the corporate sector and its low level of external debt is also said to be noted in the report.

The board is expected to be pleased with SA's performance in bringing down inflation, which, measured in terms of the producer price index, is at an all time low, and to agree with management that fiscal policy is headed in the right direction with this year's budget deficit targeted at 3,5% of gross domestic product.

Although monetary policy is also understood to receive good marks in the report, Fischer expressed concern at the start of last week saying that "if they conduct the policy as they intended to, they should be able to get back to a more stable foreign exchange market".

The IMF's major worry is over SA's weak growth owing to delays in carrying our key elements including liberalisation of the trade and the labour market.

Mboweni is the ANC's light at the end of the tunnel

In the current circumstances, Tito Mboweni's change of career from government to banking is a clever political move, especially ahead of an election, says Washington correspondent Simon Barber

BD 8/7/98 (49)

THE convenient view of the rand's plunge is that it has been caused by forces outside SA's control: the fundamentals are in order, but east Asia's financial meltdown has panicked investors about emerging markets generally and encouraged speculators to take a run at SA's reserves.

Then, to compound matters, a rumour takes flight in New York that Reserve Bank governor Chris Stals is about to be fired, which suggests to the herd instincts of the market that SA authorities have lost the political will to defend the currency via interest rates.

News that Stals is actually going to serve out his term, albeit with an understudy, Tito Mboweni, does not help much, but again that is not the SA government's fault.

Government cannot be blamed if investors refuse to read its lips and insist on construing the appointment of a politician with (as yet) no banking experience as a sign that the central bank is going to become politicised.

In sum, runs this storyline, the rand's woes are external.

Even if not entirely true, and as long as it does not become the basis for policy, the story has certain merits, especially for a government like SA's in election mode.

For starters, blaming foreigners offers cover. Equally important, it makes it easier to approach the International Monetary Fund (IMF) for help without violating any deeply held beliefs, especially if the IMF is as ready to play along as it appears to be.

MBOWENI

Publicly, the IMF thinks SA is pursuing the right policies.

Inflation is down, monetary policy, after some recent deviations, is on track, Finance Minister Trevor Manuel is doing a fine job fiscally.

The financial sector — which turned out to be the Achilles' heel of the Asian Tigers — is healthy and soundly supervised.

Government also has, in IMF first MD Stanley Fischer's very own words, "a good adjustment programme" for promoting growth and job creation.

Ergo, the authorities, of their own volition and for reasons of their own devising, already happen to be fulfilling whatever conditions the IMF might attach to supporting SA's bedraggled foreign reserves.

So, in the event it had to turn to the fund, government would arguably be surrendering none of its precious sovereignty — about which it is so hypersensitive that it remains hostile even to the largely hortatory "conditionalities" attached to the trade benefits in the US Africa Growth and Opportunity Act.

Now, to be picky, the monetary fund may like SA's "adjustment programme", but it also has a problem with the pace of its implementation.

As committed as government might be to reforms that would reduce SA labour costs and make SA industry more globally competitive — and thus ultimately help create rather than shed jobs — many of the reforms, including broader privatisation and trade liberalisation, have become subject to delay.

And that, the fund's executive directors will likely say when they complete their annual Article IV consultations with SA later this month, is what is hampering growth in the country.

Which is a delicate way of putting what the markets are really saying about SA in their disdain for the rand.

Yes, the speculators and hedge funds have run riot, but while east Asian contagion and rumour may have fuelled their short-selling revelries, the underlying cause is doubt about government's will to translate words into deeds.

Look at it in this way: the Asian flu has hit only those countries whose immune systems were already, like Russia's, compromised. It is not an entirely arbitrary bug. Now that SA has caught it, some serious treatment is needed.

In the immediate term, there is so little liquidity in the rand market — sellers so far outnumber buyers — that on Monday Standard Bank New York trader Carsten Hils was saying that the sale of R100m, no longer a very princely sum, now moved the rand down 20 "big figures", that is cents, against the dollar.

STALS

Long-term investors are unnerved by the prospect of social unrest as they watch interest rates climb to staunch the bleeding. Unemployment is already at appalling levels, and commodity prices are low.

What is more, SA's industry is highly capital-intensive.

Under the circumstances, Mboweni's shift to the Reserve Bank makes sense.

Government needs someone with credibility to administer the medicine to organised labour, or alternatively whom it may hold out as the light at the end of the tunnel while Stals spends his last year in office catching the flak for the pain that must be inflicted.

Either way, the appointment can be seen as an attempt by the next president, Thabo Mbeki, to inoculate himself and the African National Congress as the effects of the rand's collapse, plus necessary countermeasures and no-longer-delayed reforms, are felt by key constituencies in the run-up to elections.

Clever politics are generally a perquisite for sound economic policy. By the same token, if clever politics are not involved here, the chances of sound policy being implemented are as negligible as the record of economic accomplishment the ANC may have to run on next year.

Mboweni moves to soothe market fears

SA RESERVE Bank governor-in-waiting Tito Mboweni has dismissed fears that he will tamper with the Bank's constitutional independence from government, assuring critics that he is up to the job.

He indicated yesterday he would not balk at tough decisions on interest rates because of possible unpopularity.

Mboweni, who steps down as labour minister on July 18, was named at the weekend to take over when Chris Stals retires in August next year.

Mboweni dismissed fears that if the African National Congress won a two-thirds majority next year it would change the constitution ensuring the Bank's independence. "I am quite convinced that even if the ANC won 100% of the vote, they would not change that component of the constitution," he said. The party was under no illusions about how harsh the markets' response would be.

"You cannot play games. We understand the role of a central bank in today's world. If anything, I will be the one to have to say leave the constitutionally entrenched independence of the Reserve Bank as it is."

Mboweni said the job of Reserve Bank governor would involve harsh choices, but he was prepared. "I know that when interest rates bite at some point, some people will complain ... but if we have to dish out that kind of medicine from time to time, we will have to do it."

The rand plunged to a record low of R6,75 against the dollar on Monday following the announcement.

Mboweni declined to answer questions related to central bank policy until he was installed in the governor's office, but acknowledged that the market had raised a question mark over his suitability for the position. "I am not a central banker ... I am an economist. If

Continued on Page 2

Mboweni (49)

BD 9/7/98

Continued from Page 1

I had any doubts about my ability to learn and work in the Bank I would have said to the president: 'Sorry, I cannot do it'," Mboweni said.

Samantha Sharpe reports from Cape Town that Finance Minister Trevor Manuel lashed out at media criticism of Mboweni's appointment.

Manuel said at a breakfast to mark the listing of black empowerment group Brimstone Investment Corporation that government was weary of the "virulent tirades" from "ordinarily civilised and logical individuals" who found it "difficult to hide the racism deep within". The fight for democracy had cost the people of SA too much for government to do anything that could be regarded as stupid or naive, he said.

Socialist policies to blame: Page 13

Socialist policies to blame for sustained attack on the rand

(49)

Political correctness has stood in the way of identifying why the rand has come under attack, argues **Luke Doig**

BD 9/7/98

ECONOMISTS have been clutching at straws for more than a month now as to both the apparent and the real reasons for the sustained attack on the rand.

Political correctness, one of the negative aspects of our newly transformed dispensation, has prevented many analysts from identifying and/or making public what is possibly the only real reason for the currency's continued depreciation — the socialist direction that our policies are taking.

It is sad that a prominent economist recently lost his position due to supposed undue criticism of the authorities. Rigorous critiques of policy direction, no matter under what political umbrella, must endure and be promoted if any semblance of democracy is desired.

Just as the previous political system, and more importantly the manner in which it was administered, deserved censure for many aspects, then so must this regime enjoy scrutiny and condemnation for many of its shortcomings.

Finance Minister Trevor Minister Manuel, after learning quickly about the market's "paradox of volatile stability", as Clem Sunter has termed it — wherein the markets react speedily to punish any deviation from the rules of the game — has become a consummate politician and skilled manipulator. A case in point was the recent budget. A friend described it to me as a vote-catching one, and this was what it certainly was.

Manuel took in the international investors with a first-glance commitment to fiscal constraint via meeting the growth, employment and redistribution strategy's 3,5% budget deficit to gross domestic product target. He then convinced the average taxpayer that he was putting money back into their pockets. In fact, all taxpayers, corporate and individual, were footing the continuing rise of the social welfare bill.

This probably would not be so concerning if it were not for the lamentable manner in which the funds are spent.

Many studies, including the SA Foundation's "Growth For All", have shown that the amount of money SA spends on social services such as health, housing and education are not the problem; rather it is the fashion in which the funds are applied or, more

MANUEL

normally, wasted.

This country is spending an inordinate amount — as it should be — on education, but what do we have to show for it? Simple orders for necessary books cannot be executed, and the more lacklustre the performance of ministerial portfolios, the more likely that the incumbent's job will be safe.

It is sad examples such as these that cause us to be lumped together not merely with emerging economies, but with such luminaries as Zimbabwe.

It now seems undeniable that the overseas markets got wind of Labour Minister Tito Mboweni's appointment as the next governor of the Reserve Bank at an early stage, and the rand's demise can be directly ascribed to that.

Mboweni's leanings from an economic perspective are well known. There are few international corporate investors who will say they like the present gamut of labour legislation.

It could be argued that this is tacit evidence of at least a difference of opinion within government with regard to the desire to appeal to foreign investors, if only from a policy perspective. Manuel tried to show fiscal fortitude, albeit a smokescreen for increased social spending; Mboweni raised the cost of providing jobs. While Mboweni's striving for equitable legislation is laudable, utilitarian policies are needed now.

Furthermore, if one does not intend to attract foreign capital, what will be done to encourage domestic savings. Will it be achieved via draconian measures?

This is not to say the present policies of the monetary authorities do not deserve scrutiny. Reserve Bank governor Chris Stals has always argued that his role is to strive for financial stability, not economic stimulus; the latter is the domain of the various government departments at large.

However, within a scenario of abject poverty for millions, rising corporate and private debt levels, with a prospect of ever-increasing sequestration and unemployment, is it not justifiable to consider leaving the currency to its own devices?

Drop interest rates, allow manufacturers to expand capacity and take on new labour, and thereby partake in an export boom which should surely eventuate if the policy of defending the exchange rate is no longer being pursued.

Yes, we are a net capital goods importer and we require updated technology from abroad in many sectors, but the experience of most Asian economies that tried to protect their currencies last year provides little hope.

Rather save those precious reserves for vital imports and get the entire spectrum of policies into a coherent, consistent and responsible framework.

Foreign investors will then be induced to invest, based not on honeymoon or speculative expectations, but on sustainable prospects.

And if you differ in opinion, that is your right but do not let political correctness prevent anyone from expressing their views.

As the Institute of Race Relations said at the time, the Government of National Unity was not in the best interests of democracy as internal disagreements were likely but would not be tolerated, making it inherently unstable.

All and any policy must always be spotlighted. Without that, iniquitous practices will proliferate.

Doig is senior economist at Credit Guarantee. He writes in his personal capacity.

Why the SACP rejects Gear

M+G 10-16/7/98 (49)

Jeremy Cronin

These are the South African Communist Party's concerns about the government's growth, employment and redistribution strategy (Gear):

● In the first place, and consistently since June 1996 (when Gear was first unveiled), the SACP has been critical of the process that led up to Gear.

In contrast to the reconstruction and development programme, for instance, which went through seven drafts and months of intra-alliance debate and discussion, Gear was produced in great secrecy by a small team of technical experts.

It was only in the past 10 days before its public unveiling that the leaderships of the SACP and the Congress of South African Trade Unions (Cosatu) were given a general briefing on the broad orientation of Gear.

The African National Congress, as President Nelson Mandela conceded at the Cosatu congress in September last year, was even less consulted.

Obviously the SACP accepts that macro-economic technical skills are required to produce an effective macro-economic policy, and we accept that most of us do not have these skills. But a macro-economic policy is not a politically neutral matter.

The technocrats must do their work within the framework of a broader political, reconstruction and development perspective

The problem with the process was worsened when, at its public unveiling in June 1996, Gear was declared "non-negotiable" At least progress has been made on this front.

In September last year, the Alliance Tripartite Summit agreed that "no policy is cast in stone", and it referred specifically to Gear. In the same month, at the Cosatu congress, Mandela said publicly that "the Gear process was seriously flawed". This has helped to legitimise debate on Gear within the alliance, but Gear still remains government policy

● The second concern relates to the overall macro-economic assumptions within which it is cast. Gear was, essentially, based on Reserve Bank economic models, assisted by World Bank economists. Its fundamental assumption is that macro-economic policy should be entirely devoted to stability, and that growth and transformation will come from elsewhere

We believe this is an unduly restrictive approach, and that in all cases in which developing societies have succeeded in breaking out of crisis, it has involved aligning macro-economic policy actively with developmental objectives, rather than simply pursuing stability for its own sake.

● Thirdly, directly related to this is the core assumption made by Gear that if we get our "fundamentals" right, private-sector investors will drive a growth process. This accounts for the many ambiguities in Gear.

On the one hand, being government policy, it commits itself to the government-union National Framework Agreement of February 1996 on restructuring state assets to prioritise service delivery and job creation. On the other, there is a great deal of rhetorical enthusiasm for privatisation. Gear tries simultaneously to stick to agreements with the government's key social partners, and yet also please foreign investors.

● Fourthly, there is the concrete experience of two years of Gear. While coming close to meeting budget deficit-reduction targets, Gear is failing to meet just about every other target that it made central to its own model.

In particular, Gear is very much a "growth-driven" model, but we will not remotely meet the 2,5% growth predicted for this year. That is not necessarily all Gear's fault, but it is senseless in the face of this reality for leading government bureaucrats to declare that "Gear is working"

Gear, on its own terms, has to be seriously revised. More seriously, its performance in terms of job creation has been dismal. There were meant to be 101 000 new jobs last year, and 84 000 this year. In practice, there has been the net loss of more than 100 000.

● Fifthly, while government debt needs to be taken seriously, and while fiscal discipline needs to be practised, Gear has not explored all options.

Specifically, the SACP is calling on the government to seriously explore returning the Civil Service Pension Fund to a pay-as-you-go scheme. Research conducted by the South African National NGO Coalition suggests that some 40% of present government debt interest payments could be removed in this way.

Our final objection to Gear is that it has forced all of us to spend an inordinate amount of time conducting a macro-economic debate, which is where the neo-liberals like economics to be, and thus paying insufficient attention to critical real economy issues like developing an industrial policy and effective job-creation strategies.

It's not working: Jeremy Cronin still believes that Gear needs a serious rethink. PHOTOGRAPH: RUTH MOTAU

Church asked to fight Gear from the trenches

Wonder Hlongwa

Churches were asked to "return to the trenches" this week to oppose the government's growth, employment and redistribution policy (Gear) as it does little to assist the poor.

The call was made by delegates to the South African Council of Churches' (SACC) tri-annual conference, prompting the SACC's former secretary general, Frank Chikane, to propose a meeting between the government and the church over Gear.

Dr Beyers Naude — Chikane's predecessor at the SACC — said although Gear is a "party political issue", when it affects fundamental Christian beliefs about the church's obligation to the poor, the church has no option but to intervene.

Mzwandile Nuns, a delegate representing the worker ministry in KwaZulu-Natal, called on the government to take note of what ordinary people said during the poverty hearings, "that Gear is of no help to them".

He slammed the government's reduction in social spending, saying hospitals in KwaZulu-Natal are now sending patients home because they cannot afford to treat them.

"The views of the poor should be taken seriously, even if means changing the implementation strategy of Gear. You can't redistribute an economy by cutting social expenditure," Nuns said.

'We understand they cut social spending in favour of lower company taxation which will subsequently create an environment for more companies to invest. But what we see on the ground is different. The bulk of poor people remain where they were many years ago," he said.

Nuns's concerns were echoed by Naude who said South Africa is a rich country but has an unequal distribution of wealth.

SACC president Bishop Sigqibo Dwane said although the organisation understands the problems facing the government, it is willing to engage it on social issues, including Gear. Sidwane said that the government should reduce the budget allocation for the army instead of cutting on social expenditure.

"Should we continue with the size of the army we have? What do we need it for and how much are we spending?" he asked.

In his address to the conference, Chikane — currently director general in Deputy President Thabo Mbeki's office — welcomed the church's offer to talk to the government, but said they should come with specific issues in Gear that they are unhappy about.

Chikane said people thought Gear would provide jobs, but it is meant to create an environment for job creation. "There is a total commitment from government to do whatever possible to alleviate poverty ... even if it means changing some aspects of Gear," he said.

The University of the North-West's deputy vice-chancellor, Professor Takatso Mofokeng, said the church "should go back to the trenches, because it seems that is the language the government understands".

He cited last month's victory of the South African Democratic Teachers' Union over the issue of retrenchments as an example.

"Confrontation has brought something where the government said there is nothing. People should demand what they are entitled to and use the methodology that works. Gear didn't come from a referendum. If people are not happy about it they must stand up against it," he said.

The conference also addressed problems within the SACC. Sidwane called for the establishment of a commission of inquiry to address a crisis attributed to a change of leadership and dependence on diminishing foreign funding — which he said impinged on human relations in the SACC.

Pissing on the communists' parade, PAGE 23
Why the SACP rejects Gear, PAGE 34

(49) M+G 10-16/7/98

State in firing line over Tito debacle

(49)

Government dismisses talk that it allowed news of Mboweni's promotion to leak out, writes ANDREW GILL

ST(BT) 12/7/98

INCREASING criticism of the handling of Labour Minister Tito Mboweni's appointment as central bank governor has been dismissed by the government, which says it spoke to local and international private sector figures a week before the announcement.

The National Party and local financial market players have raised the prospect that news of Mboweni's posting was leaked well before the official announcement, forcing a decline in the rand as a direct result.

Government spokesman Joel Netshitenzhe told Business Times initial consultations outside official circles were conducted with the heads of the International Monetary Fund and about three major central banks about two to three months before the announcement.

But, he says, local and international private sector banks and businesses were not consulted until a week before.

Traders say that unease about succession at the Reserve Bank was plaguing the market for some time and that strong rumours of Mboweni's appointment surfaced in the local market up to 10 days before the announcement on July 4.

"It is not a question of malice, but it was unprofessional from a market point of view," said one bank treasury manager.

Azar Jammine, economist at Econometrix, said it was worrying that some local players may have made a fortune based on the information.

"It is a big concern if a few wealthy people make a fortune at the expense of hundreds of thousands of individuals who are struggling to make ends meet."

Deputy president Thabo Mbeki said on July 4 the government consulted international and local business and other leaders, but gave no time-frame.

Netshitenzhe says the NP's complaint effectively insinuates that an early leak came from the very top of the IMF or from one of the heads of the central banks consulted.

"The NP complaint is questioning the integrity of those (IMF and central bank) individuals," Netshitenzhe said.

Analysts say the reaction of the rand to the official announcement of Mboweni's appointment shows it is likely there was some inside knowledge of the appointment ahead of time.

The rand rallied sharply by Tuesday, soon after sinking to a fresh record low of R6.75 to the dollar in skittish Monday morning trade. However, by late Friday the rand came under renewed pressure, weakening to R6.45 from a week's best of just above R6 — apparently on the back of a negative report about the rand from a US bank. It recovered later to R6.38

NP leader Marthinus van Schalkwyk has referred the party's complaint to the Public Protector, Selby Baqwa, but Baqwa will decide whether to investigate by tomorrow at the very earliest.

Netshitenzhe said the initial consultations two to three months before the appointment did not include the private sector and were likely to have covered a range of candidates.

"There were no foreign private bankers consulted then."

Analysts and traders say much of the local market picked up the rumours of Mboweni's appointment on the Monday before the announcement — about the same time as the government says it undertook wider consultations.

Andrew Kinsey, chief dealer at ABN AMRO in Johannesburg, said the government should scale down its consultation process. "It really has nothing to do with the with any outside parties. It must be an independent decision," he said.

Traders say the talk that Mboweni's appointment contributed to the weakness in the rand in the week before the announcement is backed up by the quick recovery in the rand last Monday.

Pendulum continues swinging over Mboweni's appointment

(49) CP 12/7/98

By ALI MPHAKI

HE IS YOUNG, erudite, and as to be expected, highly ambitious.

This is Reserve Bank governor-designate Tito Mboweni, the man who will be taking over from Dr Chris Stals come August 8 next year.

Reactions to his appointment have been varied, with the pendulum swinging from apprehension to confidence.

Cynics continue to point out that Mboweni's appointment could undermine the independence of the Reserve Bank, and that his banking and finance background is less practical than theoretical.

The already jittery markets also responded negatively to his appointment, with foreign investors giving his appointment the thumbs down.

Although wishing Mboweni well in his new position, outgoing governor Stals in an interview three weeks before Mboweni's appointment, mentioned some reservations about a political appointee as his successor.

Stals felt his successor should have been chosen from the Reserve Bank itself and was worried the reaction to the appointment might have on the remaining staff.

Once again, financial establishments had preferred James Cross, one of Stals deputies, as he is someone with a solid banking background.

Stals had mentioned that it is a tradition in SA that the governor must be someone with a real banking experience, coming out from either a banking or a central banking background.

In the 78-year history of the Reserve Bank, there had been only seven governors, all from either a banking or a central banking background.

Supporting Stals' comments is that the Reserve Bank Act required that the governor must be someone with a "tested" banking experience, which is perhaps why Mboweni's appointment will only come into effect next year.

With the Rand's short term direction mixed, with some suggesting that the exchange rate could go below R6 to the dollar by end of the week, economists have predicted a slow recovery after this onslaught by speculators.

Mboweni has throughout the week played his cards close to his chest – cautious that any pronoucements he makes on the monetary policy might be costly.

"I will insist that staff continue to report to Stals, and that he is in charge of policy and management," Mboweni said.

Commentators say Mboweni's appointment was inevitable, although he did not appear on any of the lists which were punted.

Some sources say it was the foresight of deputy president Thabo Mbeki to appoint him to his new position, as he had "sulked" when President Nelson Mandela appointed Trevor Manuel as Minister of Finance.

With his job as Labour Minister almost complete, observers say Mboweni had reached the proverbial glass ceiling, and was itching for a position important enough to appeal to his sense of self worth and economic acumen.

Mboweni's academic credentials are unquestionable for the job that lies ahead of him, although some perceive him to be leftist in his outlook.

Mboweni's detractors quote the Labour Relations Act, the Basic Conditions of Employment and the yet to be processed skills development and employment equity bills, which they say characterise the perceived inflexibility of the South African labour market.

While debate will continue about Mboweni's appointment, deputy governor of the Reserve Bank Timothy Thahane is impressed by Mboweni's acumen.

Thahane, who first met Mboweni whilst in Lesotho in the early '80s, opines that for Mboweni to succeed, he will need the full support of the personnel at the Reserve Bank.

It's definately a long way from the rural environs of Tzaneen (where Mboweni was born 38 years ago) to the hallowed offices of the Reserve Bank. But for a man who for the last 20 years has focused on economics as a student and professional, Mboweni is expected to adapt to his new role like a fish in water.

As part of his professional development, Mboweni has also attended special courses such as the International Business Diplomacy course at Georgetown University, Washington DC, Banking and Finance at Goldman Sachs in New York, and a World Bank Public Finance course in Berlin.

He was also part of the ANC economic policy unit before and after the ANC was unbanned in 1990.

He is also the current chairperson of the OAU labour and social affairs commission of African ministers of labour.

The last word should belong to Mboweni. "If I doubted my ability to learn and work at the Reserve Bank, I would have told President Nelson Mandela I cannot do the job."

Rubin to discuss SA's growth strategy

BD 13/7/98 (49)

Simon Barber

WASHINGTON — With the rand in turmoil and analysts worrying that the SA economy is on the brink of recession, US Treasury Secretary Robert Rubin wants to discuss government's growth strategy and why it is not working better, when he meets policymakers in Pretoria tomorrow.

"He is going to talk about the most important economic issues," a senior treasury official said at a briefing before Rubin set off at the weekend on the most extensive African visit yet by a sitting US finance minister. Those issues, the official continued, were "structural reforms, including privatisation and efforts to expand employment through labour reform".

Reuter reports that the official said: "I think it is inevitable, given that the recent pressure on the rand has been an issue of some concern in SA, that the issue is going to come up."

Rubin is scheduled to meet Deputy President Thabo Mbeki, Finance Minister Trevor Manuel and Reserve Bank governor Chris Stals. Although he has lately been pressing the Japanese government to adopt specific pro-growth policies, he is not bringing to SA "any prescription that is a magic bullet", the official stressed. But he will "share what we have learned from experience elsewhere".

On the macroeconomic front, Rubin's view is that SA authorities have done "a very good job at prescribing and continuing with strong policies" that have brought down inflation and the budget deficit. On structural issues, his spokesman chose the words "important progress".

It is also clear he does not have complete sympathy with the argument that the rand has been a victim of external factors like the east Asian crisis and speculators seeing a play in the exposed state of SA's reserves.

Rubin's eight-day trip was planned long before the latest rand crisis as part of the administration's effort to forge a new "partnership" with the continent based on trade and investment. He will be coming to SA from Côte d'Ivoire, and will move on to Namibia, Mozambique and Kenya. "The purpose is to convey America's willingness to do what we can to help integrate African reformers into the global economy," US Deputy Treasury Secretary Lawrence Summers said.

One of Rubin's major themes will be the importance the US attaches to regional economic integration. He is addressing a meeting of national directors of the franc zone's central bank in Abidjan today.

COMMENT & ANALYSIS

How Mboweni does job is most vital issue

Tito Mboweni may be the best person to ensure an appropriate measure of Reserve Bank independence in the existing political climate, writes **Steven Friedman**

(49) BD 13/7/98

CREATING independent institutions of government is fairly easy; keeping them, more difficult.

In a society such as ours, in which the idea of independent institutions is a few years old, that point is worth remembering when we consider events such as Tito Mboweni's appointment as Reserve Bank governor

One positive aspect of the debate over Mboweni is that — save for the inevitable zealots on both sides — it has not been, and should not become, a racial issue

In this society, this is progress of a sort.

Mboweni was not the only black candidate for the job. the Bank does have, for example, a black deputy governor, Timothy Thahane So, for a change, the debate is not over whether a black person is competent to do the job (although if Thahane or another "apolitical" figure was appointed, it might have been), but whether a committed and ambitious ANC politician is the right person, even if — like Mboweni — he or she is intelligent and capable.

The argument against, which, given the nature of the appointment, has been advanced in private by black as well as white business people and analysts, seems almost unanswerable. The currency cannot inspire confidence if its fate is in the hands of a governor whose political sympathies and ambitions may lead him to place party interests above the health of the rand.

Misgivings may have been strengthened by Mboweni's suggestion that his appointment will help "co-ordinate" government and Reserve Bank policy. This could be interpreted by the suspicious to mean that the governor-elect will make sure the latter falls into line with the former.

So, is the appointment simply a sign of the majority party's desire for control? And are we, therefore, to see the currency sacrificed to the ANC's interests?

Perhaps — but this is by no means automatic. The argument for the guaranteed independence of a figure such as the central bank governor is persuasive, but hardly self-evident

Britain has only recently begun to consider the idea and Margaret Thatcher, an icon for many who advocate central bank independence, was adamantly against it — ironically, for much the same reason as some in the ANC. because it would prevent elected government steering through its economic vision. However, her attitude did not seriously damage the currency or perceptions of it in world markets.

This suggests that the policies pursued by the central bank and its governor may be a more important decider of the currency's health than whether both are independent.

There are important arguments for independence in the central bank, as there are for other institutions. Decisions should not be based on short-term political gain or on a desire to aid one party over another (cutting interest rates just before a general election, for example).

But the line between maintaining independence and frustrating democracy is thin. Independence can be a recipe for fair and sober decision-making, or for people whose views are incompatible with those of most voters to thwart an elected government.

Because the idea of independent institutions is new to us, we often assume, mistakenly, they were achieved smoothly in societies where they are entrenched. In reality, independent institutions around the world which seem normal are the product of long and fragile processes which suffer many setbacks.

If we accept that, we will no longer take independent institutions for granted, but concentrate attention on how to build them. This problem is particularly evident in SA because the new governing majority worries that redoubts of the old order are being allowed to survive in the new. Independence — in the central bank, the judiciary or the auditor-general's office — will therefore not survive long if the office or individual who occupies it is dramatically out of synch with dominant ideas in the society.

The most recent evidence of this was ANC general secretary Kgalema Motlanthe's suggestion that it wanted to use a two-thirds majority in the 1999 election to ensure that the incumbents of independent public offices were in tune with "the values of the new order"

Admittedly, until now, we have done fairly well at maintaining independent institutions even when they have come under stress: the auditor-general remains in office despite his run-ins with political leadership and neither Chris Stals nor the Bank have been told to toe the government line when the rand has fared badly, or when interest rate policy is seen by unions and others to be choking growth.

What is less clear is whether this can continue indefinitely unless the independent institutions are seen to be broadly in line with society's direction.

Given that, purism about independence — insisting on the choice of someone who is entirely removed from the new governing elite and, if possible, as different from it as possible — is likely to destroy it by ensuring it faces unrelenting attack.

Indeed, the argument can be made more strongly: it could be that independence is likely to take root in this country only if it is pioneered by people whose commitment to the new order is unimpeachable.

MBOWENI

In the Reserve Bank's case, advocates of its independence may face a particularly tough task in the period ahead

The key effect of the Bank's response to the currency's troubles has been a rise in interest rates, which, at least in the short term, tends to affect the middle class more than any other group: the poor generally do not borrow from financial institutions, the rich have their own ways of coping. This is politically crucial, since the middle class are far more articulate and better organised than the poor, and so can make their voices heard in ways more likely to force politicians to listen.

This is particularly relevant because we have an emerging, relatively new, black middle class which is politically influential because it is largely sympathetic to the majority party and which may be badly affected by the rand's decline and the Bank's response to it. It is possible that if the Reserve Bank is not governed by someone with strong "liberation" credentials, Reserve Bank independence and macro-economic stability will come under irresistible attack.

All this suggests that, because the idea of independent institutions is new in our society, and since the difference between healthy independence and subverting the majority's will is not always clear, these institutions have to be built pragmatically. We must work with the political realities; we have to create those we would like.

It implies, too, that how appointees behave once they occupy posts may prove more important than who is appointed.

This may apply particularly to the Reserve Bank governorship, since the argument for independence here is not nearly as strong as in the judiciary or the public protector's office. It applies, though, in varying degrees, to any of the posts created by the constitution in which individuals or offices are meant to act as a check on democratic government.

Whether Mboweni will prove to be a force for the appropriate measure of Reserve Bank independence is in his hands. We will clearly know the answer only a while after he is appointed.

But it could be argued that only someone with a profile such as his has a realistic prospect of ensuring that the Bank remains an independent guardian of the currency in this place and in these times.

□ *Friedman is director of the Centre for Policy Studies*

FINANCE *US treasury secretary positive on policy, quiet on rand*

Thumbs up from Rubin

CT(BR) 15/7/98 (49)

Thabo Leshilo & Ross Herbert

Johannesburg — Robert Rubin, the United States treasury secretary, yesterday praised the South African government for maintaining sound fiscal and monetary policies, but would not comment on its efforts to defend the rand because his remarks could affect the currency

He cautioned South Africa not to withdraw from global economic integration, to broaden participation in the economy and to increase access to credit for small and micro enterprises.

"Despite recent financial market pressures, I believe that South Africa's key macro-economic policies, embodied in the Gear (growth, employment and redistribution) programme, are on the right track," Rubin told students at Vista University in Soweto.

Rubin, who is on a five-nation tour of Africa, yesterday met Chris Stals, the Reserve Bank governor, Trevor Manuel, the finance minister, and Deputy President Thabo Mbeki. Today he is to meet finance ministers from the Southern African Development Community in Namibia.

Rubin said central bankers had to strike a "difficult" balance between high interest rates needed to defend the strength of the currency, and high economic growth that can be choked off by high rates.

"You always have this issue when the question of financial instability arises. If interest rates are too low you run the risk of seriously depreciating your currency," he said.

Rubin said it was critical for South Africa to maintain sound fiscal and monetary policies, to extend quality education to all citizens and promote flexibility in labour markets while protecting the interests of workers.

In what seemed a veiled criticism of South African labour law, Rubin said: "It is important that labour policies and practices pay attention to those who seek jobs as well as those who have them, and also to (maintain) consistent and sustained growth in productivity.

"Productivity growth is the only path over time to competitiveness in the global economy."

He commended South Africa's role in promoting regional economic integration.

"I know the recent pressure on the rand has raised questions in South Africa about the appropriate path going forward. I believe strongly without question South Africa should continue to follow the path of economic integration."

He said Americans shared South African fears of globalisation but that evidence suggested "trade among countries benefits all participants, whatever their relative stage of development".

☐ Micro-enterprise, Page 5

MACRO AND MICRO *Robert Rubin, US treasury secretary, meets Nana Ditodi, a manufacturer (left), in Soweto yesterday, as restaurant-owner Ntombi Msimang looks on* PHOTO: JOHN WOODROOF

Manuel looks overseas for perspective on rand woes

Pretoria — Trevor Manuel, the finance minister met US Treasury Secretary Robert Rubin, Chris Stals, the Reserve Bank governor, and executives of black business organisations in Pretoria yesterday.

Manuel said that during the government-to-government meeting the participants had tried to understand what was happening in the world and, as a consequence, in South and southern Africa.

In a reference to the attack on the rand by foreign speculators, Manuel said that the discussions had highlighted that "while we are being picked on, we're not the only ones being picked on".

Rubin said at a press conference after the meeting that Manuel and his colleagues had an excellent understanding of the economic strategy that South Africa needed to move forward and accomplish growth over time. — Roy Cokayne

SA's poor ranking angers economists

BD 17/7/98 (49)

Samantha Enslin

THE usual suspects, speculators and offshore banks, again took advantage of renewed jitters on the currency market yesterday, taking the rand to R6,22 against the dollar after Standard & Poor's rating agency ranked SA as the second riskiest country for investors.

Standard & Poor's study of 10 emerging markets, which ranked SA more risky than Russia, raised the ire of local economists who said Russia was in every respect worse off.

The volatility on the market, which saw the rand trade in the R6,05 and R6,22 range, was exacerbated by an announcement that Finance Minister Trevor Manuel had called a parliamentary debate on the rand, and that the Russian parliament had rejected key tax reforms — conditions attached to the $22,6bn International Monetary Fund financial aid package. However, after the markets closed, the parliament passed the reforms.

Lowest investment risk

1998	1997
1: Poland	Argentina
2: Argentina	Poland
3: Mexico	Mexico
4: Turkey	Turkey
5: Russia	India

Highest investment risk

1998	1997
1: Indonesia	SA
2: SA	China
3: China	Indonesia
4: India	Russia
5: Brazil	Brazil

Graphic KAREN MOOLMAN
Source STANDARD & POOR DRI

Standard & Poor's report, which was released on Wednesday night, cited SA's low level of foreign exchange reserves, low economic growth and high unemployment as reasons for its poor ranking. The ratings were based on, among other things, government policies, economic trends and political risk.

Reuter reports Indonesia was rated as the country presenting the highest risk to investors over the next five years based on years of fiscal mismanagement, social unrest, a decline in the growth of ex-

Continued on Page 2

Markets

Continued from Page 1

ports, persistent inflation and the possible devaluation of its currency.

Poland was considered the least risky, based on growing industrial output, declining inflation and recent cuts in interest rates.

Standard & Poor's economist Nariman Behravesh said SA was in a precarious position.

Rudolf Gouws, chief economist at Rand Merchant Bank, said Russia was in a far worse position than SA. "Politically SA is stronger, our government finances are in a better state and the rand has not depreciated as much as the rouble."

Mike Schussler, economist at FBC Merchant Bank, said eastern Europe did not have well-established stock markets, a solid banking system and a high proportion of individual property ownership as was the case in SA.

Colen Garrow, treasury economist at ABN-Amro, said the report raised the possibility of SA seeking an IMF loan if the currency came under renewed attack. "If the Reserve Bank cannot turn the speculative tide against the rand, will it not resort to other measures?"

The rand's weaker finish at R6,1953 drove bond yields higher. The government's R150 bond finished at a 16,00% yield after rising 36 basis points.

However, the equity market shrugged off the softer currency. The Johannesburg Stock Exchange's all share index closed 1,14% or 83 points higher at 7 392,5.

Platinum and palladium posted sharp gains on renewed concern over Russian supplies. Platinum was last quoted at about $397/oz from the previous close in New York at $387,60. Palladium was last quoted at $335/oz — a level last seen in mid-May — from a previous fix of $325.

Poverty group in favour of ditching Gear strategy

Dustin Chick BD 17/7/98 (49)

SPEAK Out Against Poverty, organiser of the poverty summit, has joined the ranks of organisations calling for the reversal of government's growth, employment and redistribution (Gear) strategy, as a central recommendation emerging out of its hearings.

This is despite an unequivocal "no" by President Nelson Mandela and his deputy Thabo Mbeki at the SA Communist Party's (SACP's) national congress in Johannesburg earlier this month.

Mandela and Mbeki lambasted the ANC's alliance partners, the Congress of SA Trade Unions and the SACP, for their criticism of Gear.

Speak Out Against Poverty — representing the Gender Equality Commission, the SA Nongovernmental Organisation Coalition (SA NGO Coalition) and the SA Human Rights Commission — yesterday released its report on the nationwide hearings at the Regina Mundi Church in Soweto, following the testimony of about 10 000 people between March and June this year.

The reports said that "to date, it was clear that the Gear strategy had been anything but successful in creating jobs", with unemployment emerging as the strongest theme of the hearings.

Other recommendations include the renegotiation of apartheid debt to free up money for poverty eradication, the introduction of laws protecting the poor and the prioritisation of resources for the creation of a "safety net" for all South Africans.

SA NGO Coalition programmes director Jacqui Boulle said this safety net would involve a system to prevent people from heading towards complete poverty. It was important that government had a greater role in creating a social safety net because in real terms, the welfare budget was decreasing, and testimony had shown that in many cases more than one family was surviving on a social welfare grant.

The recommendations in the reports culminate in the establishment of a national poverty commitment outlining action which needs to be taken up by the public, government, politicians, private sector, civil society and the media to eradicate poverty in SA.

Speak Out Against Poverty said it would approach all these role players for their endorsement of the poverty commitment.

FM 17/7/98

TIME FOR GEAR VERSION 98 (WITH ADDED MARKETING)

(49)

This time two years ago, in the wake of a sustained speculative attack on the rand, government introduced its Growth, Employment & Redistribution programme Two years, an Asian market collapse and a second rand crisis later, the time has come to give Gear a facelift

When the technical team plugged the numbers into their econometric models, they had no way of knowing that commodity prices would fail to hold their 1994-1995 levels And they couldn't have predicted what Asia would do to world growth. Subsequent events demand a rerun of the models — not adding or changing, just revising those assumptions that no longer apply (see *FM Focus* page 39)

Second, the original Gear document was vague in patches and short on specifics By now, as policy has had time to take shape, there is scope for an updated and more explicit game plan on, for example, how to encourage foreign direct investment And government is now in a position to evaluate its progress For example, has "an appropriately structured flexibility within the collective bargaining system" really been achieved as Gear envisaged?

Third are the projections. The deficit targets are, appropriately, high but not too unrealistic But government must curse the day it set down those job figures "It's an open secret the job creation estimates were tagged on as a sweetener at the end The people involved in the project didn't see those numbers," claims one economist And trying to put a number to things like real wage growth or private investment, which are not under the Finance Ministry's direct control, has proved risky. An updated Gear would have to be careful about the numbers it committed itself to — be they hard "targets" or soft "guidelines"

Fourth, and a conspicuous failure, is marketing. By and large, it has been left to Finance Minister Trevor Manuel to defend Gear. Recently he has had a little help from President Nelson Mandela and Deputy President Thabo Mbeki But Gear needs more consistent championing.

IN TRYING TO SELL GEAR, government's biggest oversight from the beginning was not being sufficiently frank about the short- to medium-term costs Gear is harsh medicine, it will take time to work, and there will be a period of belt tightening — particularly in the form of lost jobs That happens with any restructuring But all the electorate knows is that Gear hasn't stopped incomes from falling and retrenchments from happening. They need to be told why they are waiting, and why Gear's long-term benefits will be worth waiting for.

Fifth, there is a critical need for co-ordination between the various Gear policies As the Gear document points out, "inconsistent approaches in any of these areas have the potential to destabilise the credibility of the overall macroeconomic framework" Many economists argue this is exactly where Gear has fallen short

If there is a problem, it is not that Gear has failed, but that it hasn't been implemented properly The Finance Department has certainly bought into the strategy Revenue collection, for example has been dragged back from the brink, significant budgeting reforms have been made and the threat of SA's falling into a debt trap has been averted

Finance may be fulfilling its end of the bargain, but the same can't be said of the other pillars of Gear Labour is one At a time when trade tariffs have been coming down, businesses could have done with some relief in the form of wage moderation or increased labour flexibility For many the effect of labour legislation has been the opposite

Another pillar of the Gear strategy the "rightsizing" of the public service, hasn't materialised The Presidential Review Commission report on restructuring the service may signal the turning point, but change is still a long way off

LABOUR ISSUES remain the biggest obstacle The taxpayer is spending R2bn a year on 50 000 public servants who literally have nothing to do There is a drive towards better management, but though it's good to hold directors-general accountable for meeting the performance targets of their departments, how can you do that when they don't have the authority to determine who their staff members are?

A third ingredient "Progress in education shows up consistently in comparative studies as a key determinant of long-run economic performance and income redistribution," says the Gear document

TARGETS VS OUTCOMES

Key result	1996 target	1996 actual	1997 target	1997 actual
GDP Growth (%)	3,5	3,2 ✖	2,9	1,7 ✖
CPI (%)	8,0	7,4 ✔	9,7	8,6 ✔
Employment growth (%)	1,3	-0,7 ✖	3,0	-1,6* ✖
New jobs pa (000)	126	-23 ✖	252	-7* ✖
Manufacturing export growth (%)	10,3	23,5 ✔	12,2	12,5 ✔
Current account (% of GDP)	-2,2	-1,3 ✔	-2,0	-1,5 ✔
Gross private savings (% of GDP)	20,5	20,2 ✖	21,0	18,9 ✖
Govt dissavings (% of GDP)	-3,1	-3,3 ✖	-2,3	-3,7 ✖

*to September 1997 ✔ better ✖ worse SOURCE DEUTSCHE MORGAN GRENFELL

In 1970 six years before Soweto students rioted against apartheid education policies, South Korea's primary school enrolment rate was 99% In 1980 five years before P W Botha's Rubicon speech, South Korea's primary school enrolment as a percentage of the relevant age group was 110% In other words, not only were all primary school-age children in school, South Korea was catching up the backlog of older pupils who had missed out By 1995, the country had a 101% high school enrolment rate And you can bet the maths and science results were respectable

That's what real "wealth" is about And it's one reason economists are so sure that the Asian crisis victims will be all right in the long run They have no such assurance about SA, and a much greater sense of urgency is needed in this respect There are not many things that can, single-handedly, stifle SA's chances of becoming a high-growth country But failure to solve the skills and education crisis will be one of them

Adrienne Roberts

FM Focus

GEAR (49)

LOOKING FOR ANSWERS

FM 17/7/98

The Growth, Employment & Redistribution (Gear) strategy will come under scrutiny again soon when one of its chief architects reviews its progress

Iraj Abedian, director of the University of Cape Town's Applied Fiscal Resource Centre and one of the two technical co-ordinators of Gear, says discussion papers will be released within the next fortnight examining the impact of global changes on economic policy

He says Gear's past and future will be studied in the light of the foreign exchange markets, labour, public finance, poverty and growth "One of our concerns is economic globalisation and its impacts on fiscal policy We will look at whether things have to be done differently now and what our options are."

Abedian emphasises that the research will be independent of government because "we are religiously guarding our academic and theoretical integrity". The project has been funded by the fiscal centre

Separate research looking at globalisation and its impact on fiscal policy will be published in mid-September. **Sharon Wood**

Iraj Abedian

Markets jitter over SA's debt rating

(49)

CHRISTO VOLSCHENK and MATT GETZ

CT 20/7/98

BUSINESSMEN and international investors will be watching the activities of Moody's, the American ratings agency, with keen interest after the announcement on Friday that it was reviewing South Africa's debt rating for a possible downgrading.

It said the review was due to "continued scepticism about the government's political and economic orientation" and damage wreaked on the economy by the confidence crisis in emerging economies.

Should Moody's decide to lower South Africa's credit rating it would add billions of rand annually to debt service costs of the government, state parastatals and local banks.

Debt ratings of state parastatals and commercial banks were linked to the country's rating and would therefore also be reviewed, the agency said.

The rand and bond market plunged on the news. After opening at R6,19 to the dollar and trading at R6,30 for most of Friday, the rand plummeted to R6,40 in late trade on the news of the review, but the finance ministry downplayed the announcement.

"It does not necessarily follow that South Africa will be downgraded," the ministry said. It said Moody's would visit the country later in the year and only then, if it had decided the country's position had deteriorated materially since last August, would there be a formal review.

● See Business Report

Mboweni 'brings key advantages to bank job'

(49)

ARK 22/9/98

BUSINESS EDITOR

The appointment of former Labour Minister Tito Mboweni to head the Reserve Bank could turn out to be a "master-stroke", a top economist has suggested.

BOE economics consultant Rob Lee says there is no doubt that news of the appointment leaked into the financial markets in the last few weeks and played a role in the rand's downward slide. But the markets' fears that Mr Mboweni may shift the bank from its tight monetary policies are probably exaggerated, he says.

"First, Mr Mboweni is about to embark on a steep learning curve and the Reserve Bank staff, the world's top central bankers and foreign investors among others will be pounding out the message of the need for monetary orthodoxy and acceptance of the market system.

"In any event, once in office his freedom of action will be greatly constrained by the power of global financial markets," Mr Lee says.

He points out that in the United States, the appointment of central bankers is often politically inspired and the present head of the US Federal Reserve, Alan Greenspan, is a known Republican Party supporter first appointed by a Republican president (Ronald Reagan).

Mr Mboweni, says Mr Lee, brings key advantages to his job at the Reserve Bank.

Because he comes from inside the governing circle, he will find it easier to co-ordinate monetary policy with key aspects of Government policy than an outsider would.

And his credibility within the African National Congress and its constituency means that he will carry weight when he insists on the need for tight monetary policies and unpopular measures such as high interest rates.

MANUEL'S SPEECH

Govt urges support for Gear

(49) BD 23/7/98

CAPE TOWN — Transformation of our society and our economy requires vision, bold leadership, commitment and above all, courage. Our goal is an economy that is growing, creates jobs and is capable of delivering a better life for all of our people. The path we have chosen to achieve this is hard, but we remain convinced that there are no short cuts.

In tough times our resolve is often severely tested. We are asked to believe that there are quick and easy solutions and that all we have to do is follow the advice that everyone so freely offers. We listen to all this advice and in the end we as government do what our people have elected us to do, we govern.

Over the past two months we have lived through a number of increases in interest rates. These have brought home to each of us, together and separately, the huge risks of mounting debt. The sense of impoverishment occasioned by higher interest rates has resulted in all manner of emotions. Anger, frustration, powerlessness and despair all feature strongly.

These feelings are complicated by the fact that it is hard to identify or personalise the cause of the frustration — the bank, its manager, or the Reserve Bank; the government, its ministers or all politicians; capitalism, rich people, foreigners or hedge funds — all of these individuals or groups have at one or other time been seen in the minds of many as the cause of the problem.

Of course, these are difficult times for all of us; it is precisely at times like this that our resolve and commitment is tested. However, this is not the first, nor will it be the last time that we have to deal with difficult situations and change adversity into challenge. Nations which emerge from adversity stronger are nations led by people who get together to find solutions. A time such as this is not one for petty politicking.

We have embarked on a programme of deep and irreversible transformation of our economy. This is embodied in the reconstruction and development programme (RDP) and supported by the macroeconomic policies set out in the growth, employment and redistribution strategy (Gear).

No one can deny that there has been substantial reprioritisation of government spending towards social delivery. Millions more people have access to education, social welfare, primary health care, water and housing than before. Achieving the broad socioeconomic goals set out in the RDP requires economic policies that are sustainable in the medium to long term.

Our macroeconomic policies are focused on effecting the structural reforms needed for sustainable growth and development.

Overcoming the balance of payments constraint by improving the export capacity of our economy requires a more competitive economy. A sustainable fiscal policy is another key component of our policy. We have been reprioritising our expenditure and budgets. There have also been major improvements in tax collection.

Finance Minister Trevor Manuel in Parliament yesterday. Picture: ERIC MILLER/i-Afrika

Our goal has been, and will continue to be, to free up more resources to invest in social spending. We accept that we cannot forever spend more than we collect in taxes. That the shortfall between revenue and expenditure — the deficit — has to be financed. We have made progress, not only in reducing the deficit but in reprioritising expenditure and we will continue to do so.

No economy can achieve sustainable growth and development in the face of high inflation. The monetary policies pursued by the Reserve Bank are aimed at achieving price stability. This is what the constitution requires it to do.

In the past few months monetary policy has had to tighten in response to the fall in the rand to protect the domestic economy against inflation. Monetary policy decisions are the responsibility of the Bank governor alone and the independence of the Bank over monetary policy is not open for debate.

Higher levels of investment, both domestic and foreign, are required to generate growth. Since our savings levels are inadequate, we have to attract foreign savings. However, we do so in a rapidly globalising world where capital moves relatively freely across borders. The decisions as to where to invest is measured by the same benchmarks across nations — and sentiment is not one of the measures used. We are a small open economy and must therefore recognise that we shall remain caught in this vortex of rapid capital movement until we can successfully address all of our structural difficulties. Gear is designed to strengthen those parts of the economy necessary to effect structural transformation.

We all know that the results, in the short term, have not always reached the targets we set for ourselves. It is also important that we recognise that the current difficulties will render some of these targets even more elusive.

We are examining the areas in which the policy can be strengthened. One area is the labour market. We know that more must be done to overcome the scourge of unemployment and our submission to the job summit reflects the seriousness of our commitment.

In understanding the present situation we need to be mindful of the fact that over the past year many countries have been affected by rapid changes to exchange rates, interest rates and consumer prices. This financial crisis has had significant economic and social costs. The pain experienced by people in the Asian countries is intense.

It is clear that in all of these economies the recovery is going to take time and has already reversed some of the remarkable gains that had been achieved from two or more decades of high growth.

The Asian crisis has of course had an impact on other economies in the world. The contagion has spread to countries such as Canada, Chile and Australia. In this context it is important to understand that we have not been singled out and that the cause is not the local bank manager.

The lessons we draw from all these experiences is that what matters are sound economic policies and solid economic institutions. In other words, a strong banking sector and manageable levels of personal and corporate debt, among others. In addition it is the way in which we as a nation respond to the challenge that counts.

Many of us may recall the strongly emotive pictures taken in Seoul, South Korea, last year when, in response to the economic crisis, Koreans lined up at banks to hand over their jewellery to help the country to ride out the crisis. By any measure a strong response from a people who want to succeed as a nation. We are not calling on South Africans to hand over any valuables to the national chest. However, we are saying that we must respond as a nation. This is our country, these are our policies and we must demonstrate our unwavering commitment to make them work.

I want to repeat that the difficulties we face as a nation today are not a cause for gloating, they are scarcely an occasion for party politicking. If anything, these circumstances must galvanise us all — they must strengthen our resolve to pursue the path that we have chosen, the hard route to a sustainable, better life for all.

□ *This is an edited version of Finance Minister Trevor Manuel's address to Parliament yesterday on currency volatility and its effect on the economy.*

Economic summit begins

BD 24/7/98 (49)

Kevin O'Grady

A MAJOR economic summit meeting intended to find ways of eliminating poverty, create jobs and establish a multisector economy starts in the Free State today.

The meeting will be attended by government, labour and business representatives.

Free State finance, expenditure and economic affairs MEC, Zingile Dingani, said the meeting followed a similar initiative last year aimed at increasing the growth of the province's share of the SA economy.

The summit would cover several areas, including the establishment of an inland industrial development zone and several corridor and cluster developments.

These included the Bloemfontein-Botshabelo-Thaba Nchu development, the eastern Free State-Lesotho tourism corridor and the Free State-North West farming machinery cluster.

The development or upgrading of infrastructure, such as secondary roads linking eastern Free State with Gauteng and the Bloemfontein airport, would also be up for discussion, along with the idea of a business incubator for emerging businesses and the establishment of an investment equity fund to promote small enterprises, for which government had set aside R10m

Dingani said the province needed to "focus on those areas of our economy that have more potential to yield immediate spinoffs, while at the same time developing those areas that will benefit the province in the long term".

"For example, Free State contributes 14,1% to total mining, the fourth-highest among the provinces. It has large deposits of coal and is responsible for 80% of the total bentonite production in SA," Dingani said.

"On the other hand, the lack of human resources development is an area which has been shown to hamper SA's competitiveness, with SA companies on average spending only 2% of their budgets on training and human resource development as opposed to 25% in some western countries."

A working document which dealt with how to bring about fundamental change towards sustainable growth and development in the Free State would be tabled at the summit. It identified transformation as including economic liberalisation, human resource development, industrial development finance, value-added exports and the attraction of foreign direct investment.

CAPE ARGUS, TUESDAY, JULY 28, 1998

R1-billion bail-out for homeland debt

Manuel acts to end debt crisis

(49) ARG 28/7/98

CLIVE SAWYER
POLITICAL CORRESPONDENT

Finance Minister Trevor Manuel today tabled legislation in Parliament which will allow him to borrow just under R1-billion to settle debts inherited from old homelands administrations.

The Inherited Debt Relief Bill will mean significant relief for the cash-strappedEastern Cape, Mpumalanga, North West and Northern Province, which, in terms of the 1993 interim constitution, took over the debts of former homelands in their areas.

The bill follows a Cabinet resolution last December on the issue of homeland debt.

The money borrowed by Mr Manuel's ministry will be transferred to the respective provinces to settle homeland debts.

In the case of Mpumalanga and Northern Province which have repaid part of their inherited debts already, compensation will be paid.

The total R936,1-million debt is made up of bank overdrafts, outstanding current liabilities and pension funds.

Homeland debt in the Eastern Cape totals R596,7-million, in Mpumalanga R58,28-million, North West R189,12-million and in the Northern Province R92,03-million.

The Auditor-General's office was unable to issue an audit opinion on most amounts in the financial statements of the former TBVC and "self-governing" territories.

Reasons included financial statements not complying with generally-accepted accounting standards applicable to government departments. There were irreconcilable differences between many accounts.

In several cases, accounting records were missing and could not be reconstructed.

Supporting documentation was missing or did not exist at all.

A Finance Department memorandum said the department and the Auditor-General had agreed there was no point in trying to reconstruct the accounts.

"Such an exercise would take years to complete and was not likely to render a noticeable improvement," it said.

Whatever acceptable evidence, including bank statements, that was available was used to estimate the debt as at March 31, 1995.

The Auditor-General and the provinces had agreed with the calculation, according to the Department of Finance.

Although the R936,1 million will be incorporated in the national debt portfolio, this will not result in an increase of the debt-servicing cost for this financial year.

This is because provision had been made for the central government to take over responsibility for the debts.

Homeland debts to be written off

Manuel tables bill which will give him powers to borrow almost R1-billion

Star 29/7/98 (262)(49)

By Clive Sawyer
Cape Town

Finance Minister Trevor Manuel yesterday tabled legislation in Parliament which will allow him to borrow just under R1-billion to settle debts inherited from the defunct homeland administrations.

The Inherited Debt Relief Bill will mean significant relief being channelled to the cash-strapped provinces of the Eastern Cape, Mpumalanga, North West Province and Northern Province. These provinces, in terms of the 1993 interim constitution, took over the debts of the former homelands in their areas.

The bill follows a cabinet resolution in December on the issue of homeland debt. The money borrowed by Manuel's ministry will be transferred to the respective provinces to settle homeland debts.

In the case of Mpumalanga and Northern Province, which have already repaid part of their inherited debts, compensation will be paid.

The total R936,138-million debt is made up of bank overdrafts, outstanding current liabilities and pension funds.

Homeland debt totals are: Eastern Cape (R596 700) Mpumalanga (R58 281), North West (R189 124) and Northern Province (R92 033).

The auditor-general's office was unable to issue an audit opinion on most amounts in the financial statements of the former TBVC and "self-governing" territories.

The reasons include financial statements not complying with generally accepted accounting standards applicable to government departments.

There were irreconcilable differences between many accounts. In several cases, accounting records were missing and could not be reconstructed. Supporting documentation was missing or did not exist at all.

A Finance Department memorandum said the department and the auditor-general had agreed there was no point in trying to reconstruct the accounts.

"Such an exercise would take years to complete and was not likely to render a noticeable improvement."

There were also no officials available or willing to assist with the exercise.

Whatever acceptable evidence, including bank statements, that was available was used to estimate the debt as at March 31 1995.

The auditor-general and the provinces had agreed with the calculation, according to the Department of Finance.

Although the amount of R936,1-million will be incorporated in the national debt portfolio, this will not result in an increase of the debt-servicing cost for this financial year.

This is because provision had been made for the central government to take over responsibility for the debts. Parliamentary Bureau

SA's policy makers must reconcile politics with a strong economy

A survey of policymakers provides some insight into how SA is charting a course between politics and economic policy, writes Rod Alence

(49) 30/7/98

IN AN economically difficult and sometimes politically tense environment, SA's economic policymaking process is being called upon to fulfil two apparently conflicting functions.

On the one hand, it must produce policies that are conducive to favourable economic outcomes. On the other hand, it must mediate the competing views of various political and economic interests.

A recent survey of high-level policymakers sheds light on the delicate act of reconciling effective policy formulation with the management of conflict over economic policy options.

Conducted under the auspices of the Human Sciences Research Council (HSRC), the survey provides a "snapshot" of the views of over 150 prominent policy-makers on SA's policy dilemmas and economic prospects. Survey respondents (whose anonymity was guaranteed) included cabinet ministers, representatives of organised business, labour and various political parties, and senior officials in the offices of the president and deputy president, selected government departments, and the Reserve Bank. They were asked to assess the levels of influence of major public institutions on the economic policy-making process.

The survey shows that disagreements about the content of economic policy are closely linked to disagreements about the processes by which policy decisions are made.

Supporters of the Growth, Employment and Redistribution (Gear) strategy tended to disapprove of the excessive "consultation" of organised labour, which they saw to be an obstacle to effective policy formulation and implementation.

In contrast, Gear critics complained about what they saw as a "technocratic" bias against inputs channelled through representative institutions such as the National Economic Development and Labour Council (Nedlac) and parliament.

The debate about whether the policy-making process in SA is too "consultative" or too "technocratic" mirrors similar debates in other middle-income countries that have undergone transitions to democracy since the global recession of the early 1980s. These new democracies, many of which are located in Latin America and Eastern Europe, have also faced the challenge of introducing often unpopular programmes of economic restructuring while simultaneously establishing more inclusive processes of public decision-making.

Expectations of the South African economy's performance

In the next two years, do you think that the overall performance of the economy is most likely to:

	Survey of policy-makers, late 1997	National survey of public attitudes, February 1998
Improve substantially	2%	4%
Improve	40%	27%
Stay the same	27%	19%
Worsen	27%	24%
Worsen substantially	1%	10%
Don't know or no answer	4%	16%

Note COLUMNS MAY NOT ADD TO 100 DUE TO ROUNDING Graphic KUBEN DAVID Source HSRC

So when SA's policymakers argue that "too much consultation will delay effective policy formulation and implementation" or complain that "the new SA public servant is fast becoming a bureaucrat who sees consultation as an obstacle to getting the job done", they are grappling with dilemmas that have confronted policymakers throughout the world.

One clear lesson that emerges from international experience is that, in the long run, economic policymaking cannot be treated as a narrowly "technical" or narrowly "political" exercise. Indeed, a survey respondent, perhaps reflecting upon the destabilising fluctuations between the extremes of monetarism and macroeconomic populism that are often associated with Latin America, saw a danger that this country could "swing from too conservative, technically determined policies to too radical, populist policies".

Survey respondents provided fairly uniform descriptions of the policymaking process, which were translated into quantitative measures of the influence of major public institutions. In the three portfolios most central to the Gear strategy, the relevant ministry and department consistently rated as the most influential, with parliament the least potent. The impact of the government executive and Nedlac varied significantly by portfolio.

The government executive was seen to be much more influential on fiscal and monetary policy than it was on labour policy. Conversely, Nedlac was deemed a peripheral forum with respect to fiscal and monetary policy, but a quite prominent one within the labour portfolio.

Regarding policy content, many Gear supporters commented on what they saw as the slow implementation of the component of the strategy devoted to labour-market flexibility, arguing that "the area of labour legislation is totally out of line with Gear".

As many as 83% of respondents believed that the economy's performance had improved between the 1994 elections and late 1997. They were more cautious in assessing the prospects for the two-year period from late 1997 to late 1999, with only 42% expecting further improvement. Yet this still left them more optimistic than the general public. According to an HSRC national survey conducted in February this year (see table), only 31% of the representative sample of the national population expected a positive medium-term trend in overall economic performance.

□ *Alence is senior researcher: democracy and governance, with the Human Sciences Research Council.*

Gear 'will make the poor poorer'

(49) Sowetan 30/9/98

By Maria van Driel

IN October 1997 the Gauteng government passed a proclamation which fundamentally restructured the Greater Johannesburg Metropolitan Council (GJMC) in line with the Government's economic policy.

This strategy, known as Gear or Growth, Employment and Redistribution, is responsible for the failure of local governments to deliver and extend basic services to communities. This is a result of reduced funding from Government, fiscal discipline and privatisation.

Under Gear, there is little chance of extending basic services to communities that have never had them before.

The GJMC has inherited a legacy of apartheid inequalities. This includes former black townships like Alexandra and Soweto, and informal settlements like Poortjie and Orange Farm.

The population that needs to be serviced has trebled to almost seven million people. But national funding has decreased in real terms.

Recently the GJMC spent R3 million on consultants. They analysed the council's service delivery efficiency and made recommendations for improvement.

The consultant's report confirmed some of the issues that the South African Municipal Workers Union (Samwu) has raised.

The GJMC's top heavy structure includes more managers than workers.

Fifty percent of the staff vacancies are below senior management level. These are the workers needed to provide services.

There is also a piecemeal approach to delivery without clear targets.

The wage gap between workers and management has widened.

This year the Development Bank of Southern Africa, our own home grown 'World Bank', made a loan to the GJMC.

Like the World Bank, the loan had a condition attached: "re-prioritise the budget".

This means that municipalities like the GJMC must implement measures to privatise basic services, reduce services and wages.

Local government and development planning MEC Sicelo Shiceka.

Privatising services

It was therefore no surprise that MEC for local government and development planning Sicelo Shiceka passed a proclamation setting up a Committee of Ten councillors with executive powers to implement decisions.

The committee's tasks include:

- Restructuring finances on the basis of fiscal discipline;
- Implementing credit control policies and practices;
- Reviewing staff functions and cost effectiveness; and
- Identifying "core" functions and services that can be privatised.

Last May the province amended the October proclamation, establishing a technical task team and changing the committee to a Committee of 15.

The amendment also enforces privatisation through public-private partnerships (PPPs).

The list of services to be privatised includes power stations, the fresh produce market, the gas company, emergency medical services, information technology, airports and fleet management.

The committee will also identify assets such as land and buildings for economic use.

In line with Government's determination to implement Gear, the task team and the committee must report directly to the provincial and national governments.

It seems that the provincial and national governments are prepared to undermine their own laws, policies and guidelines to implement Gear and privatisation.

Shiceka's instructions undermine democracy on a number of levels:

- The spirit of the Local Government Transitional Act (LGTA), the local government White Paper and the Ministry of Constitutional Affairs' guidelines on PPPs provide for meaningful consultation with communities, labour and other stakeholders.

Historically, communities have never been consulted and this practice has been continued.

The LTGA also requires local governments to have integrated development plans that take into account community needs and the resources needed for sustainable development.

Given the path that the GJMC is following with cutoffs and poor service delivery, no sustainable development will take place.

The quality of life will not improve and apartheid inequalities will remain intact.

- The democratic process of electing councillors is also undermined. Instead, a small committee accountable directly to the provincial and national government is restructuring South Africa's biggest city.

Consultants, not communities, are called upon to restructure local government.

A case in point is the recent closure of Hillbrow's swimming pool without even consulting the councillor of that constituency.

- After the October proclamation, Samwu began consulting with the African National Congress sub region on the GJMC's restructuring. The ANC tried to convince Samwu that privatisation would not take place within the GJMC.

At one meeting, however, the ANC presented Samwu with the proclamation amendment passed a day before by the ANC dominated Gauteng legislature.

As a result of this bad faith all negotiations with the ANC broke down.

The ANC sub-region is not serious about the democratic participation of labour and communities.

- In June 1997 the South African Local Government Bargaining Council agreed to improve service delivery with local government before privatisation was considered.

Funding crisis

The employers' organisation, the South African Local Government Association, implemented this agreement.

Collective bargaining is recognised in the Labour Relations Act and the Constitution.

The proclamation, however, undermines the bargaining process and colludes with the employer not to implement collective agreements.

When confronted by this agreement, the GJMC conveniently hides behind the MEC's proclamation. Shiceka's reason for intervening is that the GJMC's finances are "unsound".

But the GJMC's so-called funding crisis is a smoke screen to restructure local government in a manner consistent with Gear.

The GJMC is relatively rich compared to other local governments in infrastructure, land, buildings and other assets.

The GJMC's "financial crisis" has two sources. The first is that big business and the upper middle classes are not paying property taxes.

Often the impression is created that workers are responsible because they do not pay for services, whereas big business is deliberately running down local government.

This is also an attempt to force local government to privatise basic services as demonstrated by the Sandton rates boycott.

The second source of the "crisis" is the withholding of funds by Government. Since the local government elections, many local governments now service larger constituencies.

Instead of taking responsibility, Government is cutting funds to local government, and this is having an impact nationally.

In the Eastern Cape, which includes two of the larger former bantustans, services are non-existent.

As a result of budget cuts, many workers are not paid while others are threatened with mass retrenchments.

This is having a negative impact on service delivery.

Ironically, South African governments in the past used prescribed assets, such as pension funds, to develop infrastructure and services for white local governments.

The present Government's refusal to fund basic services must be seen as a result of its adherence to Gear.

Corporate taxes are decreasing and Government is shielding big business from their responsibility to South Africa's development.

It is poor working people who are called upon to carry the burden of reduced services, high tariffs and cutoffs.

Samwu has opposed Gear and privatisation and is engaged in negotiations and mass action involving employers and the ANC.

Restructuring

We are committed to democratically restructuring the GJMC.

We are committed to developing a new workplace culture that is accountable to all communities.

We have no alternative but to mobilise broad sectors of the public and our communities to scrap the Gauteng proclamation and Gear.

Gear is the source of the crises affecting all aspects of South African society and all aspects of working people's lives.

(The writer is Samwu's anti privatisation campaign coordinator. The article is written in her personal capacity.)

Debt plan is endorsed by Anglican conference

Nomavenda Mathiane

THE campaign by the Anglican Archbishop of Cape Town, Njongonkulu Ndungane, for the scrapping of the third world's international debt received a boost recently when it was endorsed in the UK by the Lambeth conference, the annual meeting of Anglican bishops.

Ndungane said yesterday he had addressed international political and financial delegates at the conference on the need for an international mediation council.

He envisaged the council would act as a strict and neutral arbitrator and monitor the process of debt relief for the poorest nations.

"I see it functioning as an international bankruptcy court whose purpose will be to give countries that can no longer pay their debts, except at great human cost, a fresh start," he said.

The plan was unanimously endorsed.

The archbishop has consistently called for the World Bank and the International Monetary Fund to offer struggling third world countries debt relief.

Ndungane believes that the money the world's poorer countries spend each year on making debt repayments could be better used on alleviating poverty.

(49) BD 14/8/98

Business must listen more, stereotype less

How can SA escape from its two-tiered society? **Judith Edstrom**, the country's World Bank resident representative, outlines the task

(49) (~~???~~) BD 27/8/98

ONE of the most disconcerting economic trends across the globe today is the rapidly widening gap in incomes. The gap used to be most striking when measured between the richest countries and the poorest. It has now emerged in ever more yawning proportions within nations, where we find an increasingly unequal sharing of the fruits of growth.

An economist has made the following remark about the chasm in incomes and standard of living in his country: "A two-tiered society will undermine the stability and moral authority of this nation. I don't want (my children) to grow up in a land even more sharply divided than it is today. I don't want them living in gated compounds, guarded against the rest of humanity and I don't believe most parents want to leave their children that kind of country."

Does that sound like a place you know? In fact, it is a reference to the US, by Robert Reich, professor of social and economic policy at Brandeis University and former secretary of labour in the first Clinton term. His hypotheses are about the stratification of US society set out in his landmark book, The Work of Nations, published a decade ago. His predictions at that time are becoming increasingly valid. He says the average CEO in the US now earns 200 times the average hourly wage, up from 40 times the average wage 20 years ago.

Reich's quote about a two-tiered society, toward which the US is heading and where SA already finds itself, is from his most recent book, Locked in the Cabinet, which he wrote just after leaving the administration.

In SA, we are indeed literally locked in the cabinet — in our homes by night and in our work places by day. But we also feel a sense of being locked in a two-tier society, where many South Africans are locked in lives without jobs and without prospects.

The prospect of unlocking the categories in which different members of SA society have found themselves and thereby unlocking the potential of the work force, appears daunting. However given your track record in achieving a political transition heretofore considered unattainable, I am convinced that South Africans have the tenacity, commitment and drive for consensus that can achieve a successful transition on the economic front.

The most frequently drawn battle line in the finger-pointing debate about the SA economy is that between business and labour. Each is cited by the other as the cause of the economy's stagnation or the reason for which poorer South Africans are unable to improve their standard of living.

When business cites high labour costs, labour cries "exploitation". When labour calls for a wealth tax, business threatens to taxi down the runway with its wealth.

Both sides have valid points. Economic growth is essential if there is to be any hope of improving the standard of living at the lower end of the income ladder. A dynamic private sector has consistently been found to be the engine of such growth.

SA's economic prosperity is also inextricably linked to the global economy, to "stop the world and get off" will only condemn SA to the backwater of the world economy.

At the same time, growth without jobs is a hollow victory. It is an unacceptable solution, not simply for social reasons but because without jobs, there is little prospect for ensuring sustained long-term growth. This does not mean preserving jobs which have no future. Some job restructuring, including job shedding, is inevitable with the structural shifts required for SA to compete internationally.

In addition, flexible approaches — by sector, region or age group of the labour force — need to be investigated, as suggested in the government's employment strategy framework prepared for the jobs summit. Moreover, it cannot be ignored that export performance has been weak in industries which are characterised by unskilled labour intensity, due to comparatively high wage levels relative to productivity. But to give labour its due, while labour costs rose sharply between 1984 and 1993, they have moderated significantly over the past years, reflecting some wage restraint and improved productivity.

The need for flexibility does not condone a laissez-faire policy regarding workers' rights under the banner of economic restructuring and job creation.

Our labour analysis suggests that flexibility should not be associated purely or even primarily with wage levels, but with other factors which encourage the creation of enterprise and associated creation of jobs. In this regard, I salute one measure just announced by business to stimulate employment growth — the creation of the Business Trust for Job Creation and Human Capacity Development.

Once we have moved past fault finding and finger pointing, the work of SA entails two key contributions on the part of business: management leadership and asset building on a broader base.

The legislative and regulatory framework to encourage growth and job creation is government's responsibility, requiring in turn the fundamental agreement of the other social partners. However responsibility for unleashing the potential of SA to achieve growth rests squarely with the management leadership of business.

Judith Edstrom of the World Bank

The World Competitiveness Yearbook ranked SA 38th out of 46 countries for competitiveness. The key areas where SA shows the weakest performance are directly linked to management performance. SA ranks 40th or below for the following performance areas: total quality management, competent services managers, customer orientation and international experience and management — all squarely the job of management.

Even those lowest ranked areas where labour plays a role — overall productivity growth, worker motivation and industrial relations — are also key responsibilities of management in its role in stimulating innovation and creating a work environment conducive to strong performance by all.

Take SA's global competitiveness and export performance as an area where management strategy and innovation is key. A recent World Bank study, still in draft, has revealed that SA's competitiveness has generally risen, moving from a position in which just over half its products were competitive in the period prior to 1994, to one in which about 80% are now competitive. In addition, SA has increased its market share slightly vis-à-vis its traditional trading partners. However, compared with high performing countries, SA lags behind in its competitive market position and is still producing a relatively high proportion of products for which the demand is not growing very fast. An example of this might be tinned fruit, where any increase in SA exports runs the longer-term risk of a downturn due to a declining demand worldwide. SA has, however, performed well in some niche markets producing high value added goods, such as furniture, automotive components and certain high fashion garments.

The point here is that identifying and making strategic inroads into high potential markets is the job of management. The potential benefits from trade liberalisation and the speed with which these can be realised are a function of the capacity and willingness of industrials to restructure and reorganise themselves — to identify innovations and opportunities to take advantage of SA's factor endowments.

The need for business leadership to face the challenges of management is matched by the need for building assets among a wider base of the population. A study of 43 countries conducted last year provides evidence that reducing asset inequality not only improves aggregate economic growth, but increases the incomes of the poor by an even greater factor.

This does not necessarily suggest that a direct Robin Hood transfer programme is called for. But it does call for those of us in the top tier of this society to look much more creatively for ways of stimulating asset creation for and by the poor.

It suggests that it is unrealistic to expect wholesale land transfer to have a lasting impact on the poor. What is needed is a support system for land reform consisting of agrarian infrastructure and other complementary inputs. It does not suggest dismantling firms under a worker revolution, but it does suggest that more attention be paid to why firms with profit sharing perform better than those without. It does not mean nationalising private property, expropriating wealth and distributing assets to the poor, but it does suggest looking more closely at schemes for using privatisation revenues to increase broad-based ownership, distribute public wealth and develop collective investment instruments.

Above all, asset creation means creating the human capital within individuals to allow them to generate their own assets and improve their standard of living.

If there is one area of entitlement among an SA population which was legally denied the opportunity to develop their potential, it is in the area of education. I urge you to capitalise on one of the areas in which SA performs well — social responsibility. Business must also recognise its own interest in improving the skills of workers on the job.

May I suggest to the business leadership of SA what I would suggest to your social partners: to listen more and stereotype less. Ultimately your goals converge: to leave to your children a country of social stability, economic prosperity and moral authority.

☐ *This is an edited extract from Edstrom's address to Business Day's Business Achievement Award banquet in Johannesburg last night. Her assignment for the World Bank in SA ends this month.*

Sandal brigade should pull up their socks

It is going to take more than left-wing academics' dreams to inspire an African renaissance, says JOHANN RUPERT

ST 30/8/98 (49)

WE ARE at a critical juncture in the history of this beloved country I believe the economy is probably already in a recession We see it, we speak to retailers, we speak to people who feel the problems first

Unemployment rates are unacceptable — and looking at the democratic plateau and the perceived economic growth, these are only going to get worse

Real interest rates are at unsustainably high levels

The rule of law has all but disappeared Criminals seem better protected under the law than the ordinary man, woman and child

Education — need I say more It's in total crisis

To be able to repeat the successes that this company has achieved over the past 50 years, industrialists and businessmen are going to have to speak out, and we are going to have to change society However, we need a different mindset

We cannot allow the "socks and sandals" brigade to determine national policy We cannot allow failed left-wing academics, who now permeate the civil service and undermine industry, to determine national priorities

We cannot allow the privileged few who have jobs to exclude millions from the formal economy The current squabble among those who have jobs — between organised labour and industry — is to the detriment of the millions who do not

Now, when we, the so-called "patriotic bourgeoisie", ask questions we get the same reaction from the socks and sandals brigade as we did under the National Party *"Loyale verset"* (loyal opposition) is immediately, perhaps deliberately, confused with being unpatriotic, racist, uninformed (as Ernie Els was the other day) or being against transformation (the wonderful word nobody wishes to define)

Like their predecessors, they confuse the party organiser with the party, the party with the government and the government with the state

It is in the interests of every South African to support all efforts to attain the dream of an African renaissance

But that needs the free exchange of thought and acceptance of other parties' bona fides Most of all, we need to establish national priorities — not a menu of wish lists

I've had more phone calls from friends in the past three months about the state of law and order in this country than ever before Certain communities have suffered for many decades Blacks have suffered Indians have suffered Now this suffering is countrywide

Italian friends tell me that some of Italy's most wanted criminals are living very comfortably in the Western Cape Farmers are tortured and the hijackings and murders are not even reported in the press

The police are undermanned, underequipped and underpaid They try their utmost, only to find the criminals back on the streets in short order

This is not new It doesn't help us just to blame the current government The National Party saw fit in the mid-'80s to release thousands of criminals

What typifies, for me, the society we're living in is the case where South Africa proudly wins the under-14 soccer World Cup Then it transpires that our captain was a 19-year-old who entered under a fictitious name This is just par for the course

Why are people not paying rates and taxes, television licences or electricity bills? Perhaps both the previous and the current governments are partially to blame

We tried to enforce immoral laws on the majority of the population. The previous government used the power of the state Policemen were used to enforce unpopular laws Information was suppressed and massive human rights violations took place

On the other hand, liberation forces deliberately undermined all forms of authority Parent-child, teacher-pupil, state-citizen relationships were destroyed in the run up to the election, murderers and bombers were released

Is it strange that people do not respect the law?

Tyranny is discipline without freedom, anarchy is freedom without discipline We have moved from tyranny to anarchy If we do not stop it, we will see a resurgence of tyranny

The second major crisis is the one in education If we in the private sector had to mess up the future of the country to the extent that it is being messed up in the Department of Education, we'd all be fired

The outcomes-based dream is in tatters What is going to happen to these kids?

How will they compete in an information-era where nearly half their US counterparts are wired to the Internet?

But the one point I really urge the government to look at is economic growth and job creation We seem to believe that governments create jobs, yet governments cannot and should not try to do so

Trade unions do not create jobs On the contrary, they destroy them My father once told me "The more they dance, the more they toyi-toyi, the more the jobs will move to Hanoi" How true

Instead of Cosatu announcing a confiscatory dream for "job creation" it should stop to think what its members are doing to the motor and metal industries Volkswagen created over 1 000 new employment opportunities in the Eastern Cape

Output in the Eastern Cape is not for the South African market, it is for the world market The jobs are dependent on the reliability of supply to other factories in other parts of the world No supplies, no jobs On Sunday I open the newspapers and the unions are about to destroy the last vestige of industry in the Eastern Cape

What the unions have to understand is that countries that fire the most, hire the most

One of my colleagues once asked former US presidential candidate Bob Dole the reason for his country's success He replied "Two words — 'You're fired' " US citizens have the least job security, yet the US has the lowest measurable unemployment in the industrialised world

What are we getting? An Employment Equity Bill

Our problem is we've got an oversupply of workers and an undersupply of managers and entrepreneurs of all creeds, colours and sexes The Employment Equity Bill seeks to regulate the labour markets Entrepreneurs will leave and unemployment will go up

Professors and left-wing ideologues do not create jobs Failed academics and other members of the sandals and socks brigade impede the creation of a job-friendly environment by espousing theories that have failed in far more advanced societies

What's our answer? Conferences and summits Conferences and summits create jobs only for planners and caterers

I wonder how many of the members of the Non-Aligned Movement in Durban this weekend are actually from solvent democracies?

The only people who create jobs are entrepreneurs They are the yeast of society But they need an enabling environment in which to operate

We've paid more than our fair share of taxes We've created jobs and enormous foreign exchange for the country I think we've proved our loyalty, and we deserve to be heard

I appeal to the government, and specifically to Mr Mbeki, to be brave and do the right thing: prioritise

We must refuse to pass any law or decree that undermines law and order, that does not enhance the quality of education And really, no laws that do not promote economic growth and job creation

We have little time because markets have a habit of punishing those that are out of step and late

We need the leadership in this country to make bold decisions, to liberate us economically, in the same way President de Klerk liberated us politically

We need leaders who are prepared to be unpopular and to take risks Without it, the African renaissance will not happen They can count on our support, should they go that route But they haven't got time They have to prioritise

● *This is an edited extract of the speech given by Johann Rupert, chairman of the Rembrandt Group, on the occasion of the group's 50th annual general meeting, in Stellenbosch in the Western Cape this week*

BRETT ELOFF

Cleric takes 'apartheid debt' appeal to banks

BD 2/9/98 (49)

Nomavenda Mathiane and John Dludlu

ANGLICAN archbishop Njongonkulu Ndungane took his debt forgiveness campaign to SA institutions yesterday, appealing to them to forgive some of what they are owed by government.

However, economists expressed doubts over the viability of the appeal, saying it could raise the cost of borrowing at a time when interest rates are already at record levels.

Ndungane appealed to all "good natured" SA financial institutions to make voluntary contributions towards reducing the domestic component of government debt, although this should not be detrimental to pensioners.

After reiterating his call for an outright cancellation of the "apartheid" component of foreign debt, Ndungane said he had been advised the rescheduling of civil service pension debts could free as much as R30bn for use in debt reduction. This possibility, Ndungane said, was being studied by some actuaries.

However, Rudolf Gouws, the chief economist at Rand Merchant Bank, said the internal debt was owed not to the few who were rich, but to ordinary South Africans, and cancelling it could raise the cost of borrowing.

Another analyst warned that calls for debt cancellation might send the wrong signal to overseas financial investors, while FBC Fidelity Bank economist Mike Schüssler said debt scrapping could see SA being lumped with countries such as the Democratic Republic of Congo, which had failed to honour its obligations.

Ndungane said a large portion of SA's debt — about R185bn — was internal, while the foreign portion amounted to R90bn.

He applauded the SA government's gesture in forgiving Namibian debt, and said talks were already underway with regard to Mozambican debt. Neither the SA finance department nor the Mozambican authorities could be contacted for comment.

Ndungane said he wanted all debt owed to SA by neighbouring states written off as "apartheid debt".

He also criticised international debt relief programmes for poor countries, saying these harboured a strong bias towards creditors.

Finance director-general Maria Ramos has also called for more flexible criteria for selecting the beneficiaries of the World Bank and International Monetary Fund's "highly indebted poor countries" initiative.

She said a review should be undertaken to provide speedier relief to those countries such as Malawi implementing economic reform, but would not benefit from the current programme's criteria. However, she stressed that any changes to the criteria should not take away the need for wider reform.

Ndungane also called for a UN international mediation council which would act as a world bankruptcy court.

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Tough words as IMF hits out at Reserve Bank over handling of rand

(49)

Simon Barber

WASHINGTON —The International Monetary Fund (IMF) released an unusually sharp rebuke yesterday of the Reserve Bank's handling of the rand crisis that erupted last May, arguing that its response "may have risked turning a contagion problem" related to the collapse of Asian markets into one "specific to SA".

Government was also taken to task for not moving fast enough to implementing its growth, employment and redistribution strategy. Its acceleration was of "critical importance as markets have identified the slow economic growth and high unemployment as a major source of vulnerability".

The tough words came in a public summary of the IMF board's annual assessment in closed door consultations on July 17 of SA's economic performance. Directors "stressed the urgent need for a comprehensive policy response to restore market confidence" in the rand. The Reserve Bank had "exacerbated" pressure on the currency in early May by intervening in the open and spot markets and pursuing "an uneven monetary policy" through the repo rate, the board believed.

It was essential that the authorities maintain "a consistently tight monetary policy to dampen pressure on the rand" and avoid further intervention in foreign exchange.

The Reserve Bank was urged to focus on reducing the net open forward position "with the goal of exiting forward market operations altogether".

Even when pressure on the rand abated, monetary policy would have to be eased "cautiously" to prevent a resurgence and to contain inflation stemming from the currency's fall.

On the fiscal front, the board was pleased with government's deficit targets, but stressed that meeting them would be the key to "restoring confidence". Reducing the government wage bill was a priority, along with controlling provincial and local spending and improving tax collection.

Further labour reforms were needed "soon" to create jobs. These included "increasing the attractiveness of hiring unskilled labour and relaxing the automatic extension of collective wage agreements to nonparticipants".

The board urged a "bolder approach" to trade liberalisation to boost efficiency, reduce the anti-export bias, accelerate decisions and increase the employment of unskilled labour". On privatisation, there was also "significant room for a bolder approach".

Change of tack: Page 3
Out of favour: Page 13

BD 3/9/98

SA's critic 'got his facts incorrect'

CT (BR) 11/9/98 (49)

MATT GETZ

Johannesburg — A report in Tuesday's Wall Street Journal Europe slamming South Africa was "unnecessarily and irresponsibly jaundiced", Jos Gerson, the chief economist at Merrill Lynch South Africa, said yesterday.

The article, "South Africa's Capital Crisis" by David Roche of London-based Independent Strategy, detailed many of South Africa's problems and harshly criticised the government's policies.

But Gerson said many of the facts cited in the article were incorrect, including:

☐ Roche said wages in the manufacturing sector before the rand's recent depreciation were $4,40 an hour. At R5 to the dollar, that works out to about R3 500 a month. Median wages are well below R2 000;

☐ He said gross foreign exchange reserves were worth less than three months of imports. According to the Reserve Bank, they are worth about four months;

☐ He said the deficit on the current account would be R18 billion,

VALID CONCERN *The policies of Tito Mboweni are a legitimate worry, says economist*

or 3 percent of gross domestic product (GDP) this year, above every economist's forecast. Some expect 1 percent. What is more, he added foreign-debt servicing, which is by definition already included in the current account;

☐ He said foreign direct investment made up 0,5 percent of GDP. Businessmap, the consultancy, has said in the past four years such investment was worth R40 billion, or 1,5 to 1,8 percent of GDP;

☐ Despite Roche's assertion, Finance Minister Trevor Manuel has not "clamoured for lower interest rates"; and

☐ He said 40 percent of black adults were illiterate. The World Bank puts the figure at 25 percent.

Gerson said the inaccuracies reflected poorly on the Wall Street Journal. "What's underlying this is a deep Afro-pessimism. People are inclined to tar us with the worst brush possible. What happens is that cyclical events cloud long-term perceptions."

He said some of the concerns were well placed, in particular those regarding labour market flexibility and the future policies of Tito Mboweni as the next Reserve Bank governor.

But the government, despite Roche's assertions, had been trying to free up and fix the market. Roche said people were getting poorer despite efforts at prudent fiscal and monetary policies. Gerson questioned the argument.

"There are very big trade-offs between the short term and the long term," Gerson said. "The policies .. have a major deflationary effect and we're also now part of the worldwide slowdown."

☐ The IMF, Page 2

Only tough action can save SA from collapse

(49) BD 11/9/98

David Roche, president of London-based investment consultancy Independent Strategy, wrote an article — SA's Capital Crisis — that appeared in the influential Wall Street Journal on Wednesday, causing a flurry in SA's markets. The article is reproduced here.

ALL around the world, funds are fleeing emerging markets. Debt default in Russia, capital control and exportation of investor wealth in Malaysia and market-meddling in Hong Kong have all heightened the risk premium of investing in the emerging world. Emergent economies with external deficits now have to pay huge risk premiums over US treasurys for a dwindling pool of available capital. Dearth of capital and astronomical financing costs are the substance of emerging market contagion.

A wedge is being driven between the rich and poor countries of the world with potentially tragic consequences — and none more so than for SA.

Any country with a big external deficit and inconsistent economic policies is at risk. SA is worse off than many. Unless it starts delivering increased prosperity soon and thus the hope for a better life, it is not only the economy that will break down, but the country itself. For the sense of desperation that grows as economic prospects decrease could be a potent catalyst for an outbreak of violent tribalism and uncontrollable crime. SA has the biggest need for external capital and the lowest potential for attracting it of any emerging market. This explosive mix is only destined to get worse when President Nelson Mandela leaves office in 1999.

The grinding poverty of the vast majority has worsened under African National Congress (ANC) rule, despite efforts to run a prudent fiscal and monetary policy. That is because Mr Mandela has failed to implement free market reforms for fear of upsetting his own party's radical members and its leftist coalition partners.

More than one-third of able-bodied South Africans are without a job — a figure that rises to 47% for blacks. Employment is falling at a 4% annual rate. The

MANDELA

prospects of getting a job are not helped by the fact that 40% of black adults are illiterate. To achieve social stability, living standards need to rise sharply. Instead, they are falling, as real GDP growth of less than 1% lags well behind a population that is growing at 2-3% a year.

Joblessness is indeed at the core of SA's despair, and the root cause of it is an unreformed and sclerotic labour market. Despite the poverty of many, wage costs in the manufacturing sector were $4,40 an hour before the recent devaluation, twice the emerging market average. Even after devaluation, SA has by far the highest labour costs of any $2 600-3 000 per capita economy. Those wages are not compensated for by high productivity. Despite cuts in the corporate payroll, GDP per worker is lower than in Latin America, East Asia and Central Europe.

Herein lies the secret of SA's sclerosis: excessive labour costs (adjusted for dismal productivity) mean lousy corporate profitability. Poor return on investment discourages investment and savings. Wages as a percentage of national income have risen to about 60% today from a historic average of 57% over the past 10 years, to the detriment of corporate profits.

SA's underemployed and unskilled work force cannot save enough to finance the investment needed to raise growth rates. Personal saving is only 0,5% of disposable income, while household debt to income has risen from 63% in 1992 to 69% now. These are the worst figures in the emerging market universe.

SA's dearth of personal savings is worsened by a big government deficit. As the economy stagnates, the general government deficit is heading for 4% of GDP this year and 5% next year. With interest rates above 20%, the government's debt-servicing costs will be more than 20% of total public spending. Public sector wages and salaries take another 25%. At nearly half of government expenditure (and 15% of GDP) that leaves little room for spending on infrastructure development, education and health, which are essential to future prosperity.

Uncompetitive labour costs hit trade too. Since 1990, export growth has averaged 4,4% a year but imports have risen 9,7% a year. Imports have flooded into the domestic market. Whereas only 17% of domestic sales were imports in 1988, now they are 34%. So SA's trade account has deteriorated by 4,5 percentage points of GDP in aggregate since 1990.

SA's inadequate savings rate also shows up in the current account shortfall. That will total R18bn this year or 30% of GDP. Foreign debt servicing will cost another R18bn. That adds up to 6% of GDP and well above current gross foreign exchange reserves of R32bn, worth less than three months of imports. Its situation is worse than Russia's before its crisis and worse even than Brazil's.

That financing gap can be bridged only with foreign capital. Long-term foreign direct

STALS

investment inflow amounts to 0,5% of GDP in SA compared to an average of 2% of GDP for emerging markets because high unit labour costs keep return on assets too low to attract it.

So SA can only plug its external financing requirement by attracting short-term capital flows (bank loans and portfolio flows) with interest rates of more than 20%. With corporate returns on assets only two-thirds of the cost of capital, it depresses investment and economic activity further.

Currency devaluation has never been the preferred option of the SA Reserve Bank. But the recent round of emerging market instability forced its hand and the rand fell more than 20% against the dollar. Today the rand remains extremely vulnerable. Not only does the Bank possess meagre international reserves, but it continues to support the rand by running a foreign currency forward book where it is short foreign currencies to the tune of some $25bn, or 25% of GDP.

Adjusted for this exposure, in a worst-case scenario, SA has no international reserves. The cost of refinancing the forward book will rise along with the risk premium attached to all lending to emerging markets.

SA's economic risks are exacerbated by its unstable political future. The levers of power are to be taken over by new sets of hands that have little motivation to promote, much less sustain, prudent economic management. President Mandela's departure will end the period of a historic statesmanship that kept SA together as a civic society. The sheer power of the freedom he symbolises for his countrymen ensures that his successor will have nothing comparable to his prestige.

Reserve Bank governor Chris Stals is giving way to Tito Mboweni, an ANC stalwart whose anti-reformist reputation increases the likelihood that he will take a much less independent stance on monetary policy. Finance Minister Trevor Manuel is already clamouring for lower interest rates.

The wrong policies for SA to adopt are those of lax monetary policy, rand devaluation and fiscal reflation to get the economy moving. Devaluation is more likely to increase inflation and make the poor poorer, while a weaker rand will hardly help an economy with 44% of its exports in dollar-based, price inelastic primary commodities like gold.

The silliest thing of all for SA to do would be to emulate Malaysian Prime Minister Mahathir Mohamed and put the sort of controls on capital that would stop the shorting of the rand. That might give the currency a short-term boost and lower interest rates. But ultimately it would deprive SA of

MBOWENI

the free flow of capital, particularly direct investment, which is already in such short supply and necessary for the transformation of the economy.

The right policies are the tough ones: deregulate labour markets, allow wages to fall and the return on investment to rise, while maintaining a stable rand. Exports will benefit from a falling real exchange rate as labour rates fall and productivity rises. If South Africans are allowed to price themselves into jobs, there is hope for SA. But if populist policies are chosen, it is not just the rand that will collapse, but the economy and society along with it.

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NEWS

Sactwu accuses clothiers of stealing R18m in benefits

CT (BR) 18/9/98

SHIRLEY JONES
KWAZULU NATAL EDITOR

Durban — The South African Clothing and Textile Workers' Union (Sactwu) yesterday accused more than 160 Durban clothing manufacturers of stealing over R18 million in workers' sick and provident fund contributions.

According to Joshua Mbelu, a Sactwu spokesman, these mostly small manufacturers had deducted members' fund contributions but had not forwarded them to the Bargaining Council for the Clothing Industry (BCCI), which administers the contributions.

In retaliation, Sactwu has called out between 8 000 and 10 000 workers to strike to put pressure on employers to settle up.

Mbelu said in some instances the union had to attach employers' houses and machinery to try to retrieve the workers' money.

Mbelu said the guilty parties included members of the BCCI, those not registered with the council and manufacturers who had deregistered to join the Confederation of Employers of Southern Africa (Cofesa).

Mbelu said Sactwu had payslips to prove its allegations. These included the charge that some companies had continued deducting contributions despite switching to Cofesa.

He said Sactwu had been forced to withdraw members' medical benefits and to refuse loans against provident funds which were not paid up.

He said Sactwu also had to contend with manufacturers telling union members that Sactwu was withholding benefits and making urgent demands for payment because it was bankrupt. He said a story was circulating that Sactwu would close by mid-November.

Apart from quashing this speculation, he said Sactwu would blacklist defaulters and take further action against them.

Len Smart, the acting secretary of the BCCI, said less than a quarter of Durban clothing manufacturers were involved in the controversy and most BCCI members paid deductions in good time.

However, he said the BCCI had taken legal action against the defaulters. As a result, some companies faced liquidation for non-payment of levies. In some cases employers had been held personally liable.

SA moves up two places in world competitiveness table

CT (BR) 18/9/98 (49)

FRANK NXUMALO
LABOUR EDITOR

Johannesburg — South Africa had moved up two places in global competitiveness, according to a survey released by the Institute of People Management (IPM) yesterday. The survey was published in the World Competitiveness Yearbook by Professor Stephane Garelli of the Swiss Institute of Management Development.

The report, entitled World Competitiveness: New Frontiers in 1998, is published annually and provides 259 criteria, grouped into eight competitiveness input factors, for 46 industrialised and emerging economies.

The eight input factors are management, investment in people, investment in science and technology, the domestic economy, infrastructure, finance, government and the degree of international participation.

Ranked number one, the US was described as the "most competitive nation in the world", while at the other end of the scale Russia was described as being on a "chaotic path to reform".

South Africa moved to position 42, with fiscal policy and governance both at 31 — up from 36 and 34 respectively. Fiscal policy and governance were South Africa's healthiest indicators.

Investment in people was at 46, the same position as last year, and only slightly above management, which dropped from 37 to 38.

A spokesman for IPM said the effect of government macro-policies in the case of South Africa — Gear with investment as its primary pillar — was used to measure the strength of the domestic economy. In this regard the country was ranked 40, up from 42 last year.

Investment in people looked at the kinds and levels of literacy and numeracy, the types of skills development programmes and whether these were practically orientated, entrepreneurial or academic. In this category South Africa had not moved from position 46, at the foot of the table, since 1994.

Government will stay its course, but opposition lambastes its policies

No agreement on state of economy

(49) CT (AR) 18/9/98

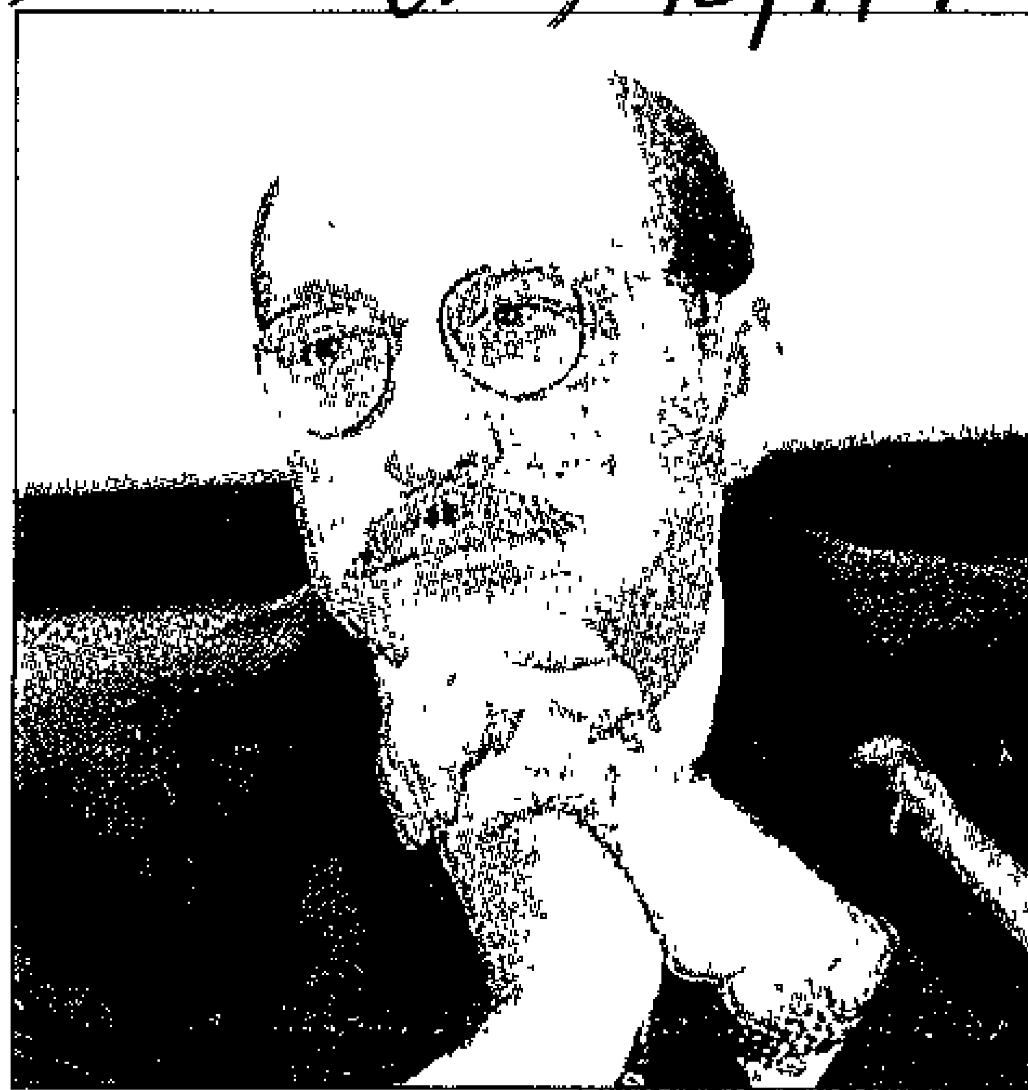
LYNDA LOXTON
PARLIAMENTARY CORRESPONDENT

Cape Town — Widely differing views on the state of the economy and the effects of the world financial turmoil were heard in the national assembly yesterday.

While the government pledged to stay the course of chosen economic policies under Gear and to avoid populism as the economy rides out the turmoil, opposition parties lambasted the government for everything from a rigid labour market to low domestic savings levels.

Trevor Manuel, the finance minister, called a snap debate on the economy and said there were "no viable alternatives to sound and sustainable ... policies".

"Blind adherence to populist solutions, whether these be of the rabid free-market type or of the radical left-wing type, are neither appropriate nor sustainable," he said.



IN CROSSFIRE *Trevor Manuel believes the economy is good enough to weather the present market storm* PHOTO JOHN WOODROOF

He said he believed the economy was in good enough shape to survive the present market turmoil and would be one of the first countries to benefit from a return to stability.

"Our strength lies in the sustainability of the policies that we have adopted ... It is important that we are not provoked into making decisions for which we will pay dearly once the crisis has subsided," he said.

He called for better regulation of financial markets, not through "arcane" exchange controls but by making financial institutions report on the risks of their speculative positions.

Alec Erwin, the trade and industry minister, said the government had embarked on a restructuring of the economy that was causing short-term pain but was beginning to pay off in terms of new jobs and increased productivity and investment.

Gavin Woods, the Inkatha Freedom Party finance spokesman, said the government should not delude itself that "all the fundamentals are in place because beyond important measures of fiscal stability, monetary discipline and trade liberalisation, there are glaring structural weaknesses."

These included low reserves and very low fixed investment and domestic savings, he said.

Marthinus van Schalkwyk, the National Party leader, said the rigid labour market was a weakness in the economy.

US rating agency gives SA the nod

BD 25/9/98 (49)

Simon Barber

WASHINGTON — Voicing faith in Deputy President Thabo Mbeki's "assertive leadership" and government's commitment to prudent fiscal and monetary policy, US credit rating agency Duff & Phelps said it saw no reason to downgrade SA's long-term foreign currency and rand debt from BBB- and A- respectively, and declared the outlook "stable".

The agency's latest SA credit analysis, issued on Wednesday, comes amid jitters that rival Moody's Investor Services may announce a downgrade next month.

Duff & Phelps believed that after a "premature" reduction in the repo rate in early June, the Reserve Bank had dealt effectively with the effects of emerging market contagion on the rand and had "defused speculation regarding the bank's tolerance for high interest rates" by keeping the repo rate over 20%. Although the depreciation would slow growth to around 0,8% this year and create inflationary pressures, the agency was confident the authorities would maintain their "prudent fiscal and monetary" stance.

One serious worry was that despite government's efforts to meet its fiscal-deficit targets, the level of government dissaving remained too high. "If savings are not improved, it will be difficult for SA to achieve sustainable growth without putting pressure on the balance of payments."

The agency did not expect major policy shifts after next year's elections. It believed an Mbeki administration would consolidate economic policies already in place, maintain the Reserve Bank's independence, and move more aggressively on privatisation, competition policy and labour market reform.

"Under Mbeki's assertive leadership, (the agency) believes that critical reforms in the above areas can be realised," the agency said.

Although troubled by SA's low external liquidity, the agency felt the authorities were relatively well placed to defend the currency against short-term attacks. Positive factors were the Reserve Bank's reported access to sizeable credit lines with foreign banks and its "skilful" containment of liquidity in the rand market, which limited the ability of traders to unwind short positions at will.

While the bank's net open forward position was problematic, its oversold forward book remained "manageable — far below its level during most of 1994/5". Also justifying the ratings was SA's "modest external debt burden", — which at 90% of exports last year, compared favourably with other investment-grade sovereigns.

SA's financial system was "relatively robust", its banks "solidly capitalised, appropriately hedged and well-supervised". And while slow growth and high interest rates would likely increase nonperforming asset ratios, the agency did not expect them to reach levels seen in Asian countries.

Local currency debt received a higher rating than foreign obligations, reflecting the greater taxation power of government and its "ultimate ability to monetise fiscal deficits". The maturity structure of government rand obligations was also "highly favourable".

Harsh analysis of SA did not even get the statistics right

Criticism of the South African economy in a recent Wall Street Journal article was unfounded, and many of the statistics were inaccurate, writes **Andrew Feinstein** (49) BD 28/9/98

DAVID Roche's recent article in the Wall Street Journal on the South African economy does SA a harsh disservice. Riddled with factual errors and facile political analysis, it calls into question the competence of the consultancy concerned.

It is one thing for an economy to be critically dissected on the basis of the generally accepted facts, but quite another to be denigrated on the basis of substantive inaccuracies and omissions.

The extent and gravity of Roche's factual errors was reflected in the alacrity with which the Economist Intelligence Unit and a plethora of South African and international private sector economists publicly corrected him.

There is no excuse for getting freely available economic indicators wrong:

- Employment, we are told by Roche, is falling 4% a year, whereas in fact employment fell 1,6% in 1997, was neutral in 1996 and grew 0,5% in 1995 (SA Reserve Bank annual economic report 1998);
- Wage costs in the manufacturing sector were $4,40 an hour prior to the recent devaluation, he suggests, rather than around $3,50 an hour calculated on the basis of Statistics SA figures and using similar assumptions to Roche;
- He says that foreign direct investment inflow supposedly amounts to 0,5% of GDP, while the consensus figure among private sector economists is between 1,5% and 2%.

Given this approach to figures, it is no wonder that Roche's predictions are given little substance by economists: He projects a current account deficit of 3% for 1998 while a figure of about 1% to 1,5% is the consensus among private sector economists. He puts the budget deficit at 4% of gross domestic product this year and 5% the next, despite government's targets of 3,5% and 3% respectively.

Considering Finance Minister Trevor Manuel's success in coming within 0,1% of the deficit targets in his two years in office, Roche's pessimism is misplaced.

His contention that corporate profitability is poor, as a consequence of high labour costs and low productivity, is disproved by the most cursory examination of corporate profitability over the past three years.

He further ignores the facts that productivity rose 3,5% in 1997 after rising 1,9% the year before and that in real terms unit labour costs have fallen in four of the past five years.

His attempted defence of these figures on public radio in SA and in the Wall Street Journal were, frankly, weak. Stripped of technical embellishment his defence was theoretically suspect, especially in relation to his calculation of the current account deficit, the practical implications of the open forward book position and the country's growth figures. With respect to the latter he goes so far as to attempt to undo four years of positive growth, figures that have been unequivocally accepted by even the most rigorous of international monitoring organisations and a quite remarkable recovery from four years of stagnation leading up to the 1994 election.

The leadership transition from Nelson Mandela to Thabo Mbeki is proceeding smoothly — a factor Roche has ignored.

Roche's silence on a number of other issues is equally alarming. He does not mention that inflation is at its lowest level in 30 years; that the deficit has fallen to 4% from a pre-1994 level of over 10%; the nongold export growth of 12,1% in 1996 and 9,3% in 1997; an unemployment level of 22,7% using a new, more internationally comparable methodology; the fact that revenue collection in the last financial year exceeded its ambitious target by R2bn in the last financial year; or the independently calculated capital inflow of R93bn since 1994.

It is these factors, together with a modern, well-regulated financial sector that makes Roche's attempts to compare the South African situation to that in precrisis Russia nothing short of absurd.

His contention that the South African government has been unwilling to implement free market policies is downright nonsensical. In addition to the policies implicit in the above statistics, add the orderly removal of most exchange controls, the ending of the inherited dual currency regime, the reduction in protective barriers at rates more accelerated than those recommended by the World Trade Organisation, the removal of distorting subsidies and marketing boards and the aggressive encouragement of the manufactured export sector.

While initiating these fundamental economic reforms and stabilising public finances, the government has managed to devote 60% of noninterest expenditure to social spending.

This has seen free health care provided to pregnant mothers and children under six years of age and running water to over 1,2-million families for the first time.

So, rather than a sense of desperation in SA, there is a feeling that hard work has been done in creating the foundations for widespread prosperity and a determination to tackle the challenges that lie ahead.

Roche's disillusioning description is unceremoniously punctured when one considers that the African National Congress continues to enjoy well over 50% of voters' support in the lead up to the election in 1999, a reality that mitigates against the need for populist economic measures in the election year.

Finally, the transition from Nelson Mandela to his successor, Thabo Mbeki, is proceeding smoothly. Roche's ignorance of South African political dynamics is nowhere encapsulated more than in his suggestion that the new generation of leaders have little motivation to pursue prudent economic management.

Mbeki, in his capacity as deputy president, has been driving most aspects of day-to-day governance for a number of years. He was one of the key architects of the government's orthodox macroeconomic strategy and remains its most visible champion.

Of course the South African economy faces substantial challenges, particularly in relation to savings and investments levels; labour market rigidities; increasing foreign direct investment and foreign exchange reserves; further, high quality privatisation; accelerated education and training; and the need for the reduction of the size of the civil service.

But the South African economy is being turned from a moribund, inflationary also-ran reliant on commodity exports to a meaningful global player with more stable public finances, exceptional financial and physical infrastructure and a determined, hard-working people. No informed analysis, accompanied by even a basic understanding of the country's sociopolitical dynamics, would find otherwise.

Feinstein is an ANC member of Parliament and a member of the finance committee of the National Assembly.

'Gear can't help poor of country'

By Political Staff

THE Government's macro economic policy of Growth, Employment and Redistribution (Gear) was a departure from the Reconstruction and Development Programme (RDP) and could thus not help in the redistribution of wealth in the country.

This view was expressed at the annual general meeting of the Institute of Contextual Theology (ICT) in Johannesburg at the weekend by Mr Mzwandile Nunn, a religious worker who teaches industrial ministry in Pietermaritzburg.

The conference was attended by about 60 delegates.

Nunn, who was speaking on the theme "Globalisation and human dignity", said where in the past people made money from selling their products, "today people get rich by selling money".

He said Gear was a policy that was devised to derail the RDP.

"Indeed if the RDP had been allowed to continue we would have been in a better position to redistribute the wealth of this country. However, it has been stopped," he added.

In its place, he said, was Gear, which was a policy of a structural adjustment programme designed to dovetail with the dictates of the International Monetary Fund (IMF) and its insistence that social spending should be reduced or stopped.

He said there were reports that pensions might be phased out from 2003 as part of the IMF stipulations.

"We know that many families depend on the old age pensions to survive and that many leaders today grew up on those pensions. What will happen to these families when the crunch comes?" Nunn said.

He said the human dignity of people was trampled on under globalisation as people's needs came second to profit.

Reducing benefits

Jobs were shrinking as companies outsourced their work, thus reducing pension and other benefits that they would otherwise be expected to pay if they had put workers on their payrolls.

Nunn said a number of institutions were involved in efforts to find alternatives to the effects of globalisation.

He urged non-governmental organisations to join the debate around the economic future of the country, as it was clear that Gear would not help the poor.

Reverend Charity Majiza, general secretary of the South African Council of Churches, said her organisation held a meeting with members of the Cabinet on Friday over the crisis in Lesotho.

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SA's credit rating not to be lowered

CP 4/10/98 (49)

Own Correspondent
and Sapa-AP

THE SOUTH African economy received a major boost this weekend, while the world economy was facing its most serious challenge in 50 years.

Finance ministers and central bank presidents from the US and six other wealthy nations met in Washington last night to explore ways of averting a slide into a global recession.

But South Africa's chances of surviving the international crisis were enhanced by American credit rating agency Moody's Investor Services' announcement that it won't lower its credit rating of South Africa's foreign debt. The creditworthiness of almost all other emerging economies were recently down-rated.

In fact Moody's slightly raised its rating from Baa3 with negative prospects to Baa3 with stable prospects, which means that it now regards South Africa as a relatively safe haven for investors.

Economists said this decision was a feather in the cap of the South African government and the Reserve Bank. It could boost the value of the rand and other financial markets.

A favourable credit rating could attract more foreign capital to South Africa, leading to less pressure on its reserves and on the exchange rate of the rand.

It could eventually lead to lower interest rates.

Dave Mohr, economist of Citadel, said this was important economic news for South Africa as it recognised the government's attempts to live within its budget and the Reserve Bank's sound monetary policy. It could also open the door for investments by American pension funds.

Meanwhile US officials and those of the six wealthy nations gathered in Washington yesterday to consider a series of proposals by US President Bill Clinton, designed to lead the world back from a financial precipice. Japan – the nation that holds the key to recovery from the Asian financial crisis – and Brazil, the latest country to get the global financial virus, were high on the agenda.

Clinton said on Friday that half the world was in recession or experiencing very low economic growth. "We don't have to have a worldwide recession if those of us that enjoy growth take the initiative and move now," he said.

One of his proposals would allow the International Monetary Fund to provide emergency loans more quickly to countries threatened by the economic meltdowns that sent investors fleeing from three Asian nations last year, as well as from Russia this summer.

If the US wins backing for its ideas from the ministers of Britain, Canada, France, Germany, Italy and Japan, they will go to the annual meetings of the 182-nation IMF and its sister lending agency, the World Bank, that get under way today.

Critics have attacked the IMF for pursing programmes that so far have failed to contain the contagion that now threatens Latin America. The IMF provided more than US$100 billion (about R610 billion) in bailout funds for Thailand, South Korea and Russia.

There are expectations that a package of US$ 30 billion (about R183-billion) could be announced after Sunday's presidential election in Brazil as the US works with the IMF to keep the largest economy in Latin America from becoming the latest victim of the crisis, which began in Thailand 15 months ago.

US Treasury Secretary Robert Rubin said the US would be pushing a number of proposals to the finance ministers.

Economic problems are of 'SA's own making'

Simon Barber (49) BD 5/10/98

WASHINGTON — While the SA economy was taking a beating from what finance director general Maria Ramos calls "forces beyond our control", its underlying problems were homegrown systemic inefficiencies which government was not doing enough to fix, an unpublished analysis by International Monetary Fund (IMF) staff stated.

The analysis, presented to the fund's executive board last June and due to be made public shortly, found that SA should be capable of sustaining a growth rate close to 6% — as opposed to the 0,8% the fund was projecting for this year.

The key, the authors said, was to promote balanced growth of "total factor productivity", the capacity of the economy to generate output from a given quantity of workers and capital investment. Although SA's growth rate by this measure turned positive in the 1990s after two decades of decline, progress had been uneven.

The sector that achieved the biggest recent gains by this measure was mining, but with commodity prices falling and costs of production rising, it only did so by laying off workers and closing unprofitable mines.

Total factor productivity rose 1,3% between 1991 and 1996 because use of production factors — labour and capital — were scaled back. Output also fell over the period, but more slowly.

In manufacturing, total factor productivity rose just 0,5% over the same period. Output increased by the same modest percentage. This was achieved by a 3,5% increase in the quantity of capital deployed and a 1,6% decrease in labour.

Total factor productivity growth in manufacturing lagged behind the 1,6% posted by the overall private economy 1991 to 1996. This, said the IMF analysts, was "contrary to the pattern observed in most countries, possibly due to high levels of effective protection, which hamper efficiency".

Economy-wide, there was also "some evidence of large-scale and inefficient capital accumulation, reflected in the high and rising capital-labour ratios and the attendant low return to capital".

The one major sector where units of labour were added at a faster pace than units of capital was nonfinancial public enterprises, ranging from Eskom to Abacor. Their output grew 1,7% over the period. This was attained through 1,7% and 2,8% increases in the contribution of capital and labour.

However, the total factor productivity growth of these corporations declined by 0,4%, making them SA's least efficient business sector. By contrast, the total factor productivity of all private, non-agricultural SA business grew by 1,6%.

The analysts shared the latest assessment by Moody's rating agency that government's fiscal and monetary stance was basically sound, but in section after section of their report they hammered home the need for government to spur growth by speeding up the structural reforms announced in the Growth, Employment and Redistribution strategy.

CAPE ARGUS, **MONDAY**, OCTOBER 5, 1998

Manuel upbeat on top credit rating for SA economy

ARG 5/10/98 (49)

Pat on the back for discipline

RICH MKHONDO AND BUSINESS STAFF

Washington – Finance Minister Trevor Manuel has welcomed good marks given to the South African economy by one of the world's top ratings agencies.

Moody's confirmed its assessment of South Africa as an "investment grade" country at the weekend, surprising many observers who were expecting the agency to downgrade its report-card.

"The rule in the United States is that you need two investment grade ratings. South Africa has that. We are satisfied and glad that South Africa retains its trade shares and investor attraction," Mr Manuel told South African journalists on the eve of the World Bank and International Monetary Fund annual meetings here.

Moody's, however, expressed concern about the slow growth and weak employment generation prospects for the South African economy, particularly in view of the tight monetary conditions that would be sustained to maintain financial and foreign exchange market stability.

But the agency said it was confident that the country's political and economic leadership could manoeuvre through this difficult period without altering its medium- to long-term objectives.

Mr Manuel said: "It is good that they see the value of the South African economy. It is more than just to say that we are retaining the rating. The chances of an agency like Moody's retaining a country's rating are about 30%, and to take it one step further and change the outlook from negative to stable should not be underestimated. It is a piece of good news we have not heard for a long time while in Washington."

Moody's executives met President Mandela two weeks ago in New York. It is not known if the meetings influenced any decision taken by the agency.

The agency gave South Africa a pat on the back for macro-economic discipline, ability to withstand tight international financial conditions, soundness of the banking system, and political stability.

Meanwhile, Mr Manuel has urged world leaders gathered for the World Bank and International Monetary Fund annual meetings to listen carefully to the plight of the African continent when tackling global economic problems.

Mr Manuel, his director-general Maria Ramos, Reserve Bank governor Chris Stals, deputy Timothy Thahane, and Reserve Bank governor-elect Tito Mboweni are in Washington to attend the meetings.

"We're telling them there is a world outside the G7 – a world of poverty and hunger," said Mr Manuel.

He said there were common themes among African finance ministers in the quest for solutions to the global crisis, including the need for capital regulation, improved supervision, greater transparency and reform of world financial institutions, including the IMF and World Bank.

■ South African financial markets remained under the cosh today, but drew some comfort from the latest Moody's rating.

Bonds rallied, the rand firmed and share prices posted modest gains on the Johannesburg Stock Exchange.

But economists said that while the Moody's rating gave some cause for comfort in the short-term, it was unlikely to turn the tide of negative investor sentiment which was being driven by the continuing rout of world markets.

ANC paper calls for review of fiscal policy

BD 12/10/98 (49)

Farouk Chothia

AN AFRICAN National Congress discussion document has called for a review of fiscal deficit targets, a cautious approach to privatisation, a community oriented approach to housing subsidies and intervention in the financial sector without being extremist.

The main author of the document, entitled "The state, property relations and social transformation", is believed to be ANC intellectual and national working committee member Joel Netshitenzhe. His views are seen to carry weight as he commands the respect of ANC Deputy President Thabo Mbeki.

Drafted as an input for the ANC alliance summit to be held before the job summit at the end of this month, the document seems to be an attempt to bridge the policy divide within the alliance. The ANC's relationship with its allies is extremely strained after stinging attacks on the SA Communist Party by Mbeki and President Nelson Mandela earlier this year.

The divisions have centred mainly on government's macroeconomic strategy, which Mandela has previously described as "non-negotiatable".

However, the document calls for further debate on fiscal deficit targets and for a balance to be struck between two extreme positions. It is "sound" not to rely on borrowing to meet social deficits, but it is also "suicidal" to cut services to the poor "in pursuit of fractions of deficit targets".

Macroeconomic balances have to be maintained "not for their own sake but in the interest of sustainable development", the document says. SA needs a "strong and efficient" developmental state which is loyal to the poor.

Mechanisms should be put in place not only to "obviate market failure", but to allow the state to intervene to facilitate growth and redistribution.

The document endorses considering

NETSHITENZHE

privatisation on a case-by-case basis and argues against being dogmatic about state ownership. However, there is a need to guard against "denuding" the state of its "little" capital. Private companies should not be allowed to undermine public corporations to the point where strategic areas end up being regulated and run by them.

The ability to use state entities to make critical interventions in the broader workings of the economy is one indicator of the orientation of a state. "In transport, telecommunications, energy and other sectors, state ownership is meant to serve a particular facilitating and servicing function."

The document questions a government housing policy which uses state capital to promote "individual exclusive ownership without some form of social partnership". Similarly, it casts doubts on having public works programmes to which communities "relate as workers demanding a living wage and better conditions".

The document says state capital injected into these sectors should be "transformed into community social capital". Members of a community could then jointly use such capital for their collective benefit.

The financial sector forms the "bedrock of property relations". However, it is debatable whether the ANC-led alliance has developed an adequate framework, "let alone programme", to tackle this sector. State lending institutions have a critical role to play in overcoming the "inadequacies of the market", and to promote investment and the development of small, medium and macro enterprises.

The extent to which the private banking sector has limited the "space within which state lending institutions can operate" needs to be assessed.

The document says little attention has been given to the private allocative sector of capital, and "any regulation that may be necessary". SA has a huge financial capital base, but it is "least able to ensure some rationality in the allocation of this capital, particularly for productive purposes".

There is a tendency within the alliance to propose solutions way out of line with realities, such as punitive taxes. However, equally dangerous is a tendency to be "so awed by financial capital that we throw the national liberation movement prostrate in front of this sector as if in pagan prayer".

The document says the ANC should promote the emergence of a black capitalist class, but it is vital to maintain a leadership role over it.

The emergence of such a class poses two risks: it could be easily "co-opted" by whites of the same class and it could become a source of corruption within the state.

Socialist group: Page 2

ANC warned on threat to Gear

ARG 13/10/98 (49)

Proposed shifts in fiscal policy being considered by the African National Congress and its alliance partners were a step backward for Gear and unlikely to win over foreign investors, opposition parties have warned.

The proposals, which include a review of fiscal targets and a cautious approach to privatisation, are contained in a discussion document, *The state, property relations and social transformation*.

The document was compiled by ANC NEC member Joel Netshitenzhe, Cosatu general secretary Mbhazima Shilowa, and SACP politburo member Philip Dexter.

All three are members of a special alliance committee, headed by ANC president Thabo Mbeki. It was set up to examine the transformation of the state.

The discussion document will be on the agenda of an alliance summit planned for later this month in a bid to iron out policy differences between the partners ahead of the presidential jobs summit on October 30.

The document, which was published on the Internet yesterday, will be debated in meetings of the Cosatu national executive and the SACP politburo this week.

It says the issue of defining fiscal targets needs to be debated, and that while the state cannot rely on borrowing to meet its "social deficit", cutting services to the poor is economic and political suicide.

National Party spokeswoman Juli Kilian said the proposals were "very dangerous – the Government is prepared at all costs to gamble with the country's credit rating".

IFP finance spokesman Dr Gavin Woods said the document was couched in reasonable terms, "but the central issues are not that reasonable".

The hesitant approach to privatisation was not good for the debt burden. International investors would not be happy with it.

Democratic Party finance spokesman Ken Andrew said the document was worrying because it clearly backtracked on tight fiscal policy.

"South Africa is going to have enough problems in achieving economic prosperity without suggestions that the Government is going to be able to revert to quasi-socialist solutions to our economic problems."

Freedom Front finance spokesman Dr Willie Botha said: "If they are going to move away from the basis of Gear we are in for a lot of problems." – Sapa

ANC policy paper 'an alliance effort'

(49)

Farouk Chothia and Linda Ensor

DEPUTY President Thabo Mbeki oversaw discussions among African National Congress alliance partners when a document proposing a review of fiscal deficit targets and urging government to stick to a cautious approach on privatisation was drafted.

Alliance sources said yesterday the document was drafted by a committee that included ANC national working committee member Joel Netshitenzhe, Congress of SA Trade Unions (Cosatu) general secretary Mbhazima Shilowa and SA Communist Party central committee member Philip Dexter.

"It is an alliance document, drafted in the true spirit of the alliance," one source said.

The committee was one of several falling under a task team, chaired by Mbeki, looking at the transformation of the state. Other members who served on it included Deputy Finance Minister Gill Marcus, Trade and Industry Minister Alec Erwin and Public Service and Administration Minister Zola Skweyiya. The SA National Civics Organisation was also represented on the task team.

The document, titled "The state, property relations and social transformation", calls for a balance between extreme positions in relation to fiscal deficit targets. It says it is "sound" not to rely on borrowing in relation to fiscal deficit targets, but it is also "suicidal" to cut services to the poor "in pursuit of fractions of deficit targets".

The document's aim was to stimulate debate ahead of an alliance summit later this month.

The ANC had convened a special meeting of its national executive committee for this weekend where the "crucial" item on the agenda was economic policy, a source said. The source did not expect the committee to debate the document, but issues raised in it were bound to come up for discussion.

Cosatu spokesman Nowetu Mpati said that the federation's central executive committee would discuss the document at a three-day meeting today.

Democratic Party finance spokesman Ken Andrew said the document was worrying as it indicated a backtracking on sound fiscal policies. The mere tabling of the proposals was harmful and their acceptance would damage SA's economic prospects.

"SA has been less badly affected by the recent international financial volatility than many emerging markets because it has adhered to reasonable fiscal discipline, has strong financial institutions and has an economic strategy which takes account of global realities. These new ANC proposals represent a backtracking on these crucial elements."

Comment: Page 13

BD 13/10/98

Heath unit accused of sloppy referrals

BD 13/10/98

David Greybe

CAPE TOWN — President Nelson Mandela's office has written to Judge Willem Heath accusing his special investigating unit of preparing sloppy referrals for anticorruption inquiries which had resulted in "litigation or threatened litigation".

Jakes Gerwel, director-general in Mandela's office, also wrote to Heath, saying that the anticorruption unit had allegedly failed "to operate within its legal limits".

Gerwel's letter, dated last week Friday, was in response to claims by the unit last week of delays of up to a year in Mandela's office granting authorisation for "hundreds" of new inquiries.

There have been signs of growing friction between the unit and government following a suggestion by Justice Minister Dullah Omar that the unit be rationalised as part of a single anticorruption centre under a special cabinet committee.

Heath responded with a plea to government not to compromise the independence of the unit.

Guy Rich, spokesman for the unit, confirmed that the unit, based in East London, had received the letter yesterday, but said Heath was out of town and would return only tomorrow.

"We have never directly accused the president's office or the justice department for the delays," Rich said. "We have, however, on numerous occasions, highlighted the delays."

Mandela's spokesman, Parks Mankahlana, confirmed the contents of the letter, but declined to be more specific about the litigation cases, or threats of litigation, as a result of "errors" in the unit's submissions.

Gerwel said there was "absolutely no substance" to complaints of delays. The processing of requests for an inquiry "receives priority treatment even over pressing matters of state, and are usually processed within 24 to 48 hours if the president is available".

Secondly, any delays which had occurred "has been at the justice department which is required to check your

Continued on Page 2

ANC to review failing Gear economic policy

(49) Star 19/10/98

BY HOPEWELL RADEBE

The ANC's national executive committee admitted yesterday that the targets for economic growth set out in its Growth, Employment and Redistribution (Gear) policy were not materialising, creating a need for the strategy to be reviewed.

ANC secretary-general Kgalema Motlanthe said at a media conference yesterday there had not been clear leadership from the party on how to deal with the serious world economic crisis, which was having a negative effect on the local economy.

"There is a very real threat of a severe reversal of development and industrialisation leading to great poverty . . particularly for developing countries. This threat also looms over South Africa," he said.

Motlanthe said the 3% economic-growth projections of Gear, low interest rates and employment creation would not be met in the envisaged time frames

"It is in this context that we have to continue to strengthen our economy and make carefully considered adjustments to policies to deal with the financial crisis and its impact on our economy.

"Of concern is the effect of lower growth and high interest rates on employment creation and investment "

Trade and Industry Minister Alec Erwin said the coherence and strength of Gear, such as commitment to fiscal discipline, would be retained.

He said some adjustments to Gear would emerge from the Presidential Jobs Summit

▶ See
... *Business Report*

Gear survives attack at top-level ANC talks

(49)

ARG 19/10/98

POLITICAL STAFF AND SAPA

The Government's Growth, Employment and Redistribution policy (Gear) has survived a challenge from the far left at a two-day meeting of the African National Congress national executive committee.

Influential members of the executive who are also leading communists had argued for changes to the structure of Gear, away from its capitalist market-orientated objectives.

But after the executive's meeting, Trade and Industry Minister Alec Erwin said although some adjustments to the targets and timetable of Gear were necessary because of the prevailing international economic crisis, Gear's structural objectives would not be altered.

"We don't want to do anything that would send the inflation rate skyrocketing, or the exchange rate plummeting ... structurally, we want to find ways of using government money more efficiently," he said.

Mr Erwin said that the original objectives of Gear could not be achieved within the original time frame and carefully considered adjustments were thus necessary.

The national executive had noted that the international crisis was "particularly serious".

"There is a ... threat of severe reversal of development and industrialisation, leading to greater poverty and job destruction, particularly in developing countries," he said.

For this reason, the Government had to continue to strengthen the economy, but it would also have to adjust policies where necessary to deal with the financial crisis.

Of particular concern to the Government was the effect of low growth and high interest rates on employment creation and investment.

"We need to do everything in our power to protect people's jobs and to avoid cutbacks in the socio-economic sphere," Mr Erwin said.

South Africa's unemployment rate stood at 22,9% last year, according to accepted International Labour Organisation measures.

"The NEC agreed that detailed work needed to be done to address the economic crisis, whilst retaining the coherence and strength of our policies," Mr Erwin said.

Proposals were expected to emerge from the presidential jobs summit starting on October 30

SA cannot rely on foreign investment

Gear's failure may lead to VAT increase

CT (Mr) 19/10/98 (49)

FRANK NXUMALO
LABOUR EDITOR

Johannesburg — The government would probably have to increase the VAT rate to increase its revenue after the ANC's admission that its growth, employment and redistribution (Gear) policy would not meet its targets, economists said yesterday.

Those polled after the dramatic announcement said South Africa would rely more on fiscal revenue than on direct foreign investment for economic growth under current conditions. Government dissaving also had to be "eliminated completely", they said.Unemployment currently stands at 22,9 percent. About 500 000 jobs have been lost in the last four years, according to Reserve Bank figures.

International events beyond South Africa's borders — most notably the Asian contagion, which caused investors to flee emerging markets at a time when foreign direct investment was most sorely needed — have also undermined the economy.

Speculative attacks on currencies have resulted in the Reserve Bank keeping interest rates high, putting more downward pressure on growth and access to credit, and cutting deeply into Gear's ability to deliver more jobs.

Some economists still believe South Africa could be headed towards a recession next year, despite welcome news on Friday that the country's four mainstream banks had cut their prime lending rates by a full percentage point to 24,5 percent.

This followed the Reserve Bank's reduction of the repo rate for the third day in a row and the US Federal Reserve's decision on Thursday to lower its rate by a quarter of a percentage point.

The repo rate on Friday was 21,343 percent.

However, Alec Erwin, the minister of trade and industry, said Gear would not be revised in a manner that changed its "structural objectives". He said the aim was to prevent South Africa's people from bearing the brunt of an economic meltdown.

"We don't want to do anything that would send the inflation rate sky-rocketing, or the exchange rate plummeting," he said. "We want to find ways of using government money more efficiently.

"We need to do everything in our power to protect people's jobs and to avoid cutbacks in the socio-economic sphere."

The ANC said at the weekend that the failure of Gear was forcing the government to make "carefully considered adjustments" to the policy.

"The NEC (national executive committee) agreed that detailed work needed to be done to address these changed circumstances while retaining the coherence and strength of our policy," said Kgalema Motlanthe, the secretary general of the ANC.

Jac Laubscher, the group economist for Sanlam, said it was unfortunate that the numbers in the original Gear document had come to be regarded as targets against which the success of the strategy could measured. "The strategy as such was really sound and if there was any problem with Gear, it was rather with implementation," Laubscher said.

☐ Economic Week Ahead, Page 2

London's call to SA firms not a threat to economy

BD 20/10/98

More and more large SA companies are relocating their headquarters to London, topped last week by Anglo American's announcement. Hilary Joffe looks at the implications for the local economy

(49)

WHAT does the trend to relocate to London mean for SA? Billiton has done it; Anglo will do it early next year; Old Mutual and SA Breweries are believed to be contemplating it. Though they have their supporters and detractors, few have taken a macro look at what such moves mean for the economy.

In the shorter term, if SA corporations switch their company registrations, their head office addresses and their primary stock exchange listings to London, it should not necessarily have any practical impact on the SA economy or even on the Johannesburg Stock Exchange (JSE).

Yet there is no doubt their centre of gravity will shift — as indeed is the intention. From a London base, they will more easily raise capital in international markets — and they will make new investment decisions on a global basis, weighing up risks and returns across a range of possible projects in different regions.

The effect will be to increase pressure on SA and southern Africa to be competitive. In mining and resources, the region's chances of getting new investment may be enhanced by Billiton and Anglo's easier and cheaper access to capital.

The key to any decision to commit money to a new project is whether its expected returns exceed the "hurdle rate" — the cost of capital required to finance it. To the extent that a London location makes it cheaper to borrow or to raise equity capital, the hurdle rate declines so projects become viable at lower rates of return.

However there will be no special treatment: SA, or for that matter African projects, will go ahead only if returns on offer here are comparable to, or better than, the returns on offer in other parts of the world.

That will depend on a range of factors such as tax and labour regimes, the availability of skills, political risk, stability and so on.

Inevitably the primary new investment thrust will be offshore rather than in SA. Several of the potential new projects on Anglo's list are in southern Africa; so are some of Billiton's. For them and others rebasing abroad, the priority is global growth.

Indeed, SA Breweries and Old Mutual are unlikely to be planning any new SA investments and it may be harder for government to sympathise with their aspirations, if they put in for London, than it has been in the case of the two mining groups.

A London headquarters makes it easier to finance globalisation. Yet most large SA companies and some smaller ones have been doing it rapidly anyway. This is not surprising: sanctions and exchange control largely prevented them from deploying their cash internationally when this would have made sense given very large domestic market shares.

Instead, the Anglos and Breweries spread their tentacles throughout the domestic economy.

SA companies' post 1994-election drive to globalise may mean their resources are being spent elsewhere. However it also means that their dominance of the domestic economy may reduce over time, opening up space for others. That may please the left and the free marketeers alike.

However what about the practical issues? The bulk of both Billiton and Anglo's assets remain here. Though head offices move, SA subsidiaries continue to pay their taxes, hire their workers, buy from their suppliers.

Also, they remain subject to exchange control, as long as it is in place. For example, Amcoal may have R3bn in cash but Anglo American will not suddenly be able to export it to the UK. None of Anglo's Johannesburg-based directors plans to move house.

While there may also be concern in some quarters that the relocated group will be under less pressure to play its social roles, chairman Julian Ogilvie Thompson says all that will continue.

For the JSE, too, there is not necessarily much immediate change. Yet corporate moves to London will add to the forces propelling the JSE to bring its systems and its practices in line with those of London's stock exchange.

The JSE's top value stocks already include several secondary listings: Richemont, Minorco, Billiton, Liberty's First International Trust — and Anglo American joins that list, though delistings of Minorco, as well as of Amcoal and industrial arm Amic, are all part of the plan.

Anglo has always had a secondary listing in London as well as on several other bourses. Although local institutions are generally obliged to put their trades through the JSE, others have always had London or Paris alternatives. Already, plenty of trade in the shares of SA-based companies goes through markets other than the JSE.

The exchange has responded to this threat in recent years with a range of initiatives aimed at improving its efficiency and increasing its liquidity — first by deregulating, then by introducing electronic trading.

The next move required is electronic settlement of trades, which Strate (Share Transactions Totally Electronic) should start to accomplish early next year. Electronic settlement and progress on the intractable problem of insider trading must now be priorities if the JSE is not to lose business.

Even if Anglo and Billiton's moves to London pose no immediate threat to the economy, some argued last week that their decisions sent negative signals to local and foreign investors in SA, both actual and potential.

All Anglo and Billiton have done, though, is confirm that, for all its sophistication, SA's market is small and its economy not in the first division. Arguably, if its top firms are not free to expand as needed, SA may slip even further down the global league table.

London's call to SA firms not a threat to economy

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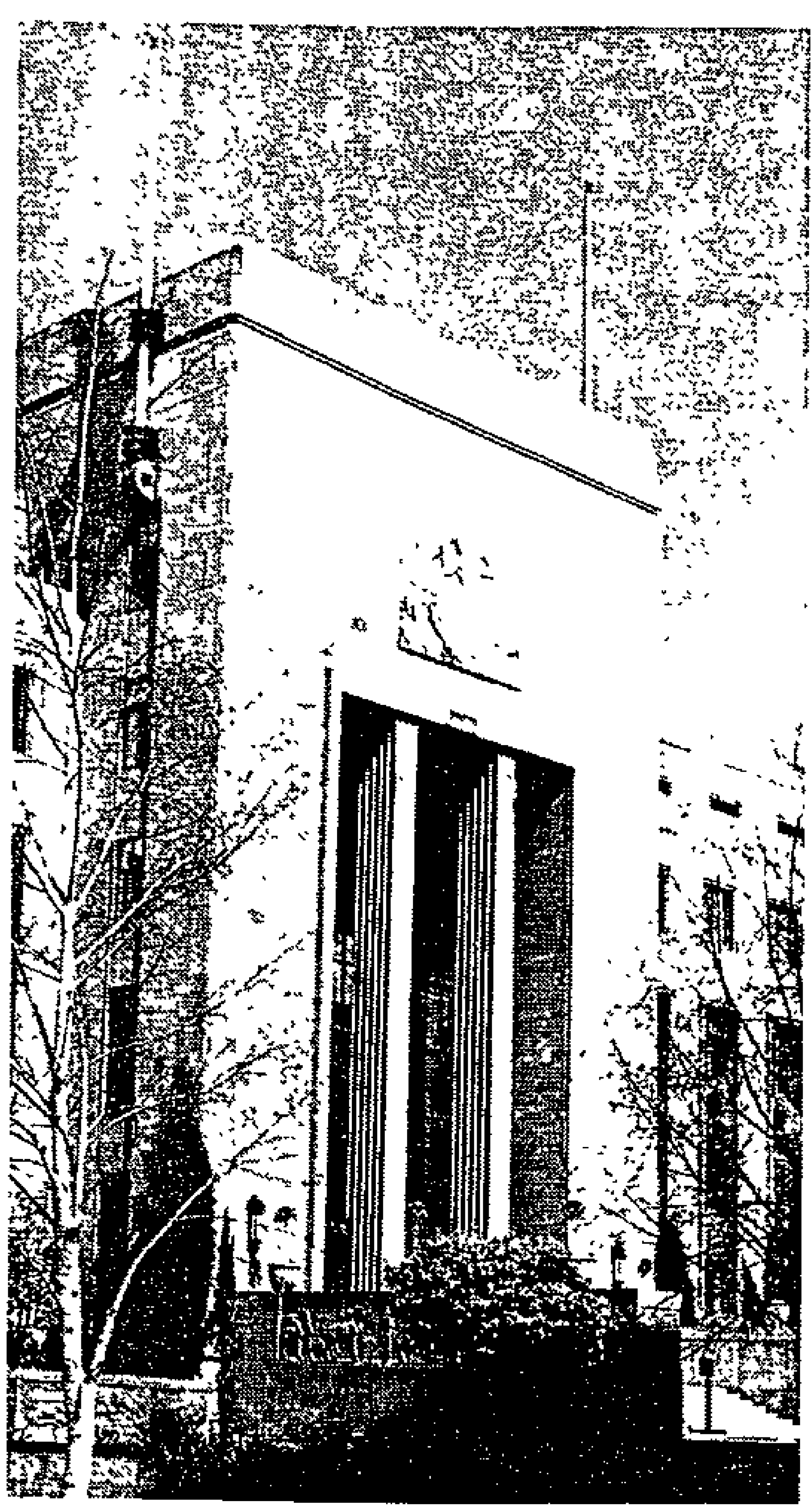

44 Main Street — still a full house

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SA millionaires play with fire to export money

Billions being lost to the economy

(49) CP 25/10/98

By JIMMY SEEPE

BILLIONS of rands are being sneaked out of the country illegally by consortiums of wealthy South Africans, a City Press investigation has revealed.

These billions lost to the South African economy could have been used for capital expenditure if the money was invested in this country – which could create more employment, said an economist.

Finance Minister Trevor Manuel's spokesperson Logan Wort told City Press it was a serious matter – as reducing the money available in the country adversely affected the economy.

The Office for Serious Economic Offenses (OSEO) confirmed to City Press they were investigating 33 cases involving more than R11,8 billion which had allegedly left the country illegally – but this was thought to be only the tip of the iceberg.

Nine cases involving R329,8 million are pending before court.

The City Press investigation revealed that the money is transferred from South Africa with the help of "financial" people in South Africa, the Middle East, Asia and the United States.

It would appear from documents in possession of City Press that an international syndicate is involved and that the wealthy South Africans who export currency place themselves at the mercy of ruthless racketeers.

In one document one person involved in the transfer of 30 mill on US dollars (about R180 million) is warned to tell his contacts this business is "neither a bazaar discussion nor a dream tale of riches" but a very serious business supported by powerful people who do not forget or forgive.

"They loathe people who waste their time and are patient to retaliate."

The document warns that not even government ministers and presidents are immune from these powerful people and bodyguards and other protection would not save them, as sophisticated methods would be used to kill them making their deaths look normal.

A SERIOUS MATTER... Loss of money affects the economy, says Finance Minister Trevor Manuel.

Documents in possession of City Press name persons in the Middle East as heading the consortiums, as well as two South African names and that of a Cape Town financial agent who allegedly deals with the various nationalities in the transactions and is referred to as VG in one transaction.

City Press has not yet been able to establish whether the Middle Eastern names are genuine or front names, although the OSEO has knowledge of some of the names.

According the documents in City Press's possession one such transaction in 1996 involved 30 million dollars (R180 million) which was contracted through the Cape Town business consultant referred to as VG (City Press has his real name.) and Atlantis Financial Association Texas, USA, represented by its president Manfred J Zachel, referred to as BO in the documents.

City Press has been told Atlantis is a front company. Although it was purported to have local offices in Centurion, they are apparently no longer there.

Zachel, a German national, was held for fraud and child molestation in South Africa but escaped last year and was arrested in the United Kingdom.

The Gauteng Attorney General is trying to have him extradited to South Africa.

According to the investment agreement between VG and BO (Zachel), VG had to transfer 30 million US dollars by direct transfer to the Union Bank in San Francisco to account number 1270011809 belonging to Atlantis Financial Association.

In a letter to Atlantis Financial Association marked for the attention of a person with an Afrikaans name, VG says he had spoken to his "people" who had told him the 350 (believed to refer to R350 million) deal could only begin on a certain date and as "my principal in this deal is not on this country at this point of time, I will confirm by fax the letter I will receive tonight."

He writes that he is also finalising another deal for 150 (believed to mean R150 million) with another party on the same terms and conditions and would advise him of this within a few days, as the deal must be completed before he (VG) left for overseas.

He said the guarantee for this deal would have to be issued in the UK

VG was to receive 3,7 percent (R18 million) in interest every week for 40 weeks either as a bank draft, bank transfer or as a cheque.

In a letter to a person with a different Middle-Eastern name the Cape Town agent says once the Negara Bank in Jakarta, Indonesia, had guaranteed it had received a US$30 million investment he would pay $18 million dollars into the account of a certain Arab (City Press has his name) in Dubai, United Arab Emirates.

Later the $30 million was transferred through Barclay's Bank in London to Atlantis Finance Association account with Union Bank in San Francisco.

There are also documents linking a person with a South African or German sounding name in a $30 million deal in which it is suggested a Swiss bank would supply guarantees

☐ City Press has a document in which one of the principals in a scheme to illegally transfer money is threatened in a polite way – making it more sinister – that once he was in there was no withdrawal, and even if he had the tighest security he would be killed, as "the people you are dealing with are very powerful and do not foget or forgive, and loathe people wasting their time".

Gear's remodelling sets way for policy changes

(49) CP 25/10/98

By ZOLILE NQAYI

THE REMODELLING of the government's macro-economic policy ahead of this week's Presidential Jobs Summit is likely to serve as a platform for economic policy adjustments.

This comes in the wake of last week's announcement by the African National Congress (ANC) of its intention to revise targets set by its macro-economic policy, the Growth Employment and Redistribution (Gear).

The decision to readjust the targets of Gear in the face of its failure to meet them was welcomed from several quarters.

Although negotiations on job creation strategies are already well under way, the change of heart by government on the eve of the summit was welcomed by the two other members of the tripartite alliance, the Congress of South African Trade Unions(Cosatu) and South African Communist Party (SACP).

The trade movement led by Cosatu had repeatedly opposed the government's economic policy and called on the ANC to review it prior to the long-awaited Jobs Summit.

Cosatu had questioned the ability of government to create new jobs within the financial constraints of Gear.

The government has not yet indicated what kind of revisions are going to be implemented. However, Alec Erwin, Trade and Industry Minister, said the structural objectives of Gear will not be changed.

"We do not want to do anything that would send the inflation skyrocketing, or the exchange rate plummeting. Structurally, we want to find ways to use government money more efficiently," said Erwin.

He said a considered adjustment was necessary in the face of local and interntional economic pressures which have resulted in low growth and high interest rates.

Gear is a betrayal of the working class and the poor

The Growth, Empowerment and Redistribution policy is a recipe for instability, expecting sacrifices from the poor while allowing the rich to continue to live in luxury, writes LYBON TIYANI MABASA, Socialist Party of Azania president.

THE CONGRESS Alliance, led by the majority party in the government, the ANC, continues to play games with the lives of black people in its endeavour to secure another term in office.

Their preoccupation with this particular issue is clearly demonstrated by statements from members of their leadership who go about urging people to give them a two-thirds majority in the next election.

They expect people to give them this mandate despite their despicable record of non-delivery of promises made before the last elections.

The major element in this failure has been the Gear (growth employment and redistribution) strategy.

We said at the time that the policy was a betrayal of the poor and working class, who have made great sacrifices in their struggle against apartheid and capitalism.

Despite popular dissent from the ranks of the poor and working people together with their varied organisations, the Congress Alliance endorsed the Gear as their economic policy at the ANC national congress in Mafikeng last December without any objection.

For while the Congress of South African Trade Unions (COSATU) and the SACP attempted to demonstrate the courage of their convictions on the issue, they nevertheless had to apologise to the President of the country for daring to express views contrary to decisions at Mafikeng.

Given the fact that all component parts of the congress alliance have held their national congresses and that it is unlikely that new congresses will be held before the election, one can only suspect that the recent murmuring about Gear is simply a strategy to hoodwink the working class and black people in general into believing that they have their interests at heart.

It also seems to be aimed at creating a notion that what has happened in the international economic community is the main reason for the revaluation. This is deliberately dishonest, after all this economic policy was in the very first instance tailor-made to serve interests of the institutions of international finance and the monopolies.

The government of the day has shown insufficient commitment to the poor, the unemployed and the landless.

As a matter of fact they have created a situation where the poor are criticised for being poor.

The responsibility has been taken away from the government and put on the doorstep of the victims. As a result many progressive organisations and individuals have called Gear the economic reverse gear of the poor and the working class, since it seeks to reverse the hard-won gains of the liberation struggle.

The Gear strategy has in the interim provided both the social and political justification for massive job losses, poverty and reduction of social spending by the government, despite promises to the contrary.

It is a recipe of instability as it expects more sacrifices from the poor while allowing the rich to continue to live in luxury because investors must be made to feel secure.

Talk of reviewing or revamping Gear is actually just idle talk, because the whole economic policy is based on a flawed premise. The people of this country cannot be made slaves to any economy policy, but rather seek a policy that is designed to creatively respond to the areas of their greatest needs such as employment, housing, education, health and their economic well being.

If these basic needs are not met, the democratic gains made and entrenched in the two-year-old constitution will be seriously compromised.

It is a tragedy that too many South Africans find themselves in this position today after the great expections that followed the compromised settlement and the 1994 elections.

Gear cannot be reformed or revamped to fit into a rescue strategy to prop up the global economic situation. This strategy can only have one effect and that is to burden precisely those who are least able to afford it.

Already an increase in VAT is being proposed by local economists as the only way to prop up Gear.

It is ordinary working people, the rural and urban poor who suffer most from such a "solution".

"The time has come to review not only Gear, but the entire way in which a developing country such as ours responds, firstly, to the basic needs of its own people and secondly, how together as people we respond to the broader global economic crisis.

Internal stability and social harmony can only be established once this first requirement has been satisfied. We have witnessed far too many stories of economic growth without the attendant development and betterment of people's lives.

The government that calls privatisation its key policy cannot in the same breath hope to create jobs. As a matter of fact the government through its Gear policy has succeeded in maintaining and reinforcing old economic relationships between whites and blacks.

A government that has consistently refused to listen to its own people cannot be trusted when, at election time, it starts trying to create an impression that it is concerned about issues it refused to address. We believe that those charged with the responsibility of producing the wealth of this country must be subjects and objects of any decision-making processes that have a direct bearing on their lives.

Labour cannot afford to be regarded as a junior partner to big business and government.

NEWS

MPs concerned over mismanagement in civil service

'Horror' at lack of financial controls

(49) (~~48~~) (~~illegible~~) CT(AR) 29/10/98

LYNDA LOXTON
PARLIAMENTARY CORRESPONDENT

Cape Town — The national assembly's standing committee on public accounts yesterday signalled a growing frustration with financial mismanagement in the government and called for top-level intervention.

During a hearing on financial management in government, several MPs said that after four years, they were tired of repeated reports by the office of the auditor-general that public funds were being misused, misappropriated or simply stolen.

Officials in the department of state expenditure outlined the various training programmes that were being undertaken to improve and streamline financial management in the civil service.

But Cassim Gassiep, the director-general, had to admit that "the human factor" and the general lack of morality among many civil servants made it impossible to conclusively limit the damage.

"We try to minimise the risk but we cannot guarantee that we can eliminate it totally," he said.

A major problem was the loss of skills in recent years and the fact that a great deal of financial management was taking place on a "monkey see, monkey do basis with no thinking involved".

MPs said they were "horrified" by the fact that many civil servants did not seem to realise the importance of financial controls.

They said they would in future like the department to report back to them at least twice a year on progress made.

Ken Andrew, the committee chairman, said he was disturbed that the reform of public financial management appeared to be taking a very long time to take root and that target dates set as far back as 1996 were still not being met.

TOP LEVEL *President Nelson Mandela's intervention is seen by some as crucial*

In the meantime, lapses in financial management were costing the state billions of rands a year.

Andrew said he appreciated that there could not be changes overnight, but he believed greater crisis management was needed.

Andrew Feinstein of the ANC said he was concerned that budget reform seemed to be taking place in "bits and pieces" while short-term, emergency interventions were needed immediately.

Willie Botha of the Freedom Front suggested that President Nelson Mandela should be briefed about the state of financial mismanagement and encouraged to become the champion of fiscal discipline.

Other committee members said the committee itself should "send out a very clear message that the misuse of public money is worse than a criminal offence. It is a betrayal of the taxpayer".

Unrealistic targets killed Gear — expert

(49) BD 20/10/98

Samantha Enslin

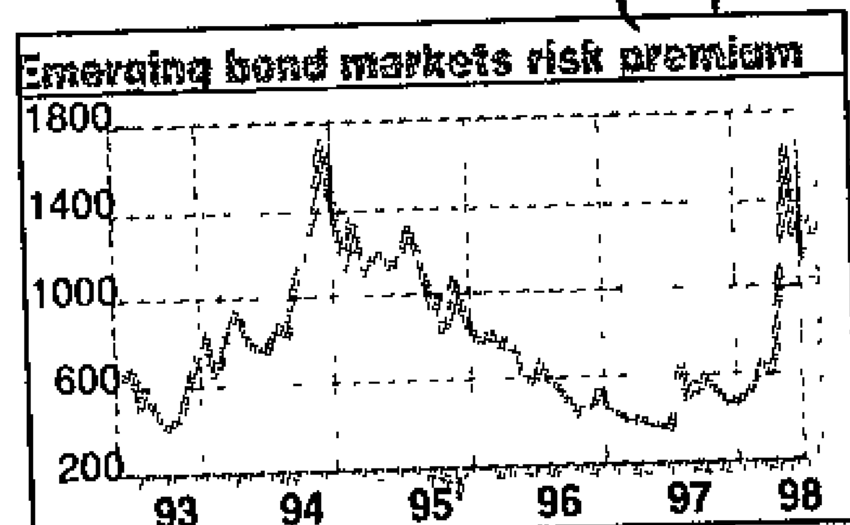
UNREALISTIC targets, non-implementation and a lack of focus were the prime reasons why the government's growth, employment and reconstruction programme (Gear) strategy had failed, Gensec economist Jac Laubscher said yesterday.

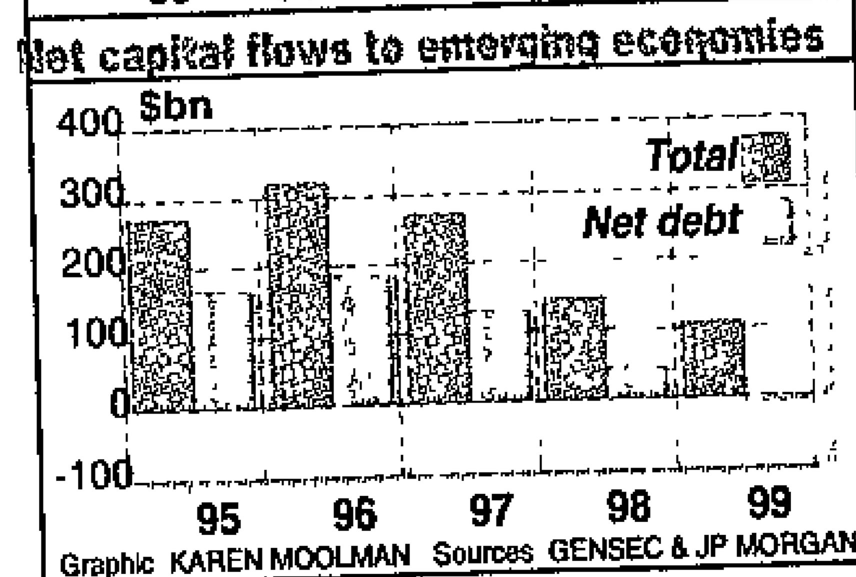
The core of Gear was based on boosting gross domestic fixed investment which relied on business confidence, domestic savings and capital inflows.

The flawed assumption that capital inflows would be sustainable at 4% of gross domestic product (GDP) meant, however, that once it was apparent inflows at these levels would not be sustained the model on which Gear was based became irrelevant.

"You cannot judge Gear because it has not been implemented. Nonimplementation has been the result of a lack of focus."

Laubscher said there was a "remarkable parallel" between 1996, when Gear was implemented, and this year. In both years a currency crisis saw the rand depreciate, tight monetary policy was implemented and capital took flight. Policy uncertainty prevailed in both years with current uncertainty focusing on the appointment of Tito Mboweni as Reserve bank governor-designate and President Mandela's retirement, while in 1996 the appointment of Trevor Manuel as finance minister set the markets on edge.





Graphic KAREN MOOLMAN Sources GENSEC & JP MORGAN

Laubscher said with a high-risk premium on emerging market bonds it would be difficult to attract capital. "The Russian default (on government debt) has changed everything. We (the world) are now facing a wider systemic risk which mean inflows will dry up."

Laubscher said a new approach to economic growth needed to assume inflows of 1% of GDP and probably should not even rely on any inflows. Instead, the focus should be on growth and distribution as it was difficult to make employment a separate target.

Laubscher said with little or no capital inflows to rely on, government saving would becoming increasingly important.

For Laubscher decreasing the tax burden on individuals to boost the savings was critical.

Individuals were taxed at a rate of 43% as opposed to 18% in 1970 while companies were taxed at rate of 12% compared to 33%, 28 years ago.

Yet, economic growth was not just a number crunching exercise. High levels of schooling, good health, favourable terms of trade and technology transfer also supported economic growth, Laubscher said.

SA 'too democratic' for economy's good

4949

Matt Getz
Markets Editor

CT(MR) 30/10/98

Johannesburg — South Africa was too democratic for solid economic growth, Jac Laubscher, the group economist at Gensec Asset Management, said yesterday.

He said there were aspects of democracy that retarded growth.

He quoted Robert Barro, the US Nobel-prize laureate: "These features involve the tendency to enact rich-to-poor redistribution of income (including land reform) in systems of majority voting and the possibly enhanced role of interest groups in systems with representative legislatures."

For interest groups, Laubscher said, one should read labour.

He said the tumult over Gear was misplaced. "You can't judge Gear, because it hasn't been implemented." Also, its targets were misplaced, because they were based on econometric models which were very sensitive to their assumptions.

He said Gear should be changed to Gad — growth and distribution — putting an emphasis on enabling all to take part in the market economy. That move should assume zero capital inflows and take any that come in as a bonus. But he was not hopeful that South Africa could grow, with its highly democratic system.

Quoting Barro again — "Democracy that gets well ahead of economic development will not last" — he said that in 1975 the economy was more advanced than the political system, but by 1994 that state had reversed and the country "would be projected to become less democratic".

At the heart of Gear, he said, was the desire to accumulate physical capital, the secret of what was then thought of as the Asian economic miracle. To that end the government wanted to boost foreign investment.

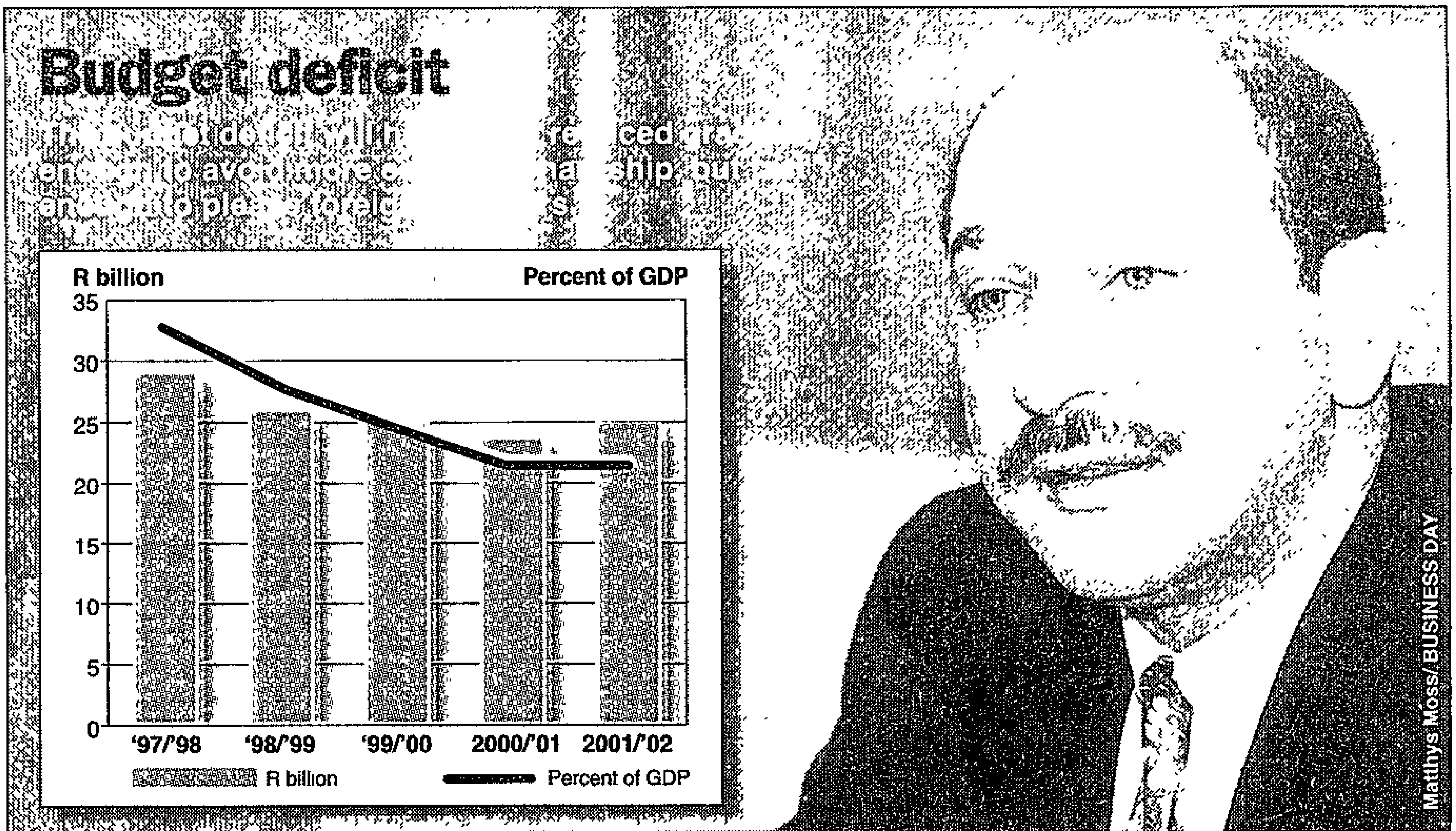
To do so, it had to move on three fronts: ensure confidence in policymaking, which is being eroded right now; lift savings and maintain strong capital inflows.

In 1995, capital inflows were equivalent to 3,9 percent of gross domestic product, the highest since 1982. "It was a mistake in Gear assuming that that level would continue," said Laubscher.

Tax policy was exerting a significant drag on the savings level, among the lowest in the world.

The Nationalist government, from the 1970s, had steadily increased the tax burden on individuals, which correlates negatively with individual savings.

The new government had not yet managed to turn that around. Instead, taxes as a proportion of gross domestic product would reach 28 percent this year, well above Gear's targeted 25 percent.



Budget deficit up to 3,9% of GDP

Higher interest costs and lower growth force Manuel to revise targets

(49) BD 3/11/98

Linda Ensor and Greta Steyn

CAPE TOWN — A surge in interest costs and a drastic slowdown in economic growth has prevented government from cutting its budget deficit by as much as it planned to.

Finance Minister Trevor Manuel announced yesterday that this fiscal year's projected budget deficit was 3,9% of gross domestic product (GDP) — higher than the target of 3,5%. He presented his adjustment budget for the present fiscal year to Parliament and tabled a medium-term budget policy statement which sets fiscal parameters for three years.

Manuel said the deficit for the next fiscal year would be 3,5% of GDP, instead of the 3% originally planned. The 3% target would be reached in the 2000/01 fiscal year, he said. The higher deficit was the result of turmoil on global financial markets, which had caused interest rates to rise and growth to fall.

Economic growth forecasts were scaled down dramatically in the budget policy statement. Growth for this fiscal year was projected at only 0,2%, a far cry from initial projections of 3%. For the next fiscal year, the growth forecast has been halved to 2% from 4%.

Inflation forecasts were also amended, to 7,5% this fiscal year from 5,5% and to 6% in the next from 5,5%.

The interest bill exceeds the budgeted amount by R1,2bn this fiscal year and grows by R3bn more than expected in future fiscal years, limiting government's room for manoeuvre on spending and on fiscal reform. The rise in the deficit would have been only R1bn if there had been no overrun on debt servicing costs.

There was substantial improvement in provincial financial management and Manuel did not envisage budget overruns of the same high order as last year. He lauded government's achievement in having weathered the economic downturn without cutting back on social welfare, education and health spending.

Total unforeseen and unavoidable expenditure amounted to R3,69bn, but after taking into account the R1bn set aside in the contingency reserve in the March budget and an additional R384m accruing from the closure of the Post Office Fund, the overall increase in the projected deficit was R2,2bn.

Of the additional expenditure, provinces would get R1bn, allocated on the basis of the division of revenue formula to help them settle historical debts and stabilise their administrations. An additional R200m would be divided among the provinces for textbook supplies.

National departments also got R1bn more, with defence getting the largest slice, R398m, for settling its "contractual obligations". SA revenue service bonuses took R198m, the Electoral Commission R100m, water affairs R100m for construction contracts and the SA Rail Commuter Corporation R100m.

A R300m adjustment was made for improvements in the conditions of service of both national and provincial government employees as government was obliged to pay higher-than-anticipated salary increases this year.

The R2bn expenditure rolled over from 1997/98 was offset by expected savings and allocations to be rolled forward to 1999/2000 amounting to R2,1bn.

The adjustments estimate also showed R651m of additional spending financed from foreign grants or international co-operation agreements.

Manuel said interest rate hikes had pushed up the average rate on government bonds from the projected 13% to an average of 15,9%. Short-term loans had been obtained at an average rate of 17%.

More reports: Page 6
Comment: Page 11

'We're maintaining economic policy'

(49) CT 4/11/98 CT 3/11/98

***THE ADJUSTED** budget sticks to "sustainable" policies. But, in the face of world economic turmoil, the deficit edges up , reports **JOVIAL RANTAO** of the Parliamentary Bureau.*

SCHOOL children, civil servants and provinces were the major benefactors of a R6,2-billion adjustment budget tabled by Finance Minister Trevor Manuel in Parliament yesterday.

Emphasising the government's commitment to "sound and sustainable" fiscal policies, Manuel said the budget provided for an increase in the budget deficit — from 3,5% to 3,9% — for the government to maintain stability in its spending commitments.

He said economic growth was expected to remain subdued in the second half of 1998, but would recover next year.

Manuel said inflation was projected to peak at 9,8% by the end of the year and then decline rapidly towards its 5% trend level during 1999.

"As external conditions stabilise, economic growth will strengthen in response to renewed demand and the structural transformation of the economy that is in progress," Manuel said.

In the National Assembly, he announced that:

- R1,2 billion had been allocated to provinces, of which R200m would be used to supplement the provision of textbooks for the start of the 1999 school year.
- R300m had been set aside for additional expenditure in improving conditions of service for national and provincial government employees.

He said that this included R200m set aside to assist transformation.

- The equitable formula used to allocate funds to provinces would result in an increase in the allocation to Mpumalanga, Gauteng and KwaZulu-Natal over the next three years. The Western Cape would face the biggest cut.

Manuel said the government was committed to implementing its reconstruction and development objectives and protecting spending on social services and grants to the poor, despite the traumatic events that had shaken the world economy since the last Budget.

"At the same time we will continue on our path of deficit reduction, delayed by a year to maintain stability in the real level of government spending.

"The deficit will continue to be reduced, year by year, and will reach 3% of GDP in 2000/1.

"We're therefore maintaining our economic policies, but making a measured adjustment to the profile of our economic and fiscal projections.

"We remained committed to creating jobs and growth and increasing spending on new priorities, within a sound and sustainable economic framework."

Spending on social services and on infrastructure was expected to rise as a share of total spending over the coming years. The formula by which money was allocated would continue to redistribute funds to previously disadvantaged provinces, with a focus on the backlogs in infrastructure.

Other allocations announced by Manuel include:

- R202m to the South African Police, including R20m for crime prevention and response services and R201m for detective services.
- R151m to the Ministry of Justice, which includes R32m to the Truth and Reconciliation Commission, R3,6m to the Human Rights Commission and R2m to the Commission on Gender Equality
- R14,2m to Deputy President Thabo Mbeki's office, including R2,9m for, among others, the National Youth Commission.
- R144,4m for grants to local government (R137m), the Volkstaat Council (R1,4m) and the Commission for the Promotion and Protection of the Rights of Cultural, Religious and Linguistic Communities (R934 000).
- R398m to the South African National Defence Force's special account.
- R144m to Home Affairs, including R100m to the Independent Electoral Commission.

Radical budget reforms for provincial schooling

JOVIAL RANTAO

A RADICAL proposal geared to reform provincial education spending contains plans to keep teachers' average salary increases below inflation.

The proposal made by the Finance Ministry review team follows the recent signing of an agreement between the government and teacher unions to, among others, increase non-personnel spending to 15% of the education expenditure.

The government currently spends R40 billion annually on teachers' salaries.

Finance Minister Trevor Manuel yesterday announced that R1,2bn has been allocated to provinces.

Of this amount, R200m would be used to supplement provision of text book supplies for the start of the 1999 school year.

"Every parent will welcome the news that the Adjustment Estimate includes R200m for new textbooks. Although the provision of new textbooks is a provincial function, the national government has decided to set aside R200m to assist provinces in meeting this commitment.

"It should now be possible for children to have school books in the first week of school," said Manuel.

The review team has also proposed that teacher:pupil ratios increase from 34 to 37.

It also suggested government should manage the required reduction in the employment of teachers through natural attrition and redeployment where practical, rather than through voluntary severance packages.

The team also called for a decrease in the number of out-of-age enrolments at schools and an increase in efficiencies across a broad spectrum.

This should include increased teacher workloads and decreased teacher substitution.

It should also include curriculum development and quality-enhancement programmes.

In the longer term, a new funding framework would be needed for further education and training institutions.

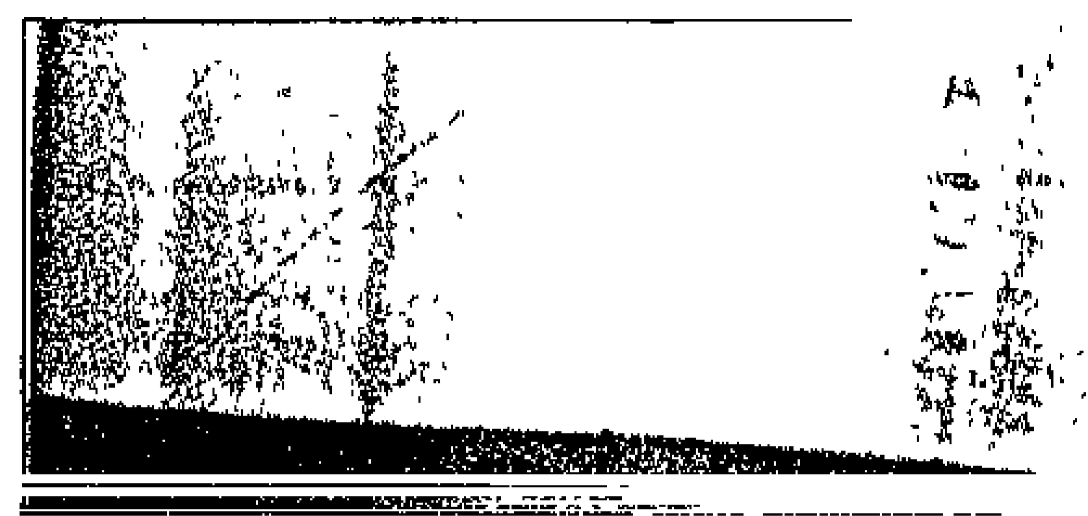
This would comprise formula funding of programmes, earmarked funding for specified priorities and capacity building, student financial aid and greater recovery of income from students and employers.

"Government funding of higher education has increased strongly in recent years, accommodating both rising student numbers and a new student financial assistance programme," the review team said in a statement.

"Work is in progress on the new approach to subsidising universities and technikons.

"A key step in the new approach was taken this year.

"(Now) all higher education institutions have been required to submit three-year plans to the national department."



BALANCING THE BOOKS: Minister of Finance Trevor M…

'Well-regulated …

JOVIAL RANTAO

SOUTH Africa had performed better than many middle-income economies in the face of the world crisis because of its well-regulated financial system and sustainable macro-economic policies, Finance Minister Trevor Manuel told Parliament in his introduction to the 1998/99 adjustment estimates.

South Africa was not badly affected as it had transparent and credible public finances and moderate foreign debt. Another factor was the investment that the government made in the past four years in social development — social welfare, education, health, housing, water, san… fication and other … ture, Manuel said.

"These strength… against the worst financial crisis. … performance … enhanced our sta… as an emerging ec… my. This is reflecte… the fact that the … rating agency Mo… confirmed S… Africa's investm… grade rating changed its outlook to stable. Our inv… was also confirme… Phelps, another rati… Manuel said …

Criminal justice se…

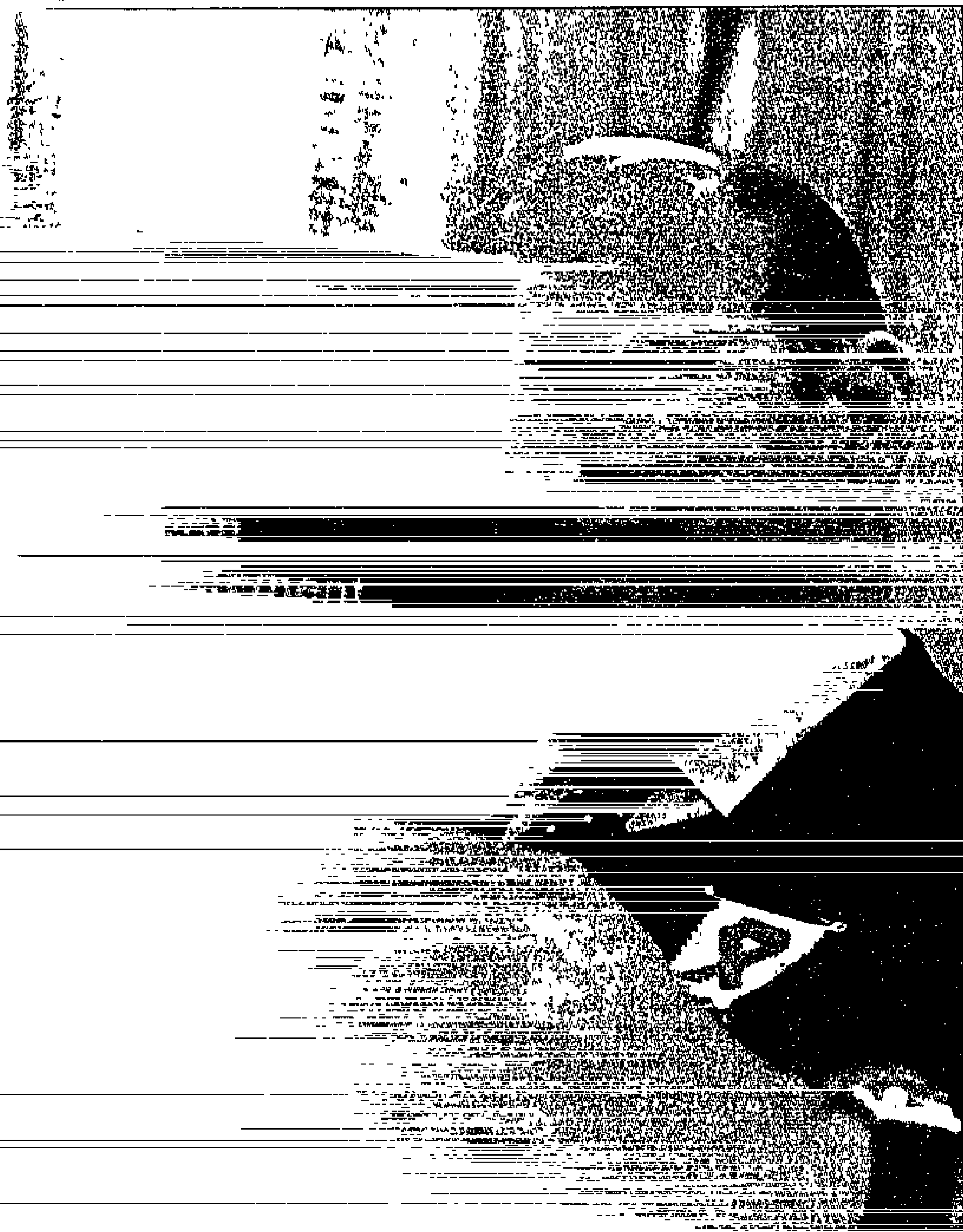
ANDRE KOOPMAN

THE criminal justice sector was criticised for consistently overspending its increased budget — mostly on staff costs.

In Finance Minister Trevor Manuel's Medium Term Budget policy statement issued yesterday, it was noted that while the criminal justice sector — police, justice and correctional services — had increased its share of the national budget from se… 1986/87 to nearly … continued to overs…

He said choices … to combat crime … emphasis of spen… from wages towards training and equip…

"The proportion … fully completed by … turn taken through … tem has declined. C… that the prisons now…



BOOKS: Minister of Finance Trevor Manuel tries to read the future. *PICTURE: WAYNE CONRADIE*

IMPACT OF EQUITABLE SHARES FORMULA

	1998/99 Base shares	2003/04 Target shares	Percent change
Eastern Cape	17,8%	16,8%	–5,5%
Free State	6,9%	6,6%	–3,6%
Gauteng	14,8%	15,7%	6,4%
KwaZulu-Natal	19,6%	20,7%	5,6%
Mpumalanga	6,6%	7,1%	8,2%
Northern Cape	2,5%	2,4%	–2,0%
Northern Province	13,2%	13,5%	1,9%
North West	8,6%	8,2%	–4,6%
Western Cape	10,1%	8,9%	–11,4%

Formula to be phased-in over five years. The 'equitable shares' exclude other unconditional and conditional grants to the provinces from the national share.

Graphic: Mugamad Jacobs

PROVINCIAL EQUITABLE SHARES

R million	1999/00	2000/02	2001/02
Eastern Cape	15 292	16 131	16 773
Free State	5 942	6 291	6 567
Gauteng	13 008	14 049	14 956
KwaZulu-Natal	17 238	18 591	19 764
Mpumalanga	5 820	6 308	6 738
Northern Cape	2 136	2 269	2 377
Northern Province	11 538	12 353	13 038
North West	7 433	7 854	8 181
Western Cape	8 539	8 895	9 129
TOTAL	86 946	92 743	97 522

These equitable share allocations exclude all conditional grants but include preliminary improvements in conditions of service.

Graphic: Mugamad Jacobs

-regulated finances' buffer SA in crisis

had performed many middle-mies in the face is because of its ial system and economic poli-inister Trevor liament in his the 1998/99 s was not badly transparent and ances and mod- Another factor it that the gov- the past four evelopment — ation, health, housing, water, sanitation, electrification and other social infrastructure, Manuel said

"These strengths protected us against the worst of the world financial crisis. Our performance has enhanced our standing as an emerging economy. This is reflected in the fact that the credit rating agency Moody's confirmed South Africa's investment grade rating and changed its outlook from negative to stable. Our investment grade was also confirmed by Duffs and Phelps, another rating agency"

> *"Our performance has enhanced our standing."*

Manuel said although South Africa had suffered some damage in the economic crisis, the economy would begin to recover next year, albeit slowly. He said the higher interest rates would dampen private consumption and investment until the second half of the year.

"But as inflation and interest rates come down, demand will strengthen, augmented by demutualisation, increased export competitiveness and the resumption of foreign in-flows. By 2000, we expect to see private consumption and investment growing by as much as 6% to 9%. Domestic savings are still low, which means that we need to attract higher levels of foreign investment if the economy is to grow Capital from abroad not only finances investment and growth, but also provides the liquidity in money."

Although South Africa's exports would be affected by the slowdown in world growth, the lower level of the rand would provide some relief.

Consumer price inflation was projected to peak below 10% by the end of the year and then decline rapidly towards its 5% trend level during next year. "Overall we anticipate real growth in the economy of 2% in the next financial year," said Manuel

11,4% cut for Western Cape

ANDRE KOOPMAN

THE Western Cape's share of central government funding would be cut by 11,4% by the year 2003/04 as, according to Census 96, the province had fewer people than had been estimated, Finance Minister Trevor Manuel said yesterday.

The medium-term budget policy statement released by Manuel showed that population estimates for some provinces were lower than had been believed, while those in others were higher.

Manuel has said that revisions will be phased in to lessen shocks.

Gauteng's allocation is to be increased by 6,4%, while the Eastern Cape's is to be reduced by 5,5% — the largest cut after the Western Cape's

Figures for the other provinces are Free State 3,6% less; KwaZulu-Natal 5,6% more; Northern Cape two percent less; Northern Province 1,9% more; and North West 4,6% less.

Other than demographics, factors such as the number of school children, rural poor women and people without private medical cover are taken into account.

Manuel said the formula was a "sharp break from historical patterns and resulted in significant redistribution of resources".

nal justice sector 'continues to overspend'

stice sector was sistently over-ased budget — inister Trevor Term Budget ssued yesterday, while the criminal police, justice services — had of the national budget from seven percent in 1986/87 to nearly 10% today, it continued to overspend.

He said choices had to be made to combat crime and that the emphasis of spending should shift from wages towards investment in training and equipment.

"The proportion of cases successfully completed by the police and in turn taken through the justice system has declined One outcome is that the prisons now house 43 103 awaiting trial prisoners — up from 24 265 in 1995," Manuel said.

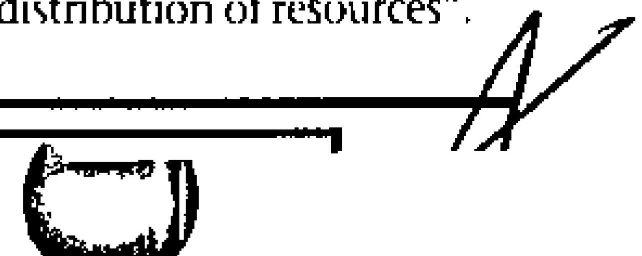
The SA Police Service will receive increased allocations to combat sophisticated international syndicates. The police will get an extra R20 million for crime prevention and response services and an extra R201m for the detective services.

The justice department's budget is to be increased by R151,5m — over R100m for the administration of justice, R12m for the administration of the law and R374m for the public protector.

Correctional services gets an extra R69,144m — R39m for prisons, R2m for the development of offenders and R32m for community corrections

The defence budget has been increased by almost R400m — almost all of it for the Special Defence Account used to replenish South Africa's ageing and sometimes obsolete equipment

ALFRED SHEINWOLD DAILY QUESTION



Cosatu welcomes new adjusted fiscal targets

Reneé Grawitzky (49) BD 4/11/98

CAPE TOWN — The Congress of SA Trade Unions (Cosatu) has welcomed Finance Minister Trevor Manuel's announcement of adjusted fiscal targets, saying it was an indication of government's commitment to increased social spending and infrastructure delivery as outlined at last week's presidential job summit.

Kenneth Creamer, Cosatu's parliamentary spokesman, said Manuel's announcement was in line with the summit's commitment to a "counter-cyclical package to compensate for the effects of lower growth and the current international (economic) crisis".

Creamer was addressing a conference hosted by the Industrial Relations Association of SA. He said this approach should continue to ensure the adoption of a macroeconomic policy stance capable of creating jobs and moving the economy on to a new growth path. He said the dialogue stimulated by the job summit had helped change the tone of SA's economic debate.

"There is less finger pointing and a greater forward-looking commitment to negotiating a consensus with regard to strategies for economic development and job creation," he said.

Creamer said the potential for such consensus had not existed for as long as the growth, employment and redistribution strategy (Gear) remained non-negotiable. However, the summit had introduced an open-door policy.

It had not only had the positive effect of bringing the social partners — government, business, labour and civil society — together, but also provided the opportunity for government departments to generate some synergy.

Creamer dismissed claims that organised labour represented the employed elite and warned against moves to mobilise the unemployed against workers. He said this was a dangerous and divisive ploy which "smacks of the classic divide-and-rule tactics of the true elite".

Creamer said this tactic also failed to recognise that about 71% of unemployed people lived in homes which had at least one regular wage earner. "Those who are today cleverly trying to mobilise the unemployed against workers are likely to find that in the not to distant future the unemployed will tend to side with the demands of workers, as it is irrational to bite the hand that feeds".

Adjustment budget: Page 6

ECONOMIC POLICY *'Government must adopt new approach'*

Gear is in tatters, says top adviser

(49) CT (PR) 6/11/98

MATT GETZ
MARKETS EDITOR

Johannesburg — Gear, the government's macroeconomic policy, has been pronounced dead by Morley Nkosi, the chairman of the National Institute of Economic Policy, a thinktank instrumental in setting ANC economic policy.

"The Gear policy is in tatters," he said this week at Sizanani, a new conference centre near Bronkhorstspruit. "We have to ask what is to be done (and) make a new policy."

Nkosi said his institute, which had trained ANC parliamentarians in economics, had submitted a document to the Economic Transformation Council to be discussed by the ANC's National Executive Committee, which sets policy.

One analyst, who did not want to be named, said the institute and Nkosi were extremely important back-room figures in the ANC. "What he says usually goes," he said.

Nkosi said all the fundamentals were in tatters and the government had to take a different approach. That the targets had not been achieved, which is obvious, meant there was something wrong with the assumptions.

He hinted that redistribution, and especially the RDP programme, might once again become a top priority.

"The RDP is a wish list, but it reflects the needs of the 'other economy' and they will not go away." At the ANC conference last year, he said, cabinet ministers told delegates they had saved the RDP and "Gear would push the RDP".

"I was amazed," Nkosi said. "There is no way you can do it that way. But you cannot ignore the RDP."

It appears there is now scope for a more expansionist, inflationary policy. "There is some US research which shows that some level of inflation and some level of government deficit is not bad," he said.

The government was in a very difficult position, caught between the constraints of globalisation and the need for foreign investment on the one hand, and the internal dynamics of the country on the other.

"My fear is that things may fall apart here," he said. The country needed to find a new policy that balanced the needs of the community, "which can destroy the place", and business, which had very specific demands.

"Can they be reconciled? I do not know, but it is the job of institutes like ours to figure out how," Nkosi said.

He was confident that his institute's views would become policy. In a heated exchange with Nico Czypionka, the former chief economist at Standard Bank, he said: "Redistribution will not go away. It has to be done. No matter how you (Czypionka) feel, it is how I feel that is what is going to happen."

Lately, some economists, especially Jac Laubscher, the group economist at Gensec Asset Management, have said Gear has to be overhauled because it is not working. But Czypionka said it had worked in one respect: the discipline side, forcing the government to be more responsible in its spending.

"On the side of government spending and reorganising, the government has been enormously more successful than people think," he said.

SA earns investor's vitriol

MATT GETZ

Bronkhortspruit — South Africa is virtually the last place in the world where anyone would want to put up a manufacturing plant, Georg Kollenda, the managing director of Mannesmann South Africa, said this week.

"All over the world (manufacturers) are reorganising their strategy and products and looking at reallocation," he told a conference at Sizanani, near Bronkhorstspruit. "If there is one place that is blank on the map, it is South Africa. It is not seen as a place for manufacturing production," he said

"There are hardly any more jobs now than there were in 1976. You have one of the highest tax rates in the world and the exorbitant interest rates kill any investment. I don't know any investor who would invest productively here."

Mannesmann, a diversified industrial company, is Germany's fifth-largest. Kollenda said he recently attended the parent company's annual strategy meeting and for the first time he did not have a plan to present: "I don't know what plans you can make for going forward in this country."

On Monday, the company looked at investing between R100 and R300 million in a local concern, but decided to postpone a decision until after next year's elections because of perceived political and economic weakness.

New labour legislation was seen as becoming a problem. Kollenda said the parent company wanted to know how the local operation could employ blacks in more than 50 percent of managerial posts. "How do you do it? You get rid of people, end up with 10 employees and then close down."

He said interest rates had to fall and the rand be allowed to go where it will.

CAPE TIMES
FRIDAY, NOVEMBER 6, 1998

NE

CAMPAIGN TO HELP THIRD WORLD

Ditch old debt, SA urged

ct 6/11/98 (49)

THE SOUTH AFRICAN leg of an international campaign to scrap Third World debt by 2000 as a prerequisite for urgent development was launched in Cape Town yesterday.

THE Jubilee 2000 Coalition aims to celebrate the new millennium by helping lift the burden of unpayable debt from poor countries.

South Africa's apartheid debt, which left a legacy of huge amounts of money being swallowed up in debt repayment, will come under scrutiny during a two-day conference in Cape Town.

Speaking at the launch of Jubilee 2000 South Africa last night, Archbishop Denis Hurley called for the instilling of "new ethical values" which placed the value of human life above all else.

"Looking at the misery in the world, especially in heavily indebted poor countries but also in countries like our own with a staggering proportion of poverty-stricken and unemployed people, we must accept that the time has surely come for a large international effort to place ethical values in a commanding position in the matter of dealing with such widespread misery," he told delegates to the conference.

He said there was a need to foster ethical attitudes as the supreme inspiration of international, intercultural and interpersonal relations.

Hurley said the seriousness of Third World debt was that it crushed many countries and prevented them from developing their economies and promoting education, health and other social services.

"But I take the liberty of expressing the hope that out of this sharply focused initiative will emerge among many of us the need and incentive to dedicate our efforts to the greater objective of instilling ethical values."

These values could be inspired by "whatever faith or philosophy we profess" as the key motivation for widespread human social concern.

Anglican Archbishop Njongonkulu Ndungane said in his keynote address last night that President Nelson Mandela's support for the Jubilee 2000 campaign would go a long way towards persuading the world's economic and political leaders to write off huge debts among developing countries.

"In Mandela's capacity as leader of both the Southern African Development Community and the Non-Aligned Movement, not to mention the tremendously high regard in which he is held in his own right, his support would carry huge weight."

Ndungane said he was aware that this was a cause with which Mandela could readily identify.

"The poor of our world need Mandela to plead their case, again and again, until meaningful action is taken."

South Africa's debt repayments constituted the second-largest item on the country's annual budget and should be written off, Ndungane said.

"All loans to the apartheid regime and its agents were odious debts which were taken to suppress the people of South Africa. These are not the responsibility of the people and of our new government," he said.

South Africa had taken the lead in this respect by writing off the debt owed to it by Namibia, he said. Much of the debt was owed internally — "especially to the pension fund of government employees".

Research had indicated that a restructuring of this fund could make a significant difference to the resources available for the eradication of poverty in South Africa.

It was important to establish that any funding released through restructuring the fund should be targeted towards programmes that would eradicate poverty and not simply be released into the general fiscus of the country.

"I want to urge captains of commerce and industry and members of the financial departments of government to continue their discussions about the internal debt as a matter of urgency."

He also called on political and business leaders to find ways in which any funds made available could be utilised for social upliftment programmes.

According to the declaration of Jubilee 2000 SA, the poor of the world are subsidising the rich.

The statement says that for each US dollar given in aid, $1,3 is squeezed out of Africa in debt repayment to rich countries.

It says the biggest immediate obstacle to sustainable development throughout the Third World is "debt bondage"

Billions of people are affected by this and life for them is nasty, brutish and short, it says.

"The debt condemns generations still unborn."

The declaration went on to say that democratic South Africa, notwithstanding its own financial constraints, had shown rich countries the way by cancelling the odius debts to Namibia incurred under occupation by apartheid South Africa.

In so doing, it said, the African National Congress government did not consider whether unilateral debt cancellation could be afforded, nor did it impose adjustments or other preconditions on its neighbour.

"We call upon the rich countries to follow the example of the new South African government to write off the odious loans given to dictators who have enriched themselves at the expense of their people." — Sapa

Jubilee 2000 calls for scrapping of debt

Linda Ensor (49) BD 6/11/98

CAPE TOWN — The SA leg of an international campaign to secure the scrapping of all third-world debt by the year 2000 was launched yesterday, with campaigners levelling criticism at developed countries for their tardiness in granting relief to the world's poor.

The campaign has been endorsed by the African National Congress (ANC). The party's parliamentary caucus expressed support for the campaign earlier this week, saying its success was vital if the "poorest of the poor are not to be continuously punished and starved".

The need for the debt's scrapping was highlighted by the fact that Africa, for instance, spends more repaying debts to creditors than it does on basic health care.

In his keynote address, Archbishop Denis Hurley attacked industrialised countries for their lack of commitment to debt relief and blamed this on their dedication to "market forces". He said these should be replaced by ethical attitudes. He said the total cost of providing relief for the 20 worst-affected countries would amount to between $5,5bn and $7,7bn — less than the cost of one American Stealth bomber.

In its founding declaration, Jubilee 2000 SA noted that the poor of the world were subsidising the rich. "For every $1 given in aid, $1,31 is squeezed out of Africa in debt repayments to the rich countries. The largest immediate obstacle to sustainable development throughout the third world is this debt bondage. The debts caused by apartheid compounds this outrage."

Jubilee 2000 SA's interim secretary Neville Gabriel said that by allocating such large parts of their national budgets to debt servicing, sub-Saharan countries were suffering "massive economic and social instability".

He said the campaign had gathered momentum across the globe, with seven of the G-8 countries having launched campaigns in recent weeks.

"The launches add further pressure on the G-8 governments to deliver meaningful debt relief in time for the G-8 summit in Cologne in June 1999," Gabriel said.

The first International Jubilee 2000 conference will take place in Rome later this month.

Don't review Gear, scrap it

(49) Sowetan 12/11/98

By Lybon Mabasa

The Government's current macroeconomic policy and its bias towards globalised markets is hurting the unemployed and the poverty-stricken of South Africa, writes the president of the Socialist Party of Azania **Lybon Mabasa.**

On the eve of the 1999 election, the African National Congress – together with its alliance partners – will promise to review its macroeconomic policy because it will not meet its time-frames for delivery.

This creates a false impression that, if given a chance, the Growth, Employment and Redistribution (Gear) strategy would deliver to the black working class and the poor in general.

The truth is that the ANC has been unwilling to listen to the ground-swell of opinion that opposes Gear.

As a matter of fact, this change of attitude is reminiscent of the ANC's attitude to the Constituent Assembly and how it wished to impose the concept of a national convention on the people.

When it realised the amount of support for the Constituent Assembly, the ANC claimed to switch sides but still managed to get its national convention through the Convention for a Democratic South Africa.

All this was done at great cost, even in human terms, as the choice between a Constituent Assembly and a national convention was a causal component of internecine violence.

Similarly, at what cost is Gear being reviewed, and for what purpose?

The Socialist Party of Azania (Sopa) maintains that Gear cannot be reviewed since it is premised on a false assumption that the subjection of economies to the dictates of international institutions will in the end benefit local economic interests

Most economies of developing countries have come to understand that annual economic growth does not always translate into economic development for the poor in those countries.

Sudan, a country whose back is being broken by starvation, has an annual growth rate of six percent Other countries such as Uganda, Ghana and Brazil also have impressive economic growth figures.

But, for the majority, poverty, unemployment and inadequate health facilities remain the norm.

Gear is an outward-looking policy which emphasises an export-led approach with a propensity to frustrate any attempts at meeting the basic needs of our people and reducing inequality and poverty.

Any economy should first satisfy the needs of the people, which are jobs, food, education, health and general economic wellbeing, before emphasising external relationships.

While international economic realities and external relationships cannot be ignored, they must be subjected to the requirements of internal development. In this way people do not become slaves to the economy, but the economy is made to serve the interests of the people.

With the policy of trade liberalisation – the lifting of tariffs and duties as well as exchange controls well ahead of the General Agreement on Trades and Tariffs schedule – Gear has promoted the opposite of what it set out to achieve.

Meanwhile, the majority of foreign investors come in the form of portfolio investments, which essentially invest money on the stock exchange for short periods of time.

This type of investment does not create any jobs or wealth for local markets

It is directly linked to the flight of capital under the guise of offshore investments.

Today, we watch helplessly as the wealth of our country is transferred to foreign lands and capitals. Dubious relationships have been forged with major institutions in our country such as Iscor and Anglo-American, and others such as Telkom and Escom are being targeted.

Exploitation

The current Government's economic programme revolves around creating conditions short of slavery for the workers through export-processing zones, which allow for the exploitation of workers

In pursuit of Gear all public property is being liquidated and sold to both local and international capitalists, but especially to those with much firmer and stronger currencies.

As a result thousands upon thousands of workers are being laid off, especially in the public sector, and many more are facing the same fate.

With the growth of unemployment (official figures put unemployment at more than 47 percent for black people) comes poverty, which studies in both Britain and the United States say link directly to crime.

Crime is not an independent phenomenon in society. When poverty is targeted and its effects addressed, crime can be isolated.

Despite its approval by institutions of international finance, the Gear economic policy should not be reviewed but completely scrapped and replaced with a much more people-centred policy that encourages real social and economic stability

History instructs that the growth of poverty where there is perceived wealth always leads to anarchy as people seek out their own justice

Gear is seen as providing measures that largely benefit big business and the rich through tax concessions and tax holidays, and depreciation provisions for manufacturers are generous.

This regressive taxation system means that the rich pay less, while the rest of us are burdened with more tax .

The ANC should this time round listen to those who are directly affected by Gear. They should acknowledge that through ploys such as deficit reduction and fiscal discipline, they have made it almost impossible for metropolitan councils to deliver services to the people

In almost all provinces the delivery of houses has stopped, education is neither truly free nor compulsory, health is generally in a chaotic state and hospitals are being closed.

In fact, the ANC has imposed austerity measures on the black working class and the poor. It is for this reason that there should be no attempt to resuscitate Gear; it should simply be replaced.

Finally, our party advocates an economic policy that will take cognisance of the historical and political development of our people, particularly the black working class, who built the wealth of this country through their grinding exploitation.

We want an economic policy that will not burden the working class by making them honour the apartheid debts that were accrued to ameliorate white living standards.

Also, an economic policy that will oppose the investment of the hard-earned pension fund monies of workers, which are being subjected to principles of casino-type investments.

Trade union officials and financial advisers create conditions where individual advisers and officials become financially secure, while the risk of this kind of investment rests squarely with ordinary workers.

(The writer is the president of the Socialist Party of Azania.)

Figures on foreign debt 'misleading'

THE REAL total of South Africa's pre-1994 foreign debt was estimated to be about $20 billion, according to the Jubilee 2000 South Africa campaign, which is pushing for the cancellation of the country's apartheid debt.

While it was true that only 5%, or R14,3-bn, of state debt was owed to foreign institutions, some local parastatals and private corporations' foreign debt far exceeded this, the campaign said.

Repayment of these debts was guaranteed in foreign currency by the South African Reserve Bank

Jubilee 2000 accused finance director-general Maria Ramos of issuing "misleading facts and figures" to support her view that South Africa had little foreign debt to write off. It said there were "glaring contradictions" in government thinking on the debt issue.

"While the department of finance remains opposed to the scrapping of the debt, the ANC caucus tabled a motion last week supporting Jubilee 2000."

Jubilee 2000 is campaigning also for the funding of the government pension scheme to be changed to a "pay-as-you-go" system, whereby annual payouts are funded by that year's contributions, and money is thereby released for social expenditure.

Jubilee 2000 is supported by a number of non-government organisations, churches and a wide range of prominent South Africans — Sapa

CT 13/11/98 (49)

Government owes consulting engineers R128-m – survey

ARGT 13/11/98 (49)

Johannesburg – The Government owes consulting engineers over R128-million, according to an engineering survey.

Newly-elected president of the SA Association of Consulting Engineers (SAACE) Pieter Conradie said a survey undertaken by the association in August indicated that consulting engineers were owed the money in outstanding fees.

"In spite of assurances from the Government that they are committed to paying accounts within seven days, some of the firms surveyed had fees outstanding for as long as a year – and a large proportion of the respondents reported fees outstanding in excess of 90 days.

"This had a serious affect on various firms – especially the smaller, emerging consultancies – and there was some reluctance to carry out public sector projects where payment was in doubt."

The association was encouraged by the Government's plans to invest between R179-billion and R232-billion on infrastructure over the next five years – but reality was painting a different picture.

"At present many projects are being cancelled and professional consultants are not getting paid for their work."

Mr Conradie said there was a clear indication that in spite of many "good intention" statements, people over the whole country, but especially communities in need of basic infrastructure, were paying a price because Government departments seemed to be undercapacitated and were unable to award work efficiently to professionals. – Sapa

Stuck in wrong Gear

South Africans are receiving confusing signals about the direction of the Government's macroeconomic policy. **Dinga Sikwebu** considers its present status

GRASSROOTS critics of the Government's Growth, Employment and Redistribution (Gear) macroeconomic policy have recently been receiving different signals.

First, there was the statement by the African National Congress national executive committee in October on the need to adjust the targets set out in Gear.

Then came media headlines reporting on the Government's revision of its 1998-9 deficit target. Earlier this month Minister of Finance Trevor Manuel tabled the Adjustment Appropriation Bill.

By tabling this Bill, the minister was asking Parliament for more money than the amount asked for in March, when the Government tabled its original Budget.

The passing of the Bill meant that the shortfall between this year's government revenue and expenditure was increasing from the R23,5 billion projected in the Budget earlier this year to R25,9 billion.

When it unveiled Gear in 1996 the Government said it would ensure that in 1998-9 the shortfall between its revenue and expenditure would be 3,5 percent of the gross domestic product (GDP).

This target was confirmed in the Budget announced in March. With the increase of the deficit to R25,9 billion, the target then shifts to 3,9 percent of the GDP.

The developments and pronouncements on Gear targets have been interpreted in some quarters of the camp that has been vocal against Gear as a gradual abandonment of the policy by the Government.

This interpretation has left many grassroots critics uncertain, made more acute by the Government and ANC's insistence that the Gear framework remains intact.

Numbers change but policy remains!

For many of the opponents of Gear, the question of deficit targets has been a critical issue in their criticism of the strategy.

In addition to the arbitrariness of the targets, many have seen the implications of chasing paper targets on social spending. Many communities have been at the receiving end of cuts in the health, education, transport, housing and public works budgets.

But it would be wrong to reduce opposition to Gear to the question of deficit targets. Most of the criticisms that have been raised against the policy have been directed at the pillars of the policy:

- The failure of the policy to create jobs;
- The almost religious belief in containing government expenditure;
- The insistence that increases in government expenditure should not be more than increases in inflation;
- The policy of high interest rates;
- The overtly outward and export orientation of the policy;
- Deregulation of financial markets,
- The overemphasis on tariff reduction in trade policy; and
- The belief that the private sector will drive industrial development.

Finance Minister Trevor Manuel tabled the Adjustment Appropriation Bill in Parliament recently.

A close look at statements by both the ANC and the Ministry of Finance will reveal that while the numbers have changed, the pillars are still intact.

Before one welcomes the Government's decision to relax its tight grip on spending, it is also important to look at what the extra money will be used for.

An impression has been created that the extra money that has been asked for will be spent on the poor. If one looks at the adjustment estimates, a contrary view emerges.

From the total amount that is being requested, R1,2 billion goes to servicing the debt. This is in addition to the R43 billion budgeted for servicing debt in this year's Budget.

These are the other adjustments:

- An extra R1 billion for national Government departments;
- An additional R1,2 billion for provinces, of which R200 million is for textbooks; and
- An additional R300 million for improving the conditions of Government employees.

Not all this money is to be spent in the remaining months of the fiscal year. A significant part of it is for overspending that has already occurred in provinces and national departments.

Not a single cent goes to job creation. All that was agreed to at the job summit, from the Government's side, will be financed within the constraints of the Budget tabled in March.

And the Government's adherence to a tight fiscal policy is revealed when one looks at what is planned for the next three fiscal years.

To come up with three-year estimates, the Ministry of Finance agreed on economic trends such as rates of economic growth and inflation for the coming years.

According to the three-year framework announced at the beginning of this month, the economy is to grow at two percent, three percent and four percent over the next three years respectively.

The Gear target of 6,1 percent growth by the end of 2001 has simply been abandoned.

And in line with its commitment not to "crowd out" private investment, government expenditure as a percentage of GDP is to decrease from the revised 31 percent of GDP for this year to 29,5 percent for 2001-2.

The implications for social services such as education, health and welfare is that their budgets will be cut.

Education is to see a R300 million cut in 1999-2000. The reduction will go up to R1,2 billion the following year.

The health budget is to be cut by R100 million and R700 million in the coming two years. The cuts for welfare will be R100 million and R200 million for coming two years.

The social implications of these reductions will be enormous.

From all the statements by government officials, it is clear that the Government and the ruling party have agreed to selectively change the targets in Gear, while remaining committed to the framework of the policy.

To calls for a change of policy, the Government's response is: "Long live Gear!"

(The writer is national education coordinator of the National Union of Metalworkers of South Africa. The article is written in his personal capacity.)

SA's gulf in facilities between rich and poor

A new report points out the strengths and weaknesses of the country's services, writes JANETTE BENNETT

SOUTH African business is well catered for in terms of infrastructure, but there is still a long way to go in bringing services up to scratch for households.

This emerges in *Infrastructure: A Foundation for Development*, a landmark report released by the Development Bank of Southern Africa (DBSA) this week.

Relative to income per capita, SA is rich with facilities in telecommunications, electricity, railways and roads. The breakdown of infrastructure per sector is on a par with high-income countries — despite SA's gross domestic product (GDP) per capita being only a sixth of those countries.

However, after Brazil, SA has the most skewed income distribution in the world. The poorest 50% of its people receive about 15% of total annual household income, and the poorest 10% only 1.4%. Compare this with the top 10% of households, who control 42% of income. While the poorest 20% earn under R5 700 a year, the richest 20% earn more than R76 000 a year.

Women and rural dwellers are worst off: male-headed households earn double the income of female-headed households, and urban households earn double that of rural households.

Schools provide a telling case. 83% of schools lack libraries, 61% are without phones, 24% do not have water, 52% lack electricity, and 12% lack toilets.

The report is the first of its kind to look at SA and southern African experiences, focusing on linkages between infrastructure, growth and development, and on how policy, institutions and finance can support these.

Finance Minister Trevor Manuel, speaking in a video message at the launch, said the report was an "exceedingly important" resource which "focuses the collective mind on where we've come from, where we are, and where we need to go".

"We cannot rest until all South Africans enjoy access to decent housing, safe water and sanitation, reliable energy and the many other services that underpin a life of quality," Manuel said. "There is a vast apartheid-inflicted backlog to overcome, and a great many serious economic and financial problems we must tackle."

The report, which will be produced annually, is targeted at policymakers, analysts, researchers and DBSA clients.

The report, edited by DBSA's manager for policy, Chris Heymans, and Janine Thorne-Erasmus, says the public sector invested an average of 7.8% of GDP on infrastructure between 1960 and 1997. Of this, 1.1% went into social infrastructure such as schools, and the rest into economic infrastructure such as electricity, water, transport and communications.

The 1998 World Competitiveness Report ranks SA's infrastructure as 35th out of 46 countries for its overall ability to satisfy business needs — but the sectors vary wildly. SA clocks into the top 25% of surveyed countries in transport, but came in at No 40 on the basis of telephone lines per 1 000 people.

It is ranked 38th for computers per capita, 30th for its share in computer usage worldwide, 33rd for cellphones per capita, and 13th for investment in telecommunications as a percentage of GDP. On infrastructure maintenance, SA came in 30th.

The country is ranked highly (3rd) in cheap electricity costs to business, but both water and international telephone access are seen as expensive.

Output for the transport and communications sector is at the same level as the average for middle-income countries. The electricity and water sectors have increased their output share to about 50% higher than comparative levels for middle-income countries and nearly double the level for high-income countries.

In the report, the World Bank's Gregory Ingram and Marianne Fay observe that for its income level, SA is well-endowed with infrastructure production capacity, particularly in that which services the business community. But household access to infrastructure service is low. "This shortcoming needs attention and special effort."

Infrastructure on its own does not mean development. It depends on how you manage it

Performance of infrastructure is at international best-practice levels in sectors like rail. Private involvement in infrastructure is "fairly modest" by international standards.

So can infrastructure provision help eradicate poverty? "It all depends on how you do it," Heymans said at the launch. "Infrastructure on its own does not mean development. It depends on how you manage it."

The report elaborates: "Ill-designed infrastructure could have more costs than benefits for poor people because of inadequate targeting or adverse social, health, financial and environmental effects. Infrastructure provision can also widen the gap where access to service is expensive, or where services were not planned specifically around the needs of the poor. Delivery can also be disempowering if it turns the poor into passive recipients of services rather than central actors in their own development.

"To reduce poverty, public investment must reach poor people with the right mix of services, involving them in a way that ensures sustained improvement in their quality of life."

SA is streets ahead of many developing economies where, the report says, businesses have to spend a considerable part of their often scarce capital on their own infrastructure.

In Nigeria, for example, up to 50% of public electricity capacity may not be working at any given time, mostly due to inadequate maintenance. Hence many firms installed generators in both Indonesia and Nigeria, spending on their own infrastructure accounts for more than 13% of surveyed firms' capital. As a result, small and medium-sized firms have not been able to invest significantly in plant and equipment, so expanding their businesses.

Even so, the report says, SA has "a notable need to upgrade some infrastructure, rethink the applicability of some and develop other afresh".

In the Southern African Development Community (SADC) context, SA is very well-off. SA occupies only 28% of the southern African surface area but possesses 65% of rail trackage and 59% of the road network. In the ports sector, Durban alone handles more than double the cargo — and it does it cheaper — of all non-SA SADC ports combined.

"Greater use by South Africa of regional infrastructure facilities such as transport, hydro-electricity and water would not only serve an economic stimulus for the weaker regional states, but could also contribute to correcting the economic and trade imbalances that currently favour SA," the report says.

The report places a great deal of emphasis on the environment. "Both extreme poverty, with its lack of growth and development, and prosperity and very rapid growth can affect nature's ability to sustain people and economic growth."

Absolute poverty is associated with deforestation, soil erosion and water pollution. Rapid industrialisation, meanwhile, can play a major role in air and water pollution, urban congestion and the degradation of the natural habitat.

SA'S INFRASTRUCTURE RANKED BY INTERNATIONAL INVESTORS

EFFICIENCY		
Ability of telecommunications infrastructure to meet business requirements	40	46
Ability of power infrastructure to meet business requirements	34	46
Ability of port infrastructure to meet business requirements	20	46
Ability of rail infrastructure to meet business requirements	24	46
Ability of air infrastructure to meet business requirements	32	46
Ability of road infrastructure to meet business requirements	30	46
Adequacy of infrastructure maintenance	30	46
COSTS		
Affordability of electricity for industrial clients	3	46
Affordability of international telephone tariffs	30	46
OVERALL INFRASTRUCTURE RANKING	35	46

ACCESS TO SERVICES (ESTIMATES) 1997

Graphic: FIONA KRISCH Source: DBSA

Ailing economy affects response to job initiative

Reneé Grawitzky

THE prevailing economic conditions in the country have affected the level of response by business to a job creation and education project costing in the region of R1bn.

The project was unveiled by a group of leading businessmen in August and formed part of business's contribution to the presidential jobs summit process.

South African Foundation head Neil van Heerden said yesterday that under the circumstances, the response by business had been good and it was anticipated that once the business trust had been established, the process would gain momentum.

The process leading to the formation of the business trust —which will finance a range of targeted projects linked to tourism and education — was on track, he said.

In terms of the original plan, listed and nonlisted companies had until November 30 in which to indicate their support or otherwise.

However, with two weeks to go until the cut-off date, Van Heerden said a number of large corporations had requested additional time.

This was to accommodate those companies in the middle of restructuring exercises or those still awaiting board decisions.

Van Heerden said the trust would be established according to plan and would allow companies to "come on board after November 30".

To date, more than 100 companies had indicated their support. Van Heerden said "it seems we could come very close to the R1bn mark" from the contributions alone from the large number of SA Foundation members who have endorsed the project.

It is understood that 43 out of 60 foundation members have shown their support.

This initiative — intended to boost jobs in tourism and assist in improving the education system — is the product of protracted talks between a group of black and white businessmen and government.

Listed companies have been asked to contribute 0,15% of their total market capitalisation as at November 30, while unlisted companies will be required to contribute 2% of after-tax earnings.

To take into account the recent volatility in the financial markets, companies may also make cash payments at a rate of 0,03% of total market capitalisation every year for five years. The trust — yet to be set up — will be controlled by business but will include 12 business trustees and eight from government.

BD 18/11/98

New body will advise govt

John Dludlu

THE World Economic Forum was to set up a committee made up of a handful of international business leaders to advise the SA government, said a senior executive of the Swiss-based organisation.

Frédéric Sicre, a director and member of the forum's executive board, said the committee of about 15 CEs of the forum's 1 000 multinational companies would advise Deputy President Thabo Mbeki on the requirements for the creation of a suitable business climate.

Trade and Industry Minister Alec Erwin might be asked to take part in meetings with the group, to be set up within the next eight months.

Apart from occasional meetings, at least twice a year, government would take part in discussions with the forum's members via a virtual conference link-up.

SA was one of eight countries selected for this idea and a business development meeting would be held at next year's annual World Economic Forum summit in Switzerland.

Although government was keen on the forum's idea of an international advisory committee, Pretoria was understood to be concerned about the fragmentation of business in SA.

However, the forum would "leapfrog the internal divisions" in the SA business community.

In the forum's competitiveness report for African countries, SA's poor confidence levels placed it at the bottom. Sicre said this poor showing reflected the representivity of the companies surveyed. The survey focused on large companies.

The forum would hold its regional summit next June under the theme of "responsible leadership for action and growth". A new SA government would be presented at this occasion.

The summit would also seek to enable business to understand governments' constraints and governments to understand the prerequisites for business.

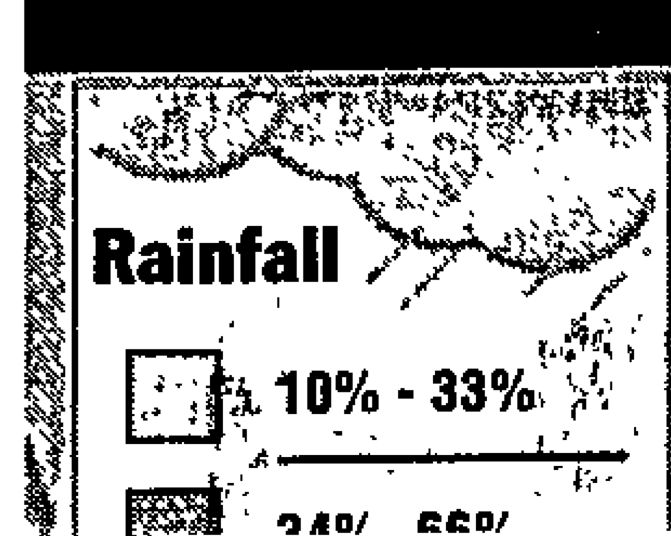
Sicre criticised the Southern African Development Community (SADC), saying the it was not speaking to the world as a region.

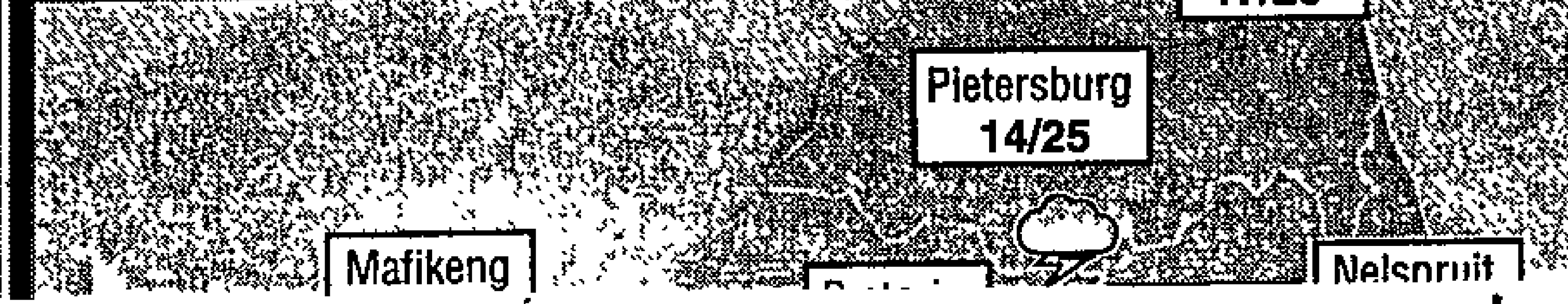
"The SADC was a talking shop with no action, he said, as he called for a change in leadership. "Either (the) SADC really exists or the whole region will fail."

He also fired a broadside at the secretariat, the SADC's bureaucracy in Botswana, for failing to integrate business in its decision-making structures. "It is hard to believe how little countries in (the) SADC know of each other. Of course politicians meet regularly, but within the business world textile manufacturers in Tanzania have no clue as to their potential partners in Zimbabwe."

(49) 18/11/98

TODAY's WEATHER





Fundamental principles of Gear still seen to be sound

he growth strategy has strong support among policymakers, writes **Rod Alence**

(49) BD 26/11/98

THE government's growth, employment, and redistribution (Gear) strategy enjoys widespread support among participants in the policymaking process and policy analysts, even in the aftermath of the global economic turmoil that has forced a revision of some of its near-term targets.

This emerges from a survey of more than 50 leading policymakers, conducted under the auspices of the HSRC during September and October.

Respondents included members of the government executive, MPs affiliated with various political parties, representatives of organised business and labour, senior officials in selected government departments, and policy researchers based at universities and non-governmental organisations.

Accordingly, the survey provides useful insights into the views of prominent members of the policymaking community on major economic issues facing the country.

More than three out of every four respondents (76%) described their views towards Gear as either "favourable" or "very favourable" (see table).

The strong positive rating for Gear suggests that most policymakers regard the fundamental principles of the strategy as sound, in the face of a turbulent international economic environment.

Indeed, one respondent wrote that SA's ability to weather the recent global storm had "vindicated" the country's policies, which had previously been criticised by some influential foreign observers.

Another nevertheless highlighted the continuing need for SA's economic policymakers to possess "nerves of steel–and a crystal ball".

Widespread support for Gear among policymakers should not obscure the persistence of major points of contention.

In describing the policy positions of the main participants in the policymaking process, respondents identified organised labour as most consistently sceptical of the "market-friendly" policies contained in Gear.

Cosatu was seen to be particularly dissatisfied with Gear's emphases on the promotion of labour-market flexibility and the reduction the size of the public sector.

The comments of respondents illustrate the range of debate on labour policy.

For example, while one argued that the government executive, Department of Labour, and African National Congress alliance "have revealed through their actions that they have no perception of labour-market flexibility as demanded by the real world," another expressed concern that "employers and conservative political parties" are using labour-market flexibility as an "instrument to drive down wages and working conditions".

Disagreements on the proper size of the public sector reflected differences of opinion about the relative efficiency of the state and markets.

According to a survey participant: "Government involvement in the economy through the civil service, state-owned enterprises and policies continues to result in a poor allocation of scarce resources into low-growth activities".

In contrast, another participant wrote: "In addressing the severe unemployment crisis in the SA economy, the state should justifiably maintain or even increase the size of the public sector."

The survey also provided an "inside" view of the impact of Gear's deficit-reduction policies on the process of public-sector transformation.

One respondent claimed that failure to translate "the official notion of an appropriately sized public sector contained in the white paper, as well as in the report of the Presidential Review Commission" into a practical strategy for transformation had left fiscal policy, through the enforcement of tight budget constraints, to drive the process by default.

Another took a more optimistic view, writing that although budget cuts had in some cases produced negative short-term consequences, they had also resulted in "improved expenditure management and clamps on corruption" that would soon generate an upturn in the performance of the public service.

A number of policymakers contemplated whether, or how, the ANC would mend fences with Cosatu in the run-up to the 1999 elections, considering how the imperatives of alliance politics might impact on the political sustainability of the government's current economic policies.

One respondent, writing before the jobs summit, reported the impression that government and Cosatu "have moved further apart" since late 1997, leaving two possible scenarios: "significant compromise, or marginalisation of labour".

Another observed that the whole policymaking process "is concentrating on setting the playing field for the coming election — especially from government's side".

There has been recent speculation in some quarters that the government's commitment to Gear may be sagging under the strain of hard economic times and the beginning of the 1999 election campaign.

Ostensible grounds for this speculation include the publication of an ANC discussion document that questions the wisdom of jeopardising service delivery to the poor "in the pursuit of fractions of deficit targets," as well as the declaration of the jobs summit and Finance Minister Trevor Manuel's statement on the adjustment of budget estimates, both of which refer to the need to reconsider Gear targets for the coming year.

The consensus of the jobs summit seems, however, to suggest that the government has so far been able to chart a middle course, leaving the fundamental principles of its economic strategy intact, while opening space to build consensus around job-creation and sectoral proposals that can be accommodated within the Gear framework.

The survey suggests that this outcome was not entirely unexpected.

By a ratio of about four-to-three, survey participants saw significant change in the content of the government's economic policy during the next two years to be more unlikely than likely.

□ *Alence is chief researcher: democracy and governance with the Human Sciences Research Council*

Description of views towards the Gear strategy

Description	Percentage
Very favourable	20%
Favourable	56%
Neutral	9%
Unfavourable	12%
Very unfavourable	3%
Based on 150 responses (don't know/no answers excluded)	

KUBEN DAVID Source: HSRC SURVEY OF ECONOMIC POLICYMAKERS 1998

Fundamental principles of Gear still seen to be sound

The growth strategy has strong support among policymakers, writes **Rod Alence**

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In contrast, another participant wrote: "In addressing the severe unemployment crisis in the SA economy, the state should justifiably maintain or even increase the size of the public sector."

The survey also provided an "inside" view of the impact of Gear's deficit-reduction policies on the process of public-sector transformation.

One respondent claimed that failure to translate "the official notion of an appropriately sized public sector contained in the white paper, as well as in the report of the Presidential Review Commission" into a practical strategy for transformation had left fiscal policy, through the enforcement of tight budget constraints, to drive the process by default.

Another took a more optimistic view, writing that although budget cuts had in some cases produced negative short-term consequences, they had also resulted in "improved expenditure management and clamps on corruption" that would soon generate an upturn in the performance of the public service.

A number of policymakers contemplated whether, or how, the ANC would mend fences with Cosatu in the run-up to the 1999 elections, considering how the imperatives of alliance politics might impact on the political sustainability of the government's current economic policies.

One respondent, writing before the jobs summit, reported the impression that government and Cosatu "have moved further apart" since late 1997, leaving two possible scenarios: "significant compromise, or marginalisation of labour".

Another observed that the whole policymaking process "is concentrating on setting the playing field for the coming election — especially from government's side".

There has been recent speculation in some quarters that the government's commitment to Gear may be sagging under the strain of hard economic times and the beginning of the 1999 election campaign.

Ostensible grounds for this speculation include the publication of an ANC discussion document that questions the wisdom of jeopardising service delivery to the poor "in the pursuit of fractions of deficit targets," as well as the declaration of the jobs summit and Finance Minister Trevor Manuel's statement on the adjustment of budget estimates, both of which refer to the need to reconsider Gear targets for the coming year.

The consensus of the jobs summit seems, however, to suggest that the government has so far been able to chart a middle course, leaving the fundamental principles of its economic strategy intact, while opening space to build consensus around job-creation and sectoral proposals that can be accommodated within the Gear framework.

The survey suggests that this outcome was not entirely unexpected.

By a ratio of about four-to-three, survey participants saw significant change in the content of the government's economic policy during the next two years to be more unlikely than likely.

□ *Alence is chief researcher: democracy and governance with the Human Sciences Research Council*

Description of views towards the Gear strategy

Description	Percentage
Very favourable	20%
Favourable	56%
Neutral	9%
Unfavourable	12%
Very unfavourable	3%
Based on 150 responses (don't know/no answers excluded)	

KUBEN DAVID Source: HSRC SURVEY OF ECONOMIC POLICYMAKERS 1998

Govt incompetence cost R370m — audit

(49) BD 24/12/98

Irresponsible spending, slackness and SAAF outsourcing cited by Kluever

Stephané Bothma

PRETORIA — Massive mismanagement, lack of planning and control and general incompetence in 12 government departments have cost the SA taxpayer more than R370m over the past three years, according to performance audits done by Auditor-General Henri Kluever.

The reports released this week show the huge cost of outsourcing caused by the loss of personnel such as SA Air Force (SAAF) pilots and mechanics.

The audits were performed between August 1 last year and August 31 this year on the departments of arts and culture; constitutional development; defence; land affairs; minerals and energy; public works; safety and security; the SA Police Service; SA Revenue Service; trade and industry; the government printing works; and Statistics SA.

Investigating the overall management of air transport services in the SAAF, primarily based at Waterkloof, the audit found that because of a shortage of qualified staff, overtime for ground crews increased while routine maintenance was contracted out at higher cost.

Waterkloof lost 24 flight sergeant and 63 sergeant aircraft mechanics over the past three years, resulting in work being contracted out at a cost of R470m during the 1997/98 financial year.

A total of 169 trained transport pilots resigned during the period 1989 to 1996, with training of one transport pilot costing about R1,8m. The audit found that R50m was wasted when a R306,6m project for the upgrading of 39 Dakotas was scaled down, resulting in 62 turboprop engines no longer being required.

Tariffs for the leasing of aircraft by government departments had not been revised since December 1993.

"A Hercules C130, for example, was leased for R3 035 an hour although the operating cost amounted to R13 901 an hour. Consequently, aircraft were leased to other government departments at a loss to the SAAF of R425 000 in 10 instances identified during the period January to September 1997," the report said.

Auditing public works with a focus on the management of buildings utilised by the SA National Defence Force (SANDF), Kluever found that the department had not executed projects in accordance with priorities determined by the SANDF, causing some important projects to be delayed for more than seven years.

The SANDF uses 34 000 buildings owned by public works. In some cases it took the department up to three years to react to emergency requests for repair and maintenance of buildings.

Statistics SA cost the taxpayer R555 000 a month for additional staff after the department's rationalisation process was hampered by a moratorium on employer-initiated retrenchments.

Statistics SA also failed to compile census results timeously, thereby contributing to labour survey results not being benchmarked in time and incorrect information being published.

It also used outdated figures in its calculation of the consumer price index (CPI), resulting in actual changes in prices not being recorded and not being reflected accurately.

Constitutional development launched unsustainable projects such as the installation of a R1 779 000 water reticulation system, while no accounts for water services were generated and submitted to consumers because the local authority lacked the capacity and expertise that was required.

The audit of the government printing works in Umtata found that excess examination pads to the value of R469 062 were printed in 1966, ink to the value of R24 785 was bought but never used and R555 318 was paid in overtime to complete the printing of the excess pads.

Cases of drunkenness on duty, theft, excessive sick leave and people arriving late for work were reported as far back as 1987 but had not been attended to by March this year.

"Sick leave taken by factory staff from January 1997 to November 1997 amounted to 3 663 days: an average of 24 days per staff member," the report said.

Focusing on the national crime prevention strategy (NCPS) of the safety and security department, the audit found the strategy was compiled on the basis of inaccurate crime information and that no criteria to determine priorities were set.

"Although the police plan and the NCPS identified priority crimes such as white collar crime, organised crime, illegal possession of firearm and hijackings, business plans had not been drafted to address these crimes as priorities."

ECONOMY GENERAL

1999

Labour, crime impede growth — Absa

(49) BD 12/1/99

BANKING group Absa has painted a bleak economic picture of SA for much of this year, with inflexible labour market conditions and the law and order situation among the most important structural weaknesses impeding local growth.

In its quarterly SA economic monitor issued yesterday and headed Economic Growth Going Nowhere in 1999, Absa says growth prospects for the SA economy remain subdued despite some economic improvements in the latter part of last year.

Other factors negatively affecting economic growth are, it says, the low savings rate and the continued deficit on the current account of the balance of payments.

"Low growth in domestic demand will further dampen economic growth," states the monitor. However, it points out that it is not all "doom and gloom".

Lower interest rates and the relative stability of financial markets are expected to result in the economy reaching the lower turning point of the business cycle in the first half of the year

Absa expects the economy to grow by just more than 0,5% this year.

High real interest rates — albeit declining — weak domestic demand and low international prices will keep inflation in single figures for most of 1999.

The monitor also expects inflation to average less than 8% during the year. However, there is no respite for SA's declining currency, Absa says.

"After the sharp depreciation of the rand against most major currencies in 1998, the rand is expected to decline moderately in 1999 based on the assumption that capital inflows will partly offset the deficit on the current account of the balance of payments and a remaining inflation rate differential with the country's main trading partners of some 6%," it says.

Foreign investment inflows, it says, are bound to be insufficient to retain the three-month import cover level of reserves.

The little growth expected, the relatively low inflation and the moderate decline in the rand will, however, be dependent on a fair amount of stability prevailing in the international financial markets this year.

The monitor emphasises that although the volatility on the international markets — especially in emerging markets — has showed an improvement for the time being, a global slowdown coupled with a brittle financial situation keeps the risks of financial instability alive.

Absa says equity at current levels can be regarded as sound value, but it warns that conditions for a sustained increase in share prices remain subdued for the foreseeable future.

It comments: "The US stock market is still overvalued and will have to experience a downward correction before showing value once more.

Absa believes these factors should keep SA shares under pressure, although more interest rate declines may prevent price-to-earnings ratios from deteriorating much further." — Sapa.

Can SA's economy recover in 1999?

Will this be another lost year for SA? Economics editor **Greta Steyn** looks at the predictions for the next 12 months

BD 12/1/99 (49)

ECONOMISTS are divided about how good, bad or ugly this year is going to be There is more disagreement than usual, because there are a few big unknowns — including the lingering effects of the emerging markets crisis, demutualisation and public sector spending.

Of course, the difference between being right and being wrong could mean money made or lost on the markets, especially when it comes to forecasting interest rates and the rand

However, for those who are less driven by the profit motive, the question really is whether this will be another lost year for ordinary South Africans, and whether any permanent damage has been done as a result of last year's market turmoil.

The difference of opinion between economists is at its most striking when looking at forecasts for capital expenditure, usually referred to as gross domestic fixed investment (GDFI) in the jargon

Robust GDFI — that is, spending on infrastructure, equipment, plant and machinery — is often seen as the key to sustainable economic growth. Fixed investment spending enables the economy to grow rapidly, and for people's incomes to rise, without bottlenecks developing in the supply chain

It is interesting to see that Finance Minister Trevor Manuel's economists forecast GDFI to plummet more than 4% in real terms this year. The forecast, which was included in the medium-term budget policy statement, is astonishingly negative, given that private sector economists are far less pessimistic.

Manuel's negative forecast is all the more surprising as he is not usually known for being too pessimistic about the economy. After all, his economists are at the top end of the range of forecasts of economic growth this year, with 1,2%.

Merrill Lynch economist Jos Gerson is reluctantly predicting the same fall as Manuel in GDFI, if only because he is assuming that Manuel's team has sound reasons for the forecast However, Gerson is the exception, even analysts who are bearish on GDFI do not see more than a 3,4% decline

Surprisingly, there are economists who expect GDFI to notch up positive growth this year These include AMB DLJ Securities' Nick Barnardt (2% growth), Nedcor's Dennis Dykes (1,5%), and Investec's Carol Mason (0,2%)

The level of real interest rates is one of the main determinants of GDFI With rates hitting record highs in the wake of the crisis last year, the question is why anyone would predict positive real growth in GDFI this year?

There are lags between a rise in interest rates and a slowdown in capital expenditure and intuition suggests that this should be a particularly bad year for capex.

However, South Africans are curiously interest rate insensitive Moreover, the public sector, which is less interest rate sensitive, has been investing at a cracking pace. Public sector capex — in line with the reconstruction and development programme, and the growth, employment and redistribution strategy — last year made a major difference to the overall capex picture.

Some economists believe public sector fixed investment, such as that done by Telkom, will be robust enough this year to produce overall growth in GDFI.

The "Telkom factor" — the expansion of SA's telecommunication network — has had far-reaching effects on the economy

Nedcor economist Nicola Veldtman points out that Telkom's expansion was the main driving force behind the increase in total fixed investment during the first three quarters of last year

Spending on road, port, airport, rail and water infrastructure has also been robust, but much of it is nearing completion. This leaves Portnet's Richard's Bay expansion and Telkom's Vison 2000 programme to support this year's spending, Veldtman says These large capital projects by public corporations should prevent total investment activity from declining, despite a fall in private fixed investment.

Other economists disagree, saying public sector capex is already coming off a high base and will not be robust enough to offset the plunge in private sector spending.

Manuel's pessimism on GDFI provides an interesting twist to the debate, as his team probably has a very good idea of what to expect from public sector spending.

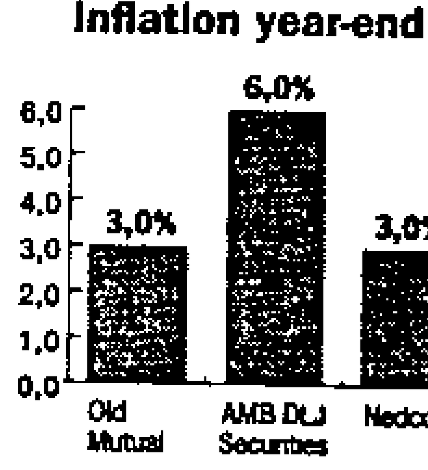
Manuel's team is also not optimistic about private consumption expenditure (PCE), expecting a paltry 0,4% increase Again, a few economists are more optimistic, expecting real growth of about 1%.

Investec's Carole Mason explains the reasoning behind her forecast of 1,2% growth in PCE: "Most consumers look at nominal, and not real interest rates, and their morale will be boosted by the declines in rates this year. In the second half, Old Mutual's demutualisation will help."

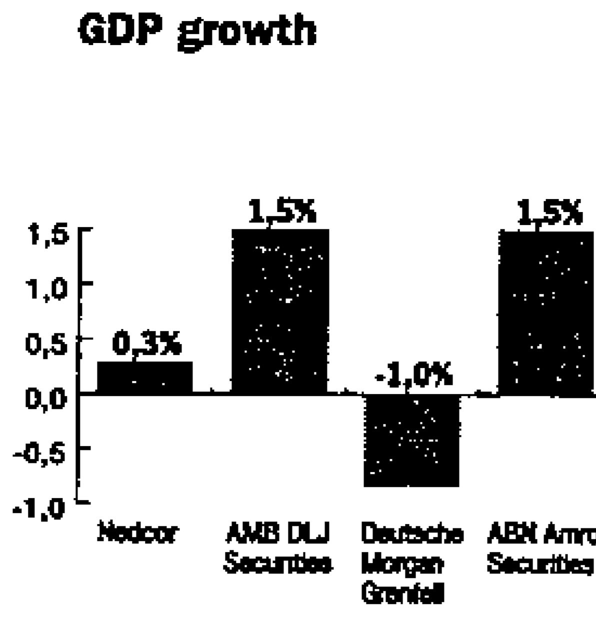
Nick Barnardt from AMB DLJ Securities says demutualisation will "prevent a disaster on the consumer spending front". However, he also notes that with inflation falling, consumers' real incomes will rise, enabling a 1% rise in real PCE.

Economic forecast for 1999

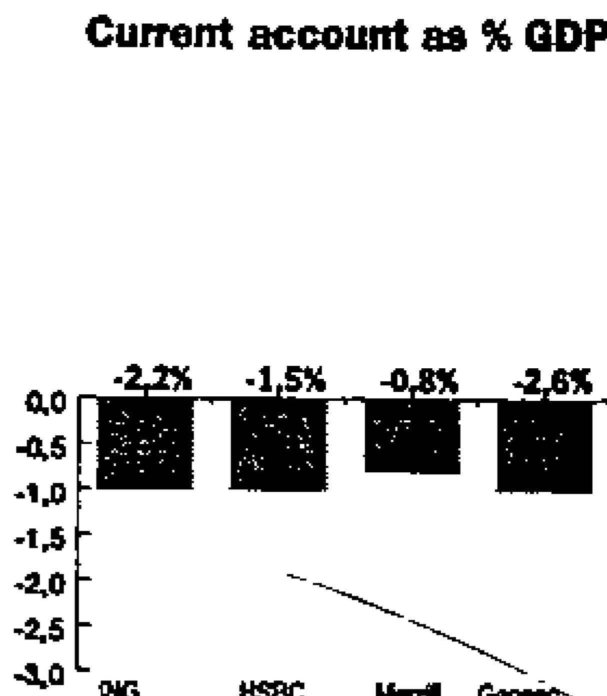
The Good...

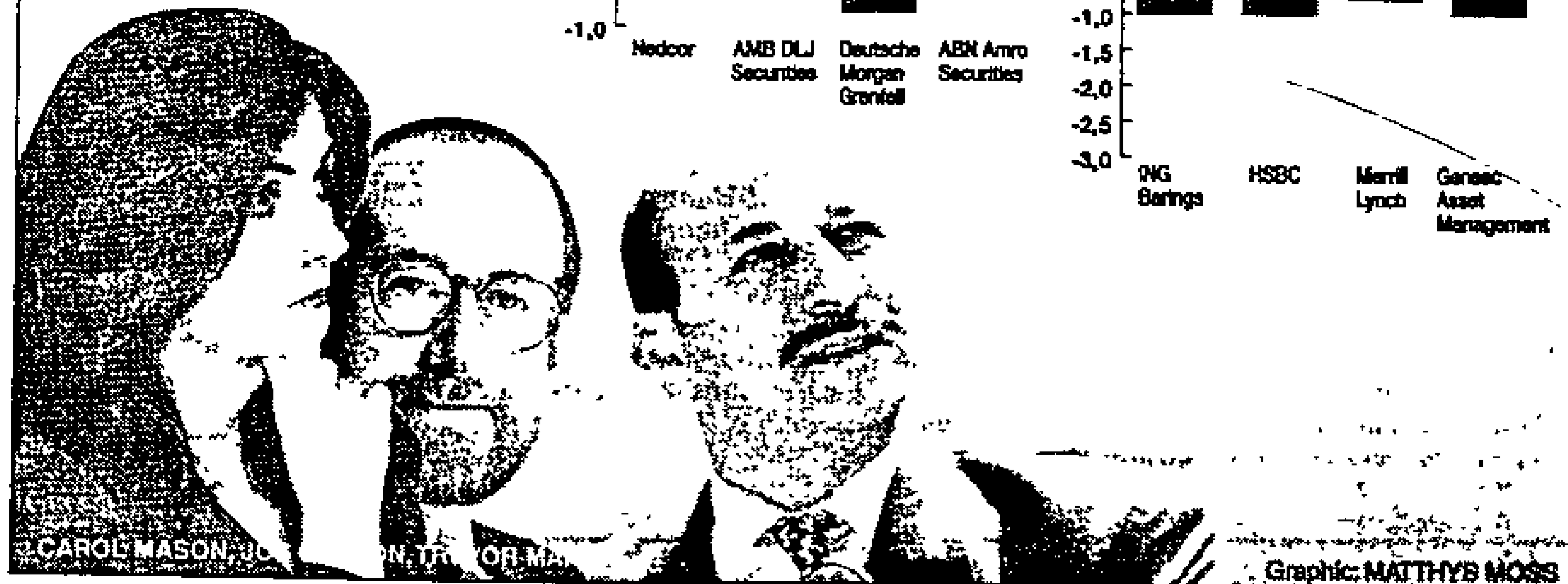


The Bad...



The Ugly...





CAROL MASON ... Graphic: MATTHYS MOSS

Others, like Deutsche Morgan Grenfell's Gordon Smith, take a dim view of consumers' prospects, expecting a decline of more than 1% in spending

Growth of 1% in consumer spending would not be enough to generate any kind of "feel-good" factor about the economy. However, the worst doldrums should be over by the middle of the year.

The most pessimistic economists are also the ones who are predicting the furthest falls in interest rates. Smith and Gerson expect the prime overdraft rate to be 17% by year-end ABN Amro Securities, which is expecting a real rise in PCE of more than 1,5%, expects the prime rate to be 19% by the end of the year.

Unfortunately, interest rates will not be determined only by spending. The balance of payments (BoP) is the key issue; even if consumption and investment spending collapses, rates will have to remain high if SA runs into serious BoP difficulties.

The BoP consists of a current account (trade in goods and services) and a capital account (foreign loans and investments). The bigger the current account deficit, the greater the need for foreign capital inflows to finance the forex shortfall.

It is impossible to forecast capital inflows with any accuracy; only a clairvoyant who could look into the minds of foreign investors and speculators could do that, but one thing is certain: while Brazil remains a problem, emerging markets will be exposed to very harsh scrutiny.

In a climate of jitters over emerging markets, SA's low forex reserves and current account deficit spell trouble. The bigger the current account deficit, the bigger the trouble.

Again, there is a wide range of views. Gerson is more optimistic than other economists about the current account, expecting a deficit of only 0,8% of gross domestic product (GDP). "People seem to be overdoing their fear about the current account," says Gerson. He bases his fairly optimistic view partly on a slowdown in "the Telkom factor" Telkom's huge spending on infrastructure last year kept imports stubbornly high, defying predictions that the weak rand would dampen demand for foreign goods.

Gerson does not expect a rapid acceleration in Telkom-related imports this year, and other importers will also be cutting back.

He says the current account could deteriorate if international commodity prices fall further, but he doubts there is much more scope for further declines.

By contrast, Barnardt expects a much higher current account deficit than most — R25bn or 3,6% of GDP.

Barnardt, who is not scared of sticking his neck out, also has a much weaker rand in his sights than most others — R7,20-R7,40 by year-end — as a result of the big deficit. Most other economists still see the rand below R7 to the dollar by year-end — provided the dollar does not show an unexpected surge of strength.

Barnardt's forecast, at 6% by year-end, is also higher than most. Some economists, such as Old Mutual's Johann Els, expect consumer inflation to be 3% by December.

Last year was a lost year for SA; this year's best case scenario is mediocrity. Another lost year is possible if BoP difficulties intensify and electioneering adds to the problems.

The only thing to celebrate is low inflation, but the decline in inflation is sadly not reason enough to bring interest rates down sharply. SA's Achilles heel remains the BoP.

SA ranked among top five emerging markets

(49) ST (BR) 15/1/99

KATHLEEN KEARNEY

Hong Kong -- Morgan Stanley, the investment group, said yesterday that it rated South Africa in its top five emerging markets in the world, with Hong Kong and Malaysia topping the global list.

Stable interest rates in the United States and a moderately weak dollar should ensure a favourable backdrop for emerging markets, a Morgan Stanley strategist said yesterday.

"The top five markets based on low financial vulnerability, good valuations, earnings and liquidity are Hong Kong, Malaysia, India, South Korea and South Africa," said Ajay Kapur, a strategist at Morgan Stanley Dean Witter

The least favourite emerging markets were Russia, Brazil, Chile, Taiwan and Turkey, he said There had also been a dramatic reduction in the financial vulnerability of Thailand South Korea, the Philippines, Indonesia and Malaysia.

"These countries are clambering out of the debt deflation trap with vigour by running current account surpluses, slowing lending growth, and diminishing external debt," Kapur said.

In Hong Kong, Morgan Stanley is forecasting a decline in economic growth of 1,3 percent and deflation of 0,5 percent.

The South African economy is expected to grow by 1,5 percent, but investment banks believe the economy could contract by as much as 1 percent this year

Inflation is forecast to average 6 percent this year, after recording an average of 7 percent last year. – Reuters

Stick to Gear: World Bank

Sowetan 12/1/99

By Malcolm Ray (49)

THE Government should stick to its growth, employment and redistribution programme (Gear) as an essential ingredient for successful economic progress, the World Bank senior vice-president Joseph Stiglitz said in Johannesburg yesterday

Stiglitz, who arrived in South Africa yesterday for a visit, said while he was heartened by the "enormous transition" underway in South Africa away from apartheid, "there are real concerns about the high level of unemployment and poverty and low economic growth".

"While getting the macro-economic fundamentals right is important, it is far from sufficient to generate jobs and sustained economic growth," he said

However, he said South Africa was not unique in its endeavours "There is no successful market economy in the world that has not gone through the stage of getting the macro-economic fundamentals right before experiencing growth

"The challenge facing South Africa is to create conditions for the development of new enterprises This means that attention must be paid to introducing more capital into the economy, providing micro credit for the development of small and medium-sized enterprises and creating a sound legal and infrastructural environment for the market to thrive on," Stiglitz said.

Turning to last year's southeast Asian financial crisis, he said he rejected calls by some mainstream economists for tighter regulation of financial markets. He blamed the volatility in emerging market economies on "short-term capital flows"

Stiglitz will present a paper on poverty and development to the World Development Report conference in Kempton Park today. The conference – which will be attended by civic organisations, labour, and government – is a joint initiative between the World Bank and the Archbishop of Cape Town Njongonkulu Ndungane.

The results of the conference will feed into the World Bank's annual World Development Report in 2000.

Brazil: You can't dance your way out of a recession.

Sowetan 2/2/99 (49)

Brazil's woes impact on SA

By Stuart Murray

ORDINARY folk are wondering why we in South Africa should be concerned about what's happening to the Brazilian economy and why it has an effect on our markets.

But what's going on in Brazil holds valuable lessons for us. We are now part of the global economy, no longer isolated by sanctions and buffered by protective barriers What occurs in Petrograd can impact on Poffader.

Last year's collapse of Asian economies was the first sign that all was not well in the global counting house. Then came the free-fall of the Russian rouble. Now Brazil's currency, the real, is under severe pressure.

What is happening in Brazil is a result of foreign investors – banks, mutual funds and big multi-national companies – pulling investments out of emerging markets, just as they have done in Asia and Russia

Two years ago emerging markets were the darlings of international investors, showing handsome returns Not so today.

South Africa's foreign reserves are at rock bottom, partly through lack of foreign investment, partly through an imbalance of payments, but also because the Reserve Bank has consistently used our reserves (dollars, Dmarks and other currencies) to prop up the ailing rand.

At the moment the rand is fairly stable but we just don not have the reserves left to defend another major attack by currency speculators.

In our efforts to attract foreign capital we have kept interest rates high

That's exactly what Brazil is doing, although on a much higher scale Brazil's foreign reserves have fallen by about half since last April.

On Friday the Central Bank set interest rates at 35,5 percent and this brought about some stability in the real.

The problem is that high interest rates have driven Brazil into recession And prevailing high interest rates in South Africa have brought us to the brink as well.

Harvard economist Jeffrey Sachs argues that Brazil's central problem has been an overvalues exchange rate for the real (and many people consider the rand too is overvalued).

That made Brazil's exports too expensive and its imports too cheap The result – a large deficit on the current account of the balance of payments – had to be covered by inflows of foreign capital

The obvious remedy, says Sachs, is to let the currency depreciate sufficiently to close the current account deficit.

In South Africa high interest rates are slowly strangling the economy.

Economists are predicting nil growth in the current fiscal year The rand has taken a battering but is strengthening Looking at Brazil one wonders if our policies are right

IMF quota increased by R3,4bn

Linda Ensor (49)

CAPE TOWN — SA's quota with the International Monetary Fund (IMF) would be increased this week from R9,3bn to R12,7bn, Reserve Bank governor Chris Stals said

Stals told a finance committee briefing last week that the amount excluded the R1,2bn increase in SA's special drawing rights (SDR). He said the increase in quotas was due to the IMF's decision last year to raise all quotas by about 45% to 212-billion SDRs. An SDR equals about R0,147.

The IMF reviews quotas every five years on the basis of the growth in the world economy and in member countries' economies. The increases took effect when 85% of the member countries consented to their specific quota allocation.

Stals said SA would be able to borrow the total quota of R12,7bn to help ease balance of payments problems, but he did not foresee a need for this in the near future even though the country's foreign reserves were low.

"This facility is our second or third line of defence if SA has a balance of payments problem," Stals said.

The last instalment on a 700-million SDR loan taken out in 1993 when a severe drought caused balance of payments problems was paid back in December and SA has no outstanding debt to the fund.

Swaziland's woes work in SA's favour

James Hall (49)

MBABANE — Investors are turning away from Swaziland to neighbouring SA in at least two important economic areas, foreign direct investment and the placement of excess banking funds.

Foreign direct investment in the kingdom has declined for seven years. In its latest quarterly report, the Central Bank of Swaziland says "positive political developments" in SA are a main reason for this.

Investors who flocked to Swaziland in the 1980s to escape economic sanctions imposed on SA during the apartheid era, and who were lured by the kingdom's relative political stability during SA's transitional period, "now view SA as a more attractive economy to operate from". The bank says: "The spontaneous industrial unrest in Swaziland over the past years has aggravated the situation."

BD 9/2/99

The investment which persists comes from companies capitalising on the regional economic integration arrangements of the Southern African Development Community, the Common Market for Eastern and Southern Africa and the Southern African Customs Union as an incentive to open or retain operations in the kingdom. In some foreign markets, Swaziland enjoys preferential trade treatment because of the kingdom's status as a developing country.

In money terms, growth of foreign direct investment in Swaziland fell from 21,9% in 1992 to 3,8% in 1996. Revised figures from 1997 show a negative growth of 2,4%.

Reinvestments from existing companies nosedived by 11,4%. However, the central bank has projected a positive growth of 3,1% for this year. Total foreign direct investment in Swaziland last year was about R2 041,7m.

As predicted last winter when SA banks raised their interest rates, local banks are placing surplus funds in the SA money market.

The trend is accelerated by an absence of major project financing opportunities in the kingdom, and a lessening demand for bank credit.

The central bank blames a "general slump in domestic economic activity" for the decline in credit customers.

Manuel slays SA's provincial beasts

(49) (~~[illegible]~~) BD 15/2/99

Government's credibility has improved but there is still some way to go, writes economics editor **Greta Steyn**

WHEN the Brazilian state of Minas Gerais defaulted on its debt last month governor Itamar Franco said his state was so broke he had to bring his own toilet paper to work. This is a scenario which a year ago, would have been quite conceivable in SA's provinces.

At the time of last year's budget, SA's provinces threatened to become a gaping black hole into which cash disappeared. Even though analysts and bureaucrats tried valiantly to downplay the problem, there was a terrible sense of uneasiness about the fiscal situation, of a monster slowly taking shape in the provinces.

About a year later, Finance Minister Trevor Manuel and his team claim they have slain the monster in the provinces and saved Manuel's credibility.

Credibility is one of the main issues in this week's budget, the overall macroeconomic figures for the new fiscal year have already been released and the real question is whether they are credible.

Another important issue in the budget will be the tax changes, which are not known yet and how these changes fit in with overall economic policy.

The budget is also a good peg for a discussion about one of SA's biggest economic problems — if not the biggest — the country's low level of savings. The rationale behind cutting the deficit is to free up savings which can be used by the private sector. Is government's claim on the country's savings still too large?

The budget is not only an economic statement, its spending decisions are a political statement about government's priorities. Defence spending has been cut in recent years to finance increased social spending. Will these trends continue?

In summary then, the main issues are credibility and sustainability; taxation policy. SA's structural economic problems such as low savings, and government's spending priorities. Some comments can be made about these issues as we prepare for Wednesday's budget.

On credibility, there are mixed signals but on balance Manuel comes off rather well. He scores particularly well when it comes to the provinces, where he has averted a disaster of Brazilian proportions. True, problems remain, but they have become much more manageable and the sense of crisis has faded.

The provinces' combined bank overdrafts stood at R1,6bn in December last year, according to latest Reserve Bank statistics. This is substantially lower than the figure of R2,8bn in December 1997. The Bank's figures also show that provinces have not run down their bank deposits, as occurred in 1997/98.

In that year, provincial overdrafts and running down of provincial bank deposits added billions of rands to government's deficit; this was not reflected in the official figures but was not a secret like the homeland black hole used to be.

The two trouble provinces of 1997/98 — KwaZulu-Natal and Eastern Cape — are set to end the present fiscal year in surplus.

Granted, there are problems in the Free State, but they are nowhere near as serious as those encountered in the trouble regions in 1997/98.

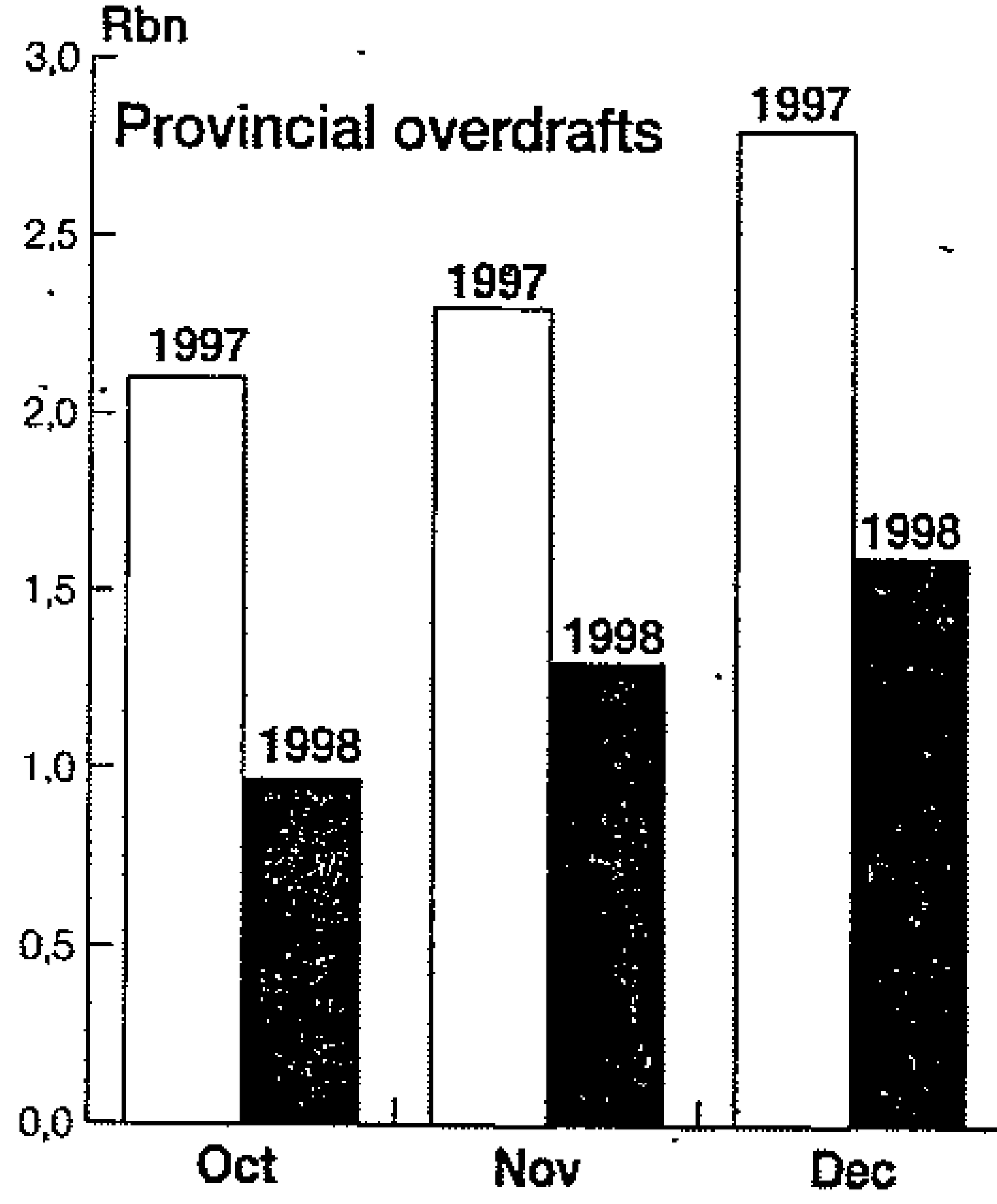
In the present fiscal year, the spending financed by bank credit has been contained and everything points to a lower overall fiscal deficit in the provinces than in 1997/98.

The improvement in the provinces is a big boost for Manuel's credibility, but he has not quite won the credibility battle yet.

The flip side of an improved situation in the provinces has been that the centre has taken more strain, resulting in overspending. True, much of the overspending — R1,2bn — is the result of a surge in interest rates which was outside government control. But overspending on noninterest items is also likely to be sizeable; everything suggests that the adjustment budget was overly optimistic in its R1,4bn estimate for noninterest overspending and that the final number will be higher — much higher, if the monthly exchequer numbers are anything to go by.

One of the key figures to watch for in this week's budget review is the final spending number for 1998/99. If it differs much from

Looking better



KUBEN DAVID Source: RESERVE BANK

the R203,9bn projected in the adjustment budget, Manuel will have some explaining to do. If not, he will have won the credibility battle fair and square.

If there is an unexpected spending overrun, luck in the form of a revenue overrun should come to his aid, leaving the projected deficit unchanged at 3,9% of gross domestic product (GDP).

Whether the deficit is on target or not, big overspending would be unacceptable. Even if revenue overruns came to the rescue, there would be a small dent in Manuel's credibility. Fiscal discipline that is the result of luck rather than tight policy is clearly not sustainable. The markets might be happy because the deficit is on target, but the credibility battle would not be over yet.

Manuel will not be playing only to the markets; he also has one eye on the voters. He will use the tax changes, rather than spending increases, to try to impress the electorate.

On the spending side, there is little that he can do — a major shift towards more social spending has already taken place and the huge interest bill limits his room for manoeuvre.

Social spending now accounts for 50% of total spending, compared with 44% in 1995. Spending on interest also rose over that period, from 18% of the budget to 21%. These shifts have seen defence lose out; the question is whether the pattern will be sustained.

According to last year's budget, which gave three-year estimates for spending, defence as a percentage of the overall budget was scheduled to remain virtually stable at 16%. But this should change, depending on the timing and cost of the military packages decided on last year. Government could allocate money from its reserve to beef up defence, although it might be tempted to use that money to catch votes. The reserve is the unallocated portion of each year's budget in the three-year rolling budget.

On the revenue side there is a little more room to please the electorate. Manuel has thrown out so many hints that low income earners are to get tax relief, that any failure to do so will go down like a lead balloon.

Other tax changes will be aimed mainly at balancing the books — the usual hike in the fuel levy and "sin" taxes. The really big question mark hangs over action on life assurers and retirement funds.

However, no major shocks are expected as issues of principle are being negotiated with the pensions industry.

Manuel has been dragging his heels on taking decisions of principle on taxation. Instead, he has tinkered with pensions taxation and other taxes while leaving overall issues of policy indefinitely on the backburner. It is not clear whether current tax trends are policy or just the result of indecision. For instance, the share of indirect taxation in overall tax has been falling while direct taxation on individuals has been rising. Does Manuel favour that trend, or not? We really do not know the answer to that. Taxation policy objectives need to be spelled out — but the chances are zero that he will do so this week.

The one area in which policy is clearly defined is deficit reduction, with a target of 3% of GDP set for the 2000/01 fiscal year. One of the reasons Manuel wants to cut the deficit is to reduce government's claim on the nation's savings. But some critics would argue that freeing savings in a recessionary environment is not particularly useful, as the private sector is hardly likely to take up the funds to finance fixed investment in a stagnant economy. Manuel has rightly acknowledged this situation by slowing down the pace of deficit reduction in response to the economic downswing.

One should not lose sight of the fact that SA has a major savings shortfall — fixed investment in plant and capacity is on a rising trend, having hit an annualised 17,7% of GDP in the third quarter last year, while saving was considerably lower, at an annualised 13%. That gap has to be plugged by foreign capital; the bigger government's dissaving, the bigger the gap.

Government "dissaves" when it uses savings to finance consumption expenditure. Put differently, the difference between government's capital expenditure and its net borrowing — the deficit — is the amount it dissaves. The amount of dissaving for the current fiscal year runs into billions of rands.

Manuel delivers his budget speech this week knowing that his credibility has been considerably enhanced by getting provincial finances under control. But the credibility battle is not over yet.

Spending pressures remain enormously difficult to contain, while taxation policy has been implemented in an ad hoc way without any coherent overall philosophy. A start has been made in getting the deficit down, but dissaving remains substantial. Manuel's speech this week will confirm that, though much has been achieved, the task ahead remains huge.

(49) ARG 17/2/99

ECONOMY

More relief on interest rates later this year

Mr Manuel said he was concerned about the high interest rates, which hit ordinary people hard, and expected to see them decline during this year.

He said the reason for the rise in interest rates was due to the "dramatic re-ordering of world affairs".

Although globalisation in the last decade had led to greater prosperity and further advances in democracy, it had also led to greater uncertainty and dramatic swings in the fortunes of nations.

"Hardest hit by the high interest rates have been ordinary working people who have had to struggle to keep up the payments on their home loans.

"The struggle to make ends meet has been worsened by the fact that many working families were over-indebted when interest rates started to rise. Also badly affected have been small and medium size businesses that depend on bank overdrafts and loans to finance themselves," said Mr Manuel.

He said the expected decline in interest rates would ease the burden on individuals and small businesses, although it would take them some time to fully recover.

He said the economy grew by an estimated 0,1% in 1998, which was well below budget. It was expected to [illegible] this year and would rise to 3,2% next year and 3,8% in the following year.

Last November Mr Manuel announced a revision of budget figures to take into account the world economic crises. He increased the budget deficit to 3,9% of GDP. But he has now revised the figure to 3,7%.

This year the budget deficit is 3,5% and for the next two years it will be fixed at 3%.

To stimulate foreign investment Mr Manuel said there would be a further relaxation of exchange controls later this year. Tax on companies had been reduced to 30% from 35% to encourage growth and investment.

The struggle for the

Manuel focuses on relieving the hardships

"Our suffering is not over. We have not yet conquered poverty and unemployment."

With these words, Finance Minister Trevor Manuel captured the anxieties of millions of struggling South Africans.

He placed their hardships at the centre of a Budget in which he promised to fight on the side of unemployed and working people who were hamstrung by high interest rates, harmful business practices and other hallmarks of an economy in which growth of 3%-4% is predicted for the next few years.

He was tough on unscrupulous money-lenders who, he said, would be prosecuted and could expect closer attention from the taxman.

He said he expected to see interest rates come down further during the course of the year, easing the struggle to make ends meet.

But he acknowledged that individuals and businesses would take some time to recover, even with a further drop in interest rates.

"Hardest-hit by the high interest rates have been ordinary working

ECONOMY

people who have had to struggle to keep up the payments due on their home loans.

"The struggle to make ends meet has been worsened by the fact that many working families were over indebted when interest rates started to rise."

He said high interest rates have also affected small and medium-size businesses that depended on bank

Good news for taxpayers, but low-income group better off

All taxpayers get good news this year, but the news is better for some than for others.

Everyone will benefit from the finance ministry acting against bracket creep.

Bracket creep, also called fiscal drag, is what happens when wages increase in response to inflation, pushing people into a higher tax bracket, even though in real terms their incomes have not changed.

For those earning more than an average income, the steps against bracket creep will help, but are not as dramatic as the cuts in real terms in tax on lower-income earners.

More than half the relief goes to people earning less than R70 000 a year.

The primary rebate goes up from R3 515 to R3 710, increasing the tax threshold in line with inflation.

Anyone below the age of 65 earning R19 526 a year or less will pay no income tax.

The secondary rebate given to people older than 65 goes up from R2 660 to R2 775.

TAXATION

Those older than 65 with an income of less than R33 717 a year will pay no income tax.

Tax brackets have been restructured and tax rates have come down.

For the income brackets of:

- R46 000 to R50 000, the rate drops from 39% to 30%;
- R50 000 to R60 000, the rate drops from 39% to 35%; and
- R60 000 to R70 000, from 43% to 40%.

For example, this means that someone younger than 65 and earning R35 000 a year will pay R415 a year less in tax.

For someone earning R55 000 a year, the saving will be R975.

Mr Manuel said that between 1995 and 1998 working people had been given R10,5-billion in tax relief.

This year's changes would cost the Government R4,85-billion in lost revenue, he said.

This was made up of R3-billion lost by acting against bracket creep, and R1,85-billion lost by restructuring the tax table.

Changes to company tax rates include a reduction in the rate on taxable income of companies from 35% to 30%.

With other adjustments, the company tax changes are designed to enhance investment and job creation, in line with international trends to reduce company tax to attract investment.

Excises on non-essential and luxury items like perfumes, electronic goods and cellphones stay the same.

The Skills Development Levy, a payroll tax to be provided in legislation to be tabled this year, will start at 0,5% of payroll and rise to 1% in April 2001.

To be used for training schemes, levy payments will be tax-deductible.

Home-ownership easier

Home ownership should be made a little easier for lower-income earners by changes to transfer duties.

HOUSING

Measures which will take effect from April will cost the fiscus R60-million. They include changing the value interval on which the 1% rate of transfer duty applies from R60 000 to R70 000. Exemptions on transfers by natural persons will be increased. On unimproved land for building a house, exemption rises from R24 000 to R30 000. On purchases of a house or flat by sectional title, the exemption rises from R60 000 to R70 000.

State gear

As part of the three-year planning approach instituted by the Government in the past financial year, Mr Manuel mapped out priorities to 2003/4.

These were investing in people through better schooling and access to health care and social welfare. Other priorities included:

r the poor goes on

ıardships – and hits at the loan sharks

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ho have had to struggle to he payments due on their ıs.

truggle to make ends meet worsened by the fact that rking families were over- when interest rates started

d high interest rates had :ed small and medium-sized es that depended on bank overdrafts and loans to finance themselves.

"Of course, we are deeply concerned by the effect of high interest rates on people's lives. We are also concerned about their impact on growth and job creation in our economy.

"We are often asked how globalisation affects ordinary people's lives. For many, the steep rise in interest rates last year was a sharp reminder that there are both costs and benefits of more open international markets.

"It also signalled the importance of improving our saving performance, reducing our reliance on foreign capital flows."

Amid these difficulties, too many people had become hostage to unscrupulous money-lenders.

"There is a place for the micro-lending industry. But we will not tolerate the blatant exploitation that appears to be taking place at the moment," said Mr Manuel.

"Moreover, all micro-lenders are subject to normal tax provisions. The revenue service will pay particular attention to this in the coming year," he told Parliament.

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TAX: UNDER-65s

Taxable Income	1999 rates	1998 rates	Difference
17 000	0	0	0
18 000	0	0	0
19 000	0	95	95
20 000	90	285	195
21 000	280	475	195
22 000	470	665	195
23 000	660	855	195
24 000	850	1 045	195
25 000	1 040	1 235	195
26 000	1 230	1 425	195
27 000	1 420	1 615	195
28 000	1 610	1 805	195
29 000	1 800	1 995	195
30 000	1 990	2 185	195
35 000	3 160	3 575	415
40 000	4 660	5 075	415
45 000	6 160	6 575	415
50 000	7 660	8 435	775
55 000	9 410	10 385	975
60 000	11 160	12 335	1 175
65 000	13 160	14 485	1 323
70 000	15 160	16 635	1 475
80 000	19 560	21 035	1 475
90 000	23 960	25 435	1 476
100 000	28 360	29 835	1 475
120 000	37 160	38 635	1 475
150 000	50 660	52 135	1 475
200 000	73 160	74 635	1 475
300 000	118 160	119 635	1 475
400 000	163 160	164 635	1 475
500 000	208 160	209 635	1 476

TAX: OVER-65s

Taxable Income	1999 rates	1998 rates	Difference
32000	0	15	15
33 000	0	315	316
34 000	85	615	530
35000	385	915	530
40 000	1 885	2 415	530
45 000	3 385	3 915	530
50 000	4 886	5 775	890
55 000	6 635	7 725	1 090
60 000	8 385	9 675	1 290
65 000	10 385	11 825	1 440
70 000	12 385	13 975	1 590
80 000	16 785	18 375	1 590
90 000	21 185	22 775	1 590
100 000	25 585	27 175	1 590
120 000	34 385	35 975	1 590
150 000	47 885	49 475	1 590
200 000	70 385	71 975	1 590
300 000	115 385	116 975	1 590
400 000	161 975	164 694	1 590
500 000	206 975	206 975	1 590

all figures in rands

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PRIORITIES

- Improved policing, more secure correctional facilities and a streamlined criminal and civil justice system.
- Building homes, extending muncipal infrastructure and improved living conditions;
- Targeted support for industrial clusters, small business development and industrial trade linkages;
- Extending electrification, telecommunications networks and clean water and sanitation; and
- Poverty relief and job creation.

TAXATION

No mercy from the Receiver for dodgers

Tax authorities will show no mercy to those who break the law.

"There are still too many free riders in the system," said Mr Manuel.

Steps in recent years to improve tax collection were paying off.

Between October 1997 and December 1998, the SA Revenue Service uncovered 181 000 unregistered income tax, value-added tax and pay-as-you-earn cases.

Forensic investigations by the SA Revenue Service yielded R1-billion.

There had been several convictions and more than 250 criminal cases were in progress.

People who avoided their legal tax obligations slowed down Government efforts at tax reform and easing of the tax burden.

The Government aimed to build a culture of tax compliance and wanted to change the adversarial relationship between tax collector and taxpayer, said Mr Manuel.

The Department of Finance's Budget Review noted that local and international courts had said that taxpayers were entitled to minimise their tax liability.

But many "aggressive" tax avoidance schemes bordered on tax evasion.

Tax fraud was widespread in the areas of VAT and customs and excise, including fraudulent claims, fictitious exports, abuse of rebates, failure to pay duty and the mixing of diesel and paraffin to reduce the fuel levy payment.

The SA Revenue Service are to increase their capacity to combat fraud, said the Budget Review.

By international standards, South Africa's tax burden seemed slightly above the average for developing countries.

Personal income tax now accounted for 42,2% of total tax revenue, while the declining share of tax revenue from the mining sector, especially from gold mining, was "very significant".

IT'S TAX BREAKS ALL ROUND

R1-bn for poor – and cut for companies to boost jobs

(49) ARG 17/2/99

BUDGET Special

Housing

Pensions

Education

More for all in the new millennium. That is the key theme of the Budget unveiled in Parliament today by Minister of Finance Trevor Manuel, featuring tax relief for all, big tax breaks for companies in a bid to stimulate job creation, continued emphasis on social spending, and R1-billion for poverty relief and employment projects.

Spending will total R216,8-billion, with 61% going to social services, for a projected 1999 Budget deficit of 3,5% of gross domestic product, which Mr Manuel plans to reduce to 3% next year and in 2001.

He reported a deficit for the 1998/99 year of 3,7% of GDP, with revenue having risen beyond expectations to R179-billion, in spite of last year's economic growth being much slower than the Government expected.

In a speech acknowledging government concerns about the plight of consumers, Mr Manuel vowed to crack down on unscrupulous money-lenders preying on householders already groaning under a debt burden, and warned tax evaders to expect no mercy.

Lower-income earners will benefit from significant tax relief, and all taxpayers will have their load lightened by adjustment of tax brackets to eliminate bracket creep. This happens when wage increases push earners into higher tax brackets in spite of their incomes not having risen in real terms.

Lessening the burden on taxpayers means lost revenue: "We are putting R4,85-billion in the pockets of working people," said Mr Manuel.

But smokers, drinkers and motorists are being hard-hit, with the excise on tobacco products going up to 50% of retail price, hikes in taxes on beer, cider and spirits, and the fuel levy on leaded and unleaded petrol rising by 4c a litre from April 1.

There will be no tax increase on diesel, to benefit commercial road users.

While the excises on a range of luxury items will not go up, new items have been added to the list, including fireworks, loudspeakers and shaving cream, in a move projected to yield several million rands of additional revenue.

Those drowning their sorrows should do so with soft drinks, on which the excise is to be cut by 19%.

There is no change to perks tax on car allowances.

In a move designed to boost job creation and attract investment, Mr Manuel is to cut the tax rate applicable to taxable income of companies from 35% to 30%.

The Budget sets aside R1-billion for targeted poverty relief programmes, rising to R1,2-billion next year and R1,5-billion in 2001.

About R3-billion is linked to job-creation programmes, through training for the unemployed and employment services, and such projects as Working for Water and the municipal infrastructure programme.

Spending on police, prisons and justice will total R23,5-billion, includin [illegible]

THE MAIN POINTS

- Relief for all taxpayers with moves against bracket creep – but with special benefits for people earning less than R70 000 a year.
- A 5% cut in company tax aimed at boosting investment and job creation.
- The levy on leaded and unleaded petrol rises by 4c a litre from April 1, but no increase in diesel tax.
- Huge hikes in sin taxes.
- R3-billion linked to sundry job creation projects.
- Restructuring of transfer duties to encourage home ownership, especially for lower-income earners.
- 61% of non-interest spending for social services.
- R1-billion for poverty relief programmes.
- R48,2-billion to service debt.
- Expenditure of R216,8-billion in 1999, increasing to R247,2-billion in 2001. National budget spending will increase by an average 6,6% in the next three years.
- Spending on police, justice and prisons will be R23,5-billion in 1999 and rise to R26,4-billion in 2001.
- Police will get more money to fight internal corruption and to curb related crimes.
- Education gets R48,5-billion this year, rising to R54,1-billion next year.
- Health gets R24-billion this year and R28,3-billion next year.
- Welfare services and social grants total R19,8-billion this year and go up to R21,6-billion next year.
- A slight rise in defence spending, reversing trends of recent years, to pay for replacement of ageing equipment.
- A prediction that demutualisation will yield R1-billion in capital for the Umsobomvu Fund for training and development programmes for young people.

AND

Government pledges to:

- Crack down hard on tax evaders.
- Crack down hard on unscrupulous money lenders who exploit debt-strapped householders.
- Heed a call by Mr Manuel to urgently "restructure" the public service which, with a huge wage bill, is eating into money needed for social spending.

CAPE ARGUS BUDGET TEAM
Charles Phahlane
Clive Sawyer
Tyrone Seale

YOUR SMOKE CAN HARM THOSE AROUND YOU

5 mg tar 1,4 mg nicotine As per Government agreed method

Pensions
Education
Health
Security

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About R3-billion is linked to job-creation programmes, through training for the unemployed and employment services, and such projects as Working for Water and the municipal infrastructure programme.

Spending on police, prisons and justice will total R23,5-billion, including provision for modernisation of police services, improved security at prisons and initiatives aimed at improving the efficiency of the courts.

Spending on education will be R48,5-billion, rising to R54,1-billion in 2001.

Health spending, which Mr Manuel said had increased by about 45% since 1995, was to reach R24-billion this year and R28,3-billion in 2001.

Welfare services and social grants, which rose by more than 30% in the past three years, will total R19,8-billion this year and R21,6-billion in 2001.

Mr Manuel projected "modest" growth of spending on agriculture, industry, transport and communications in the next three years.

Defence spending, which has plummeted in recent years, will rise slightly over the next three years as part of a programme to replace ageing equipment.

Mr Manuel expressed deep concern at the cost of the state bureaucracy, which this year will account for about 51% of non-interest spending.

Smokers count cost of Zuma

From today, smokers have less money to burn as the price of a pack of 20 rises by 41c.

Health Minister Nkosazana Zuma has prevailed.

Finance Minister Trevor Manuel said that in accordance with health policy, duty on cigarettes had once again been increased to bring the total tax on cigarettes to 50% of the current retail price.

To be ruthlessly fair, the Government is applying an equal rate of taxation to other tobacco products. Cigarette tobacco therefore rises by 76c for 50g, and pipe tobacco goes up by R1,56 for 100g.

Cigars are especially hard hit: up by R7,33 for 23g.

It is estimated that these tobacco tax proposals will yield an additional R495-million in 1999.

Excise duties on beer go up by 4,6c a litre or 1,6c on a 340ml can.

Unfortified wine goes up 3,4c a litre or 2,5c for 750ml.

Ciders increase by 8c a litre or 2,7c per 340ml can. Spirits cost an extra 75,5c a litre or 56,6c for 750ml.

However, excise duties on soft drinks have been cut by 19%.

Mr Manuel expects to toast a R123-million increase in revenue this year.

He warned today that the Government was mindful of the extent of smuggling of tobacco products and related criminal activities, which affected countries with higher tobacco tax rates more than neighbouring states.

Provinces get R86-billion as spending rises to R216-bn

Government spending goes up to R216,8-billion in this year's Budget.

Of this, R48,2-billion will go to service debt and R1,1-billion is a contingency reserve.

Not taking into account R750-million donor-financed projects, this leaves R166,7-billion to be shared out among the three levels of Government.

Provincial government gets R86,3-billion, while national Government gets R78,7-billion.

The national share includes R8,8-billion in conditional grants for provinces and local government, mainly for health services.

Spending on social services will make up 61% of non-interest spending. Revenue in the 1999/2000 Budget year is projected to total R25,1-billion, or 3,5% of Gross Domestic Product.

TAX RELIEF FOR SOME

Manuel's 'gifts for poor' Budget

CT 17/2/99 (49)

MIDDLE- TO low-income earners can look forward to tax relief, say government sources, while economists wonder how Finance Minister Trevor Manuel will raise taxes from the "super wealthy". **ANDRE KOOPMAN** of our Parliamentary Bureau reports

FINANCE MINISTER Trevor Manuel will today unveil a R220-billion budget described by government sources as a "poor man's budget", which will assist middle- to low-income earners, boost old-age pensions by 4% and punish alcohol and tobacco users.

The Budget, Manuel's second in terms of the Medium Term Expenditure Framework (MTEF) — the government's three-year budget plan — is expected to bring good news to the unemployed, but bad news for motorists, who face a higher fuel price when the fuel levy is increased, as expected.

But VAT at 14% is expected to remain unchanged.

Tax breaks for the low- to middle-income earners will put billions back into the pockets of the poor.

Last year, the government managed to put R3,7bn back into taxpayers' pockets by eliminating the effects of "bracket creep", which occurs when wage increases are eaten up by higher taxation in a higher tax bracket.

It was not clear what measures, if any, Manuel has in mind to raise additional taxes from the "super wealthy".

According to MTEF projections, provinces will receive an "equitable share" of the R87bn set aside to finance provincial government functions like health, education and welfare.

Gauteng will likely be allocated R13bn, the Western Cape R9bn, KwaZulu-Natal R17bn, Northern Province R12bn, Free State and Mpumalanga R6bn each , Northern Cape R2bn, North West R7bn and Eastern Cape R15bn.

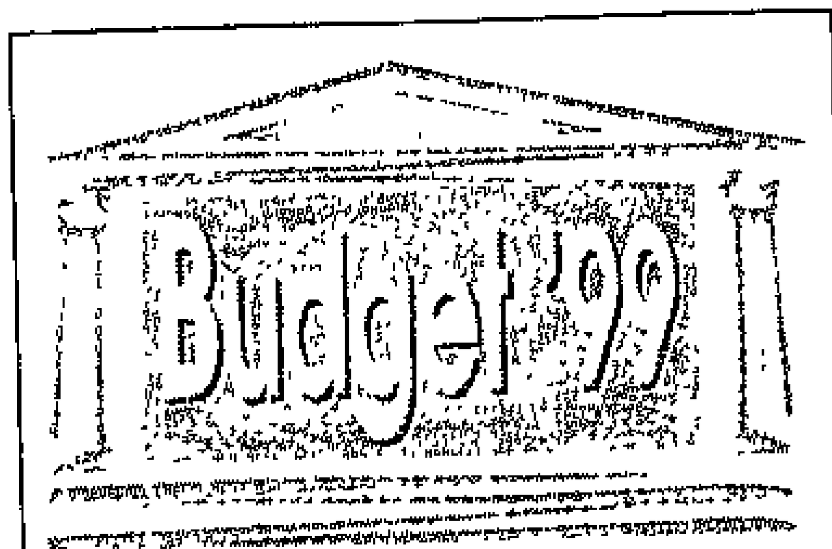
The budgets for police, justice and correctional services are also expected to be increased. According to MTEF projections, defence can expect an increase from R11bn to R11,6bn; safety and security R15,1bn, up from R14,1bn last year; justice R2,7bn, up from R2,5bn last year; and correctional services R5,8bn, up from R5,4bn last year.

Education will be allotted R49,2bn, up from R46,8bn last year; health R26,4bn, up from R25,1bn; welfare R20bn, up from R19bn; and housing R4,3bn, up from R3,9bn.

Manuel is expected to announce an increase for poverty relief projects, increasing the allocation from R500 million last year to R800m.

Also expected to be announced is a further relaxation of exchange controls, an increase in the limit South

❑ Turn to Page 3



BUSINESS REPORT will carry a special Budget review tomorrow to bring readers an in-depth analysis of Finance Minister Trevor Manuel's Budget speech in Parliament.

In a nutshell ...

UP:
- Cigarettes
- Liquor
- Fuel
- More money for health, education, police, defence, Parliament, arts and culture, communications, correctional services, tourism, housing, labour, public works, transport.

DOWN:
- Taxes for lower- to middle-income earners
- Less money for agriculture, finance, foreign affairs, home affairs, public enterprises, mineral and energy, sports and recreation and for the Western Cape.

New budget to bring good news for some

(49)

❑ From Page 1

Africans may invest abroad, and a small increase in foreign travel allowances.

Opposition parties yesterday offered a wide range of suggestions to Manuel: Inkatha Freedom Party finance spokeperson Gavin Woods hoped Manuel would target growth and investment; Democratic Party finance spokesperson Ken Andrew urged an increase in the threshold at which marginal tax rates kick in and more spending on crime fighting, and the New National Party stressed the harmful impact of fiscal drag or bracket creep.

CT 17/2/99

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CT 17/2/99

MAN WITH THE MONEY: Finance Minister Trevor Manuel, his briefcase bulging ominously, poses for photographs at Parliament yesterday in the run-up to today's Budget speech.

(49)

Growing economy and declining inflation will bring interest-rate relief to hardest-hit

Finance Minister Trevor Manuel said he was concerned about the high interest rates which hit ordinary people hard and he expected to see them decline during this year.

He said the reason for the rise in interest rates was due to the "dramatic reordering of world affairs". Although globalisation in the last decade led to greater prosperity and further advances in democracy, it had led also to greater uncertainty and dramatic swings in the fortunes of nations.

"Hardest hit by the high interest rates have been ordinary working people, who have had to struggle to keep up the payments due on their home loans.

"The struggle to make ends meet has been worsened by the fact that many working families were over-indebted when interest rates started to rise. Also badly affected have been small and medium-size businesses that depend on bank overdrafts and loans to finance themselves," he said.

Mr Manuel said the expected decline in interest rates would help to ease the burden on individuals and small businesses, although it would take them some time to fully recover.

He said the economy grew by an estimated 0,1% in 1998, well below budget. It is expected to grow by 1,8% this year, rising to 3,2% next year and 3,8% in the following year.

Despite the weaker rand, inflation had remained subdued over the last year after declining to a low of 6,9% in 1998. It is expected to steadily decline over the next three years, thereby safeguarding the purchasing power of wages.

The slower growth and weaker currency have put a damper on imports, but capital import equipment is expected to rise as demand increases from public corporations extending infrastructure investment.

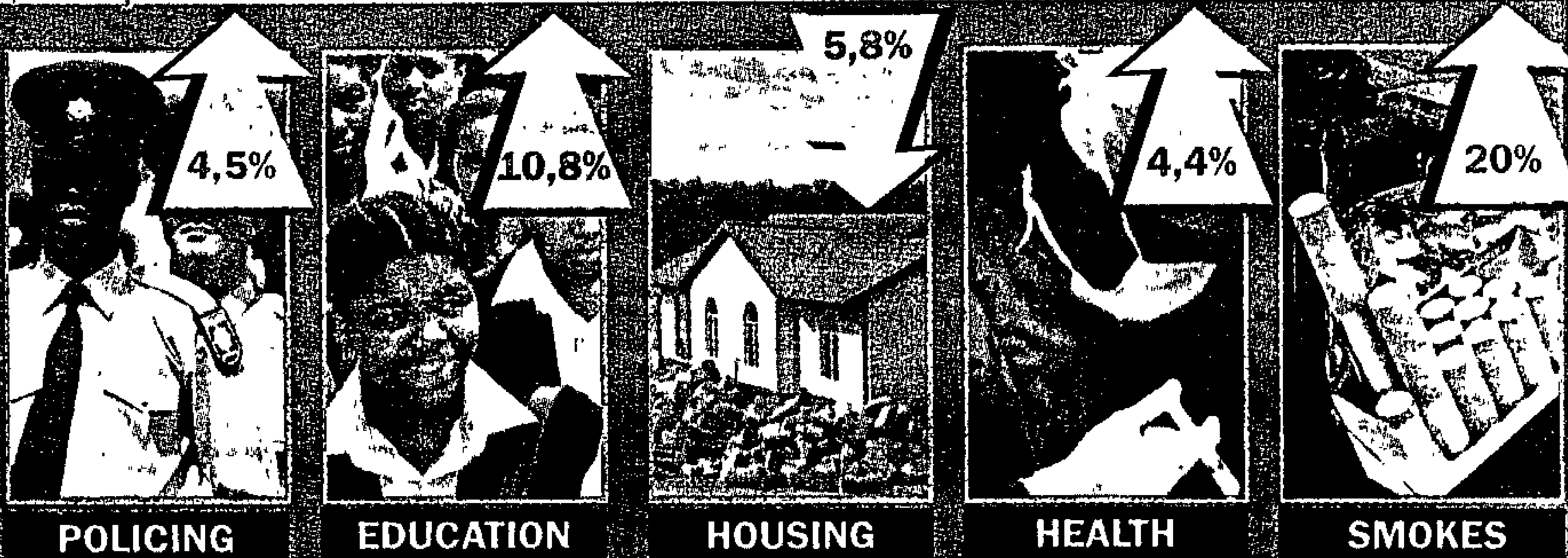
Last November, Mr Manuel announced a revision of budget figures to take into account the world economic crises.

He increased the budget deficit to 3,9% of GDP. But he has now revised the figure to 3,7%. This year, the budget deficit is 3,5% and for the next two years it will be fixed at 3%.

To stimulate foreign investment, Mr Manuel said there would be a further relaxation of exchange controls later this year. Tax on companies has been reduced to 30% from 35% to encourage growth and investment.

"As a nation, we do not generate enough savings to finance the levels of investment that we require to create jobs. We, therefore, have to attract foreign investment, making our international relations a key focus of economic policy," said Mr Manuel.

ARG 17/2/99



Trevor Manuel coughs up

Finance Minister Trevor Manuel

Sowetan, 18/2/99

By Morgan Naidu

FINANCE Minister Trevor Manuel unveiled a people-friendly Budget yesterday that will put at least R5 billion into taxpayers' pockets in the form of tax cuts, rebates and a further R100 billion into state spending on social services, health and welfare.

An unexpected but pleasant surprise was Manuel's announcement of a reduction in the tax rate on companies' taxable income from 35 to 30 percent.

While much of the Budget was in line with the Finance Department's medium-term expenditure framework, the announcement of larger-than-expected tax cuts for lower- and middle-income earners was seen as a boost for the cash-strapped man in the street.

Pressures of the international financial crisis and high interest rates had hit ordinary people the hardest, Manuel said, adding that the department expected interest rates to drop further this year.

With the predictable increase in sin taxes and the fuel levy, Manuel's Budget has been hailed by economists for the relief it will give to low- and middle-income taxpayers.

"After compensating for inflation we are cutting taxes in real terms," Manuel said.

Under the new tax relief structures the primary rebate has been increased from R3 515 to R3 710. Anyone below the age of 65 earning R19 526 a year or less pays no income tax.

Secondary rebates increased from R2 660 to R2 775 for individuals over the age of 65.

Manuel said tax brackets had been restructured and his department had sought to protect taxpayers from the effects of inflation on income.

Taxes in the R46 000 to R50 000 bracket have been reduced from 39 percent to 30 percent; taxes in the R50 000 to R60 000 from 39 percent to 35 percent; and the R60 000 to R70 000 brackets decreased from 43 percent to 40 percent.

In practical terms, Manuel said, the tax relief meant than anyone under the age of 65 and earning R35 000 a year would pay R115 less in tax while a person earning R55 000 a year would save nearly R1 000.

● Continued on page 2.

Economists hail Manuel's budget

● From page 1

"Lessening the tax burden on ordinary working people is a key objective of the Government and they will benefit mostly from the changes made, with over half the relief going to people with incomes of less than R70 000 a year," Manuel said.

There was equally good news for social services, health and welfare, with the minister announcing more than R100 billion being made available.

"We have also set aside R1 billion for targeted poverty relief programmes in 1999, giving effect to several Jobs Summit commitments," Manuel said.

The Government would spend a total of R23,5 billion on the police, prisons and justice services with crime prevention expenditure providing for modernisation of policing systems, upgrading security at prisons and initiatives to improve the efficiency of the courts.

The allocation to police was upped from R14,435 billion last year to R15,284 billion this year.

Manuel announced a R45 million increase for the Department of Arts, Culture, Science and Technology to concentrate on research projects; an additional R230 million over three years for Statistics SA to prepare for the next census; an extra R150 million a year for health, including the expansion of the immunisation programme and an additional R250 million for the Independent Electoral Commission.

Provincial governments are to get the lion's share of the budgeted expenditure with an allocation of R86,3 billion, with national government getting R78,7 billion.

With most provinces beginning 1998 with large debts in the form of bank overdrafts or unpaid bills, the Government had been forced to intervene in KwaZulu-Natal and the Eastern Cape. Following more than R1,5 billion in transfers attached to stringent conditions, both provinces made remarkable recoveries improving financial management, the minister said.

Both provinces would have in-year surpluses, he said, adding that the surplus would be used to pay off debt.

As predicted, sin taxes once again fell prey to hefty increases, with a 50 percent increase on duty for cigarettes and further increases in excise duties on beer, unfortified wines and spirits.

The fuel levy on unleaded and leaded fuel was increased by four cents with effect from April 1, with no increases marked for diesel.

The increases in the fuel levy and sin taxes would yield more than R1 billion for the state coffers.

While political parties launched an attack on Manuel's Budget, calling it a wasted opportunity and failure to address key issues, economists were more upbeat. P.T.O.

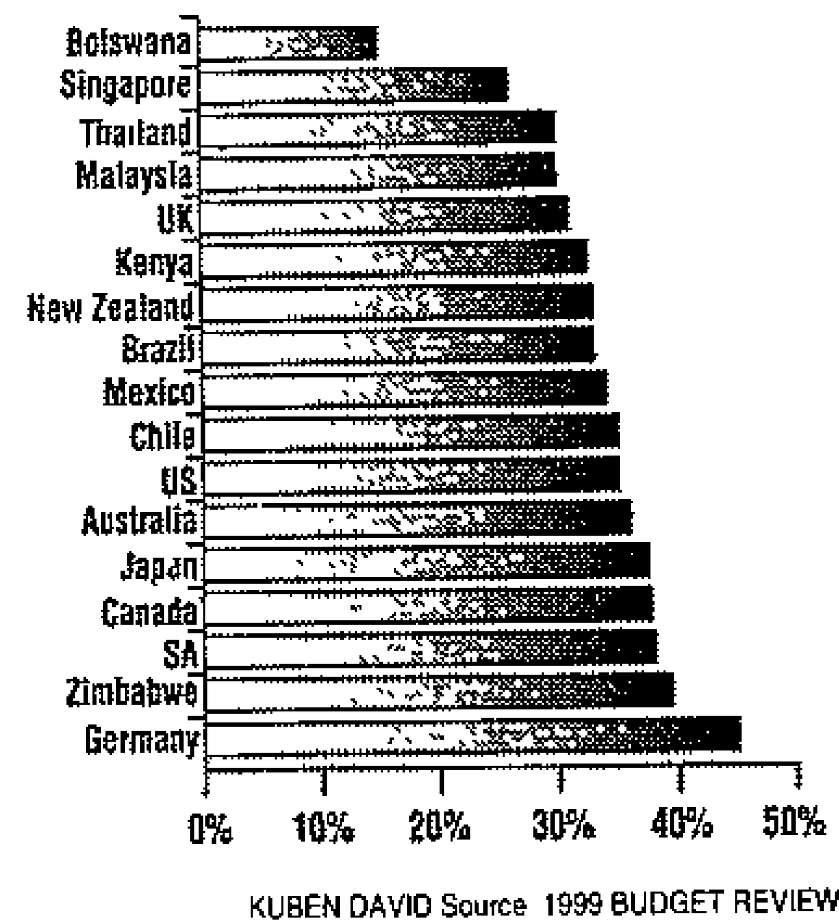
BUDGET 1999

Manuel aims to make SA competitive

BD 18/2/99 (49)

Move to cut the corporate tax rate is in line with international trends, but rates are still higher than in rival countries

Company tax rates around the world



KUBEN DAVID Source 1999 BUDGET REVIEW

Samantha Sharpe

CAPE TOWN — The move to cut the corporate tax rate from 35% to 30% was in line with international trends and with government's strategy to make the economy more competitive, Finance Minister Trevor Manuel said yesterday.

Manuel said the rate applicable to taxable income from non-mining companies would be reduced from 35% to 30%, with effect from April, but Secondary Tax on Companies (STC) of 12,5% would remain unchanged.

Corresponding adjustments would be made to the rates applicable to gold mines and branch structures of foreign companies operating in SA — the branches of foreign companies' current rate of tax would be reduced from 40% to 35% — with an accompanying elimination of some existing tax concessions. Revenue losses associated with these changes were estimated at R2,5bn.

Manuel said the changes were in line with the international trend in recent years to reduce the rates at which company profits were taxed, with a convergence towards company tax rates in the range of 30% to 38%. SA's combined company tax rate currently consists of the standard rate of 35% on corporate profit and the STC of 12,5% on the distribution of profits.

However, the double tax treaties recently concluded between SA and trading partners treat STC as a tax on company profits and not a tax on dividends received in the hands of shareholders. The combined tax, therefore, exceeds the company tax rates applicable in many countries with which SA competes.

As a result of the reduction in the standard rate, the combined rate of tax for a company that distributes all its profits, will be based on a normal tax rate of 30% and an STC rate of 12,5%. According to Manuel, the reform measures will not only make SA significantly more attractive to domestic and foreign investors, but also translate into significant cash flow benefits for smaller and medium-sized companies.

This would enhance their ability to play a leading role in job creation and economic development, he said.

Manuel warned that by making a concerted effort to reduce the nominal company tax rate, government was signalling that it would, over time, eliminate tax concessions.

As such, the deadline for specific tax concessions such as accelerated depreciation allowances or tax holiday schemes will not be extended when they expire at the end of September.

However, the retraction of these concessions — special tax preferences schemes which benefited only particular industries or narrow sectoral interests — would be more than offset by the reduction in the company tax rate.

BUDGET 1999

(49)

Govt to get R4bn from sale of state assets

Net borrowing to be reduced 2,2% to R21,1bn

Tim Cohen

CAPE TOWN — A R4bn bonanza from the sale of state assets, specifically included in the budget for the first time, has helped government reduce its net borrowing requirement by 2,2% to R21,1bn.

The borrowing will be financed with R3bn in domestic short-term loans, R14,8bn in domestic long-term loans and R3,3bn in foreign loans.

New domestic long-term loans, amounting to R33bn are anticipated, with redemptions of R14,5bn and a transfer from International Monetary Fund accounts of the Reserve Bank of R3,7bn. New foreign loans of R6bn are anticipated with redemptions of R2,6bn.

At the time of the 1998 budget, it was envisaged that R5bn would be raised through foreign loans in 1998/99 which was intended largely to extend the maturity profile of SA's foreign debt.

In the context of caution by investors in emerging markets, it was decided to postpone the planned foreign borrowing programme. New foreign borrowing of about R5bn has been included in the 1999/2000 budget.

Government intended to maintain a smooth bond maturity profile, issuing bonds with an outstanding maturity of less than five years, constituting about 25,8% of the total domestic marketable bonds, with 49,1% longer than 10 years.

Government is to consider further floating rate bonds and zero coupon bonds, as well as a bond carrying interest indexed against inflation, to enhance the diversity of instruments available.

The new borrowing will add to the costs of servicing state debt, which will increase from a revised figure of R43,4bn to R48,2bn. The increase includes an increased interest bill of R46bn from the revised figure of R42bn. This assumes a budget deficit of R25,1bn, loan redemptions of R17,2bn, an average coupon rate of 11,5%, average capital market yields and short term interest rates of R14%.

Surprise budget boost for economy

(49) BD 18/2/99

Cut in corporate tax expected to help create jobs and boost investment

Linda Ensor

CAPE TOWN — Finance Minister Trevor Manuel has given the economy an unexpected boost with a corporate tax rate cut of five percentage points and substantial tax relief for lower income earners.

Presenting his 1999/2000 budget to Parliament yesterday, Manuel estimated that R4,85bn would be injected into the economy through tax relief for individuals, and R2,5bn by cutting the corporate tax rate from 35% to 30%.

Manuel said the corporate tax cut would enhance investment and job creation and "make SA significantly more attractive to domestic and foreign investors". It would translate into significant cash-flow benefits for small and medium-sized companies, enhancing their ability create jobs.

The budget was generally applauded by business and labour groups, though in each case with reservations.

SA Chamber of Business president Humphrey Khoza described it as a "confidence-building" budget, especially welcoming the cut in corporate tax. However, he cautioned that Manuel's proposals "will be seen as a holding operation until after the elections".

The Chamber of Mines described the budget as "positive and constructive". BOE Securities analyst Gerard Kemp estimated that the reduction in the tax rate paid by gold producers would boost their valuations by about 5%.

Some unions welcomed Manuel's spending priorities. But the SA Municipal Workers' Union said allocations for local government services were "extremely disappointing", and questioned the apparent bias towards growing private sector involvement in municipal services.

Good advice ... Page 3
Revenue ... Page 4
Expenditure ... Page 5
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Bond and equity markets also responded favourably. Currency dealers said the rand was largely unaffected, ending 2c stronger at R6,1250 to the dollar.

The fact that no increase in the tax on retirement funds' fixed interest investment income was announced boosted bonds with the government's R150 bond firming 21 basis points to a 14,58% yield before retracing to close at 14,62%, 17 basis points firmer. The drop in corporate tax helped the Johannesburg Stock Exchange recover from a 1,5% loss, but weaker world markets continued to dampen equities and the all share index closed 26 points weaker at 5 871.

The tax cuts for individuals will be at least partially offset by onerous rises in tobacco and liquor taxes and a 4c/l hike in the fuel levy. However, the excise duty on soft drinks will be lowered by 19%.

Hopes of an immediate relaxation of foreign exchange controls did not materialise, although Manuel indicated that action was likely later in the year.

Priority departments such as health and education will receive the bulk of the spending increases, with many others suffering a decline in their allocations. "We have had to make some changes to our spending plans, but sound fiscal and financial policies have protected us from more severe adjustments," Manuel said.

The health budget is due to rise by 7,3%, justice by 6,2%, education by 4,9%, safety and security by 4,7% and defence by 3,4%. Most other departments suffered stringent cutbacks, including housing (down 5,8%) and correctional services (down 2,8%).

Total government spending of R216,8bn in the coming fiscal year will be 6% higher than last year while total revenue is estimated to rise 6,5% to R191,7bn. Improved revenue collection and fiscal discipline by the provinces, which will end the 1998/99 year with a combined R600m surplus, are expected to play an important role in containing the budget deficit. The deficit before borrowing is targeted at R25bn, or 3,5% of gross domestic product (GDP) in the year to March 2000, down from the revised 3,7% likely to be achieved in 1998/99.

The net borrowing requirement is expected to be reduced by at least R4bn because of the proceeds of privatisation.

The budget assumes a real growth in GDP of 1,8% this year, up from 0,1% in 1998, and an inflation rate of 5,5%. About 22% of total spending (R48,2bn) has been earmarked for servicing debt.

Social spending claimed R103,7bn (61% of non-interest spending), with education getting R48,5bn, health R24bn and welfare and social grants R19,8bn.

Security was also given a high priority with police, prisons and justice services being allocated R23,5bn.

Manuel highlighted the urgent need for the public service to be restructured. He noted that personnel costs accounted for about 51% of non-interest spending. A sum of R3bn was reserved for improved service conditions for public servants, who can expect salary increases of between 5% and 5,5%.

Manuel directed the bulk of his tax relief measures to low and middle-income earners. While those earning under R60 000 a year contribute 16% of total in-

Where the money comes from...

...and where it goes

Spending

Budget in a nutshell

- Budget deficit set to fall to 3,5% of GDP in fiscal 1999 and 3% in 2000, from 3,7% in 1998.
- "Remarkable turnaround" in provincial finances. Nine provinces expected to produce R600m combined surplus in year to March 31 1999, compared with a R200m-plus deficit in 1997/98.
- Government spending, totalling R216,8bn in 1999, set to rise an average of 6,6% a year to 2001.
- Spending priorities: education, health, welfare, social infrastructure, justice system.
- Government departments to account more carefully and precisely for how they spend budget allocations.
- Revenue estimated at R190,3bn (26,9% of GDP) in 1999 (after tax changes), compared with R178,9bn (27,4%) in 1998.
- Primary tax rebate increased to R3 710 from R3 515. Secondary rebate for people over 65 increased to R2 775 from R2 660.
- Personal tax brackets restructured. Tax rate on incomes of: R46 000-R50 000 cut from 39% to 30%; R50 000-R60 000 cut from 39% to 35%; R60 000-R70 000 cut from 43% to 40%.
- Companies' tax cut from 35% to 30%.
- Specific concessions on accelerated depreciation allowances and tax holidays will not be extended after Sept 30.
- Excise duty on cigarettes up 41c per pack of 20.
- Excise duty on beer up 1,6c per 340ml can; unfortified wine up 2,5c per 750ml bottle; spirits up 56,6c per bottle.
- Duty on soft drinks cut by 19%.
- Fuel levy up 4c per litre from April 1. No hike for diesel.
- GDP growth rate projected to rise from 0,1% in 1998 to 1,8% in fiscal 1999, 3,2% in 2000 and 3,8% in 2001.
- Balance of payments current account deficit seen narrowing to 1% of GDP this year (2% in 1998).
- Further exchange control relaxation expected later this year.

Graphic: MATTHYS MOSS

Get talking with

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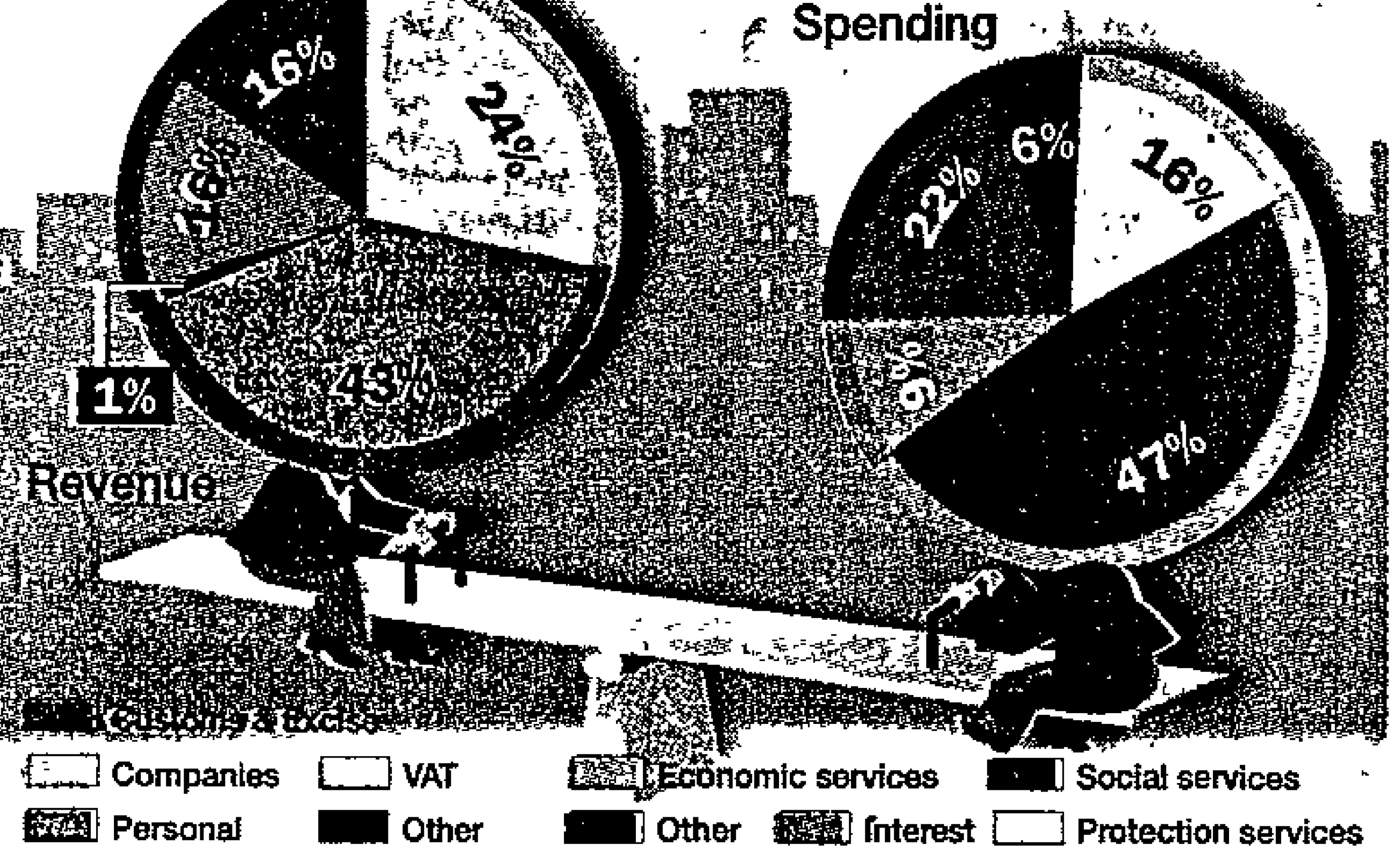

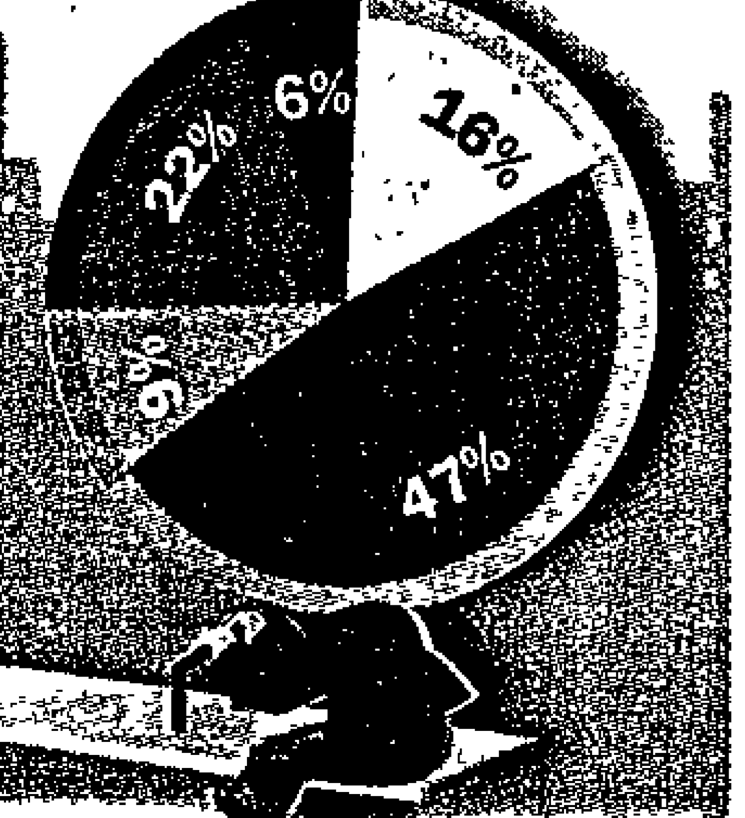

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Manuel directed the bulk of his tax relief measures to low and middle-income earners. While those earning under R60 000 a year contribute 16% of total income tax revenues, they have been granted 35,7% of the tax relief. Those earning between R60 001 and R120 000 contribute 38,2% of the tax take and got the bulk of the tax relief (46,8%), and those earning R120 001 and more who contribute 45,8% of revenue get only 17,5% of the relief.

To compensate for fiscal drag, the income tax brackets have been reduced from 10 to six and the rates reduced at a cost of R3bn.

When announcing the corporate tax cut, Manuel said government intended to eliminate tax concessions such as the accelerated depreciation allowances and tax holiday schemes when they expired on September 30

OPPOSITION PARTIES UNIMPRESSED

Economists give thumbs-up

CT 18/2/99 (49)

FEARS that the upcoming election would influence Trevor Manuel's thinking have been allayed. **JOVIAL RANTAO** and **LUKANYO MNYANDA** of our Parliamentary Bureau report.

FINANCE MINISTER Trevor Manuel's Budget characterised by a surprise business tax concession and job creation initiatives has been widely hailed for its disciplined approach to fiscal policy.

Manuel announced tax relief for low- to middle-income earners putting R4,85 billion back into their pockets, and cut company tax from 35% to 30%. He allocated R3bn to job-creation programmes, while stinging motorists with a four-cents-a-litre levy on petrol. He again came down hard on smokers, raising the price of 20 cigarettes by 41c.

The financial markets, impressed by the balance struck between tax relief, increased social expenditure and fiscal discipline, gave the Budget the thumbs-up.

Economists and business leaders praised the tax rate cut on companies as a positive move aimed at boosting foreign investment and job creation.

Sandra Gordon, economist at Nedcor Investment Bank, said potential foreign investors, who might have been concerned about the ANC pursuing populist policies ahead of the election, had had their fears allayed.

"The government has demonstrated confidence that it can deliver within the existing fiscal constraints. It was a good, solid budget and was well received," she said.

Economists were, however, disappointed by the failure to make a policy statement on the further abolition of exchange controls, saying the government had lost an opportunity to demonstrate confidence in its own policies.

The South African Chamber of Business said the Budget was a confidence-building one that increased the level of certainty in fiscal policy. It was based on sound principles, with an affordable emphasis on social expenditure, said Sacob president Humphrey Khoza.

Reserve Bank governor Chris Stals was pleased with the Budget, which he said had come after an extremely difficult year in a tough international environment.

Opposition parties criticised the Budget as lacking vision and skirting the need for economic growth.

The New National Party described it as a "damage control" budget. NNP finance spokesperson Theo Alant said the absence of a real increase in expenditure on crime-fighting was an indictment of the ANC's commitment to the eradication of crime.

Alant said the ANC was hamstrung by its SA Communist Party and Cosatu allies.

The Democratic Party accused Manuel of ducking key issues by failing to make government expenditure a priority.

"Priorities in this Budget should have been crime prevention, job creation and tax relief. All were mentioned, but close examination of the figures reveals a sad lack of commitment. A lot is said about job creation in the Budget and considerable sums are allocated for once-off and short-term employment, but there is no substitute for fixed investment and economic growth," said DP finance spokesperson Ken Andrew.

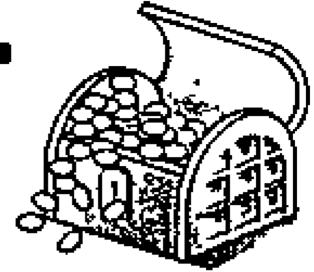
The DP welcomed the reduction in company tax but said individual income tax was unacceptably high and continued to rise.

The Inkatha Freedom Party felt there were missed opportunities that Manuel could have seized. "There were many areas which could have led to economic growth. He did not grasp those opportunities," said Gavin Woods, the IFP's finance spokesperson.

The ANC praised the Budget, saying it showed the government's commitment to the RDP.

The SACP also praised the Budget, saying it prioritised service delivery to the poor, poverty relief and employment creation programmes.

BUDGET 1999



Breakdown of national and provincial spending 1998/99 to 2000/01

[illegible]	[illegible]	[illegible]	[illegible]
PROTECTION SERVICES:	34 276	35 494	4,3%
Defence & intelligence	11 642	12 010	2,5%
Police	14 435	15 284	4,8%
Prisons	5 565	5 381	5,8%
Justice	2 634	2 818	6,3%
SOCIAL SERVICES:	98 814	103 708	5,4%
Education	46 347	48 532	5,3%
Health	23 220	24 036	6,8%
Welfare	19 262	19 817	3,9%
Housing & community development	8 534	9 855	5,2%
Other social services	1 451	1 469	5,4%
ECONOMIC SERVICES:	19 333	18 876	3,6%
Water schemes, related services	2 521	2 404	6,5%
Fuel and energy	52	35	6,1%
Agriculture, forestry, fishing	3 460	3 563	1,9%
Mining, manufacturing, construction	1 562	1 514	2,4%
Transport, communication	8 271	8 154	3,3%
Other economic services	3 467	3 207	4,5%
GENERAL ADMINISTRATION	10 760	11 901	7,8%
INTEREST	43 813	48 522	6,4%
RESERVE		1 100	
CONSOLIDATED EXPENDITURE	[illegible]	[illegible]	[illegible]

Graphic: Nadeah Barch

MANUEL GEAR: Finance Minister Trevor Manuel's fashion statement yesterday was his tie, which sported a Biblical loaves-and-fishes motif — a reflection of how he saw the Budget allocations? *PICTURE: BENNY GOOL*

Single mum welcomes a better life

PRISCILLA SINGH

KATHLEEN SCHEFFERS, 49, a single mother of three, lives in Delft on the meagre welfare grant she receives for herself and one of her children. She is unemployed.

Tonight Scheffers will again worry how she will feed her sons Jerome, 20, Jason, 13, and Darren, 2. The fact that the Department of Welfare received R19,8 billion for social services and grants for 1999 in the latest Budget doesn't mean a thing to Scheffers, even though she receives a monthly welfare payment.

"I don't know anything about this Budget speech or anything like that," said Sheffers. "All I want is a good education for my son and a better life for single mothers."

While economic experts were analysing Finance Minister Trevor Manuel's Budget speech yesterday, many poor people like Scheffers were unaware economic history was being made in Parliament and that this could affect their lives in many ways.

"But any increase they make for the grants would be greatly appreciated," Sheffers said. "I haven't been able to pay the rent."

A breakdown of the Scheffers' household budget and expenses paints a sad picture. The monthly welfare grant is R435. Rent is R235, rates plus water is R100, electricity coupons amount to between R70 and R80, and their food bill is at least R500.

She hardly smokes she says, however her eyes widened when she heard of the 41c increase on a pack of 20s cigarettes.

Scheffers does some "char jobbies", but this is only once a week, twice if she is lucky.

W Province coffers swell to cool R10bn

ANDRE KOOPMAN and KARIN SCHIMKE

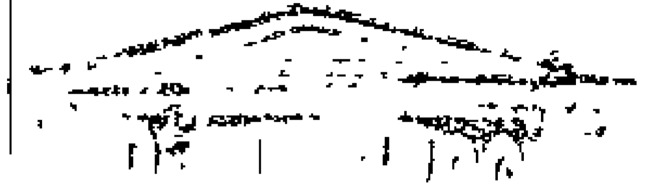
THE Western Cape received R9,980 billion this year — up from R9,492 billion last year.

The province receives 10,1% of the equitable share formula this year, compared with 19,6% for KwaZulu-Natal 17,8% for the Eastern Cape, 14,8% for Gauteng and 13,2% for the Northern Province.

Liquor industry times price hike with slight tax increase

JUDITH SOAL
HEALTH WRITER

SMOKERS will feel the effects of yesterday...



In a nutshell

Tobacco

Ministry of Justice in for 'tough' fiscal year

ANDRE KOOPMAN

THE budget of the hard pressed justice department has been cut by about 2,5%, the Justice Ministry has confirmed.

admissions of guilt, greater provision of legal aid and more remands and case withdrawals.

Increased caseloads, decreases in the number of judicial hours and growing numbers of prison-

Crime-busting budget for police

ANDRE KOOPMAN

SENDING a clear message that the government is serious about combatting crime — whether organised or not — the police budget has increased by R773 046 million this year, of which R7,9 million will go

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[illegible]	[illegible]	219 692	6,5%

The South African Chamber of Business said the Budget was a confidence-building one that increased the level of certainty in fiscal policy. It was based on sound principles, with an affordable emphasis on social expenditure, said Sacob president Humphrey Khoza

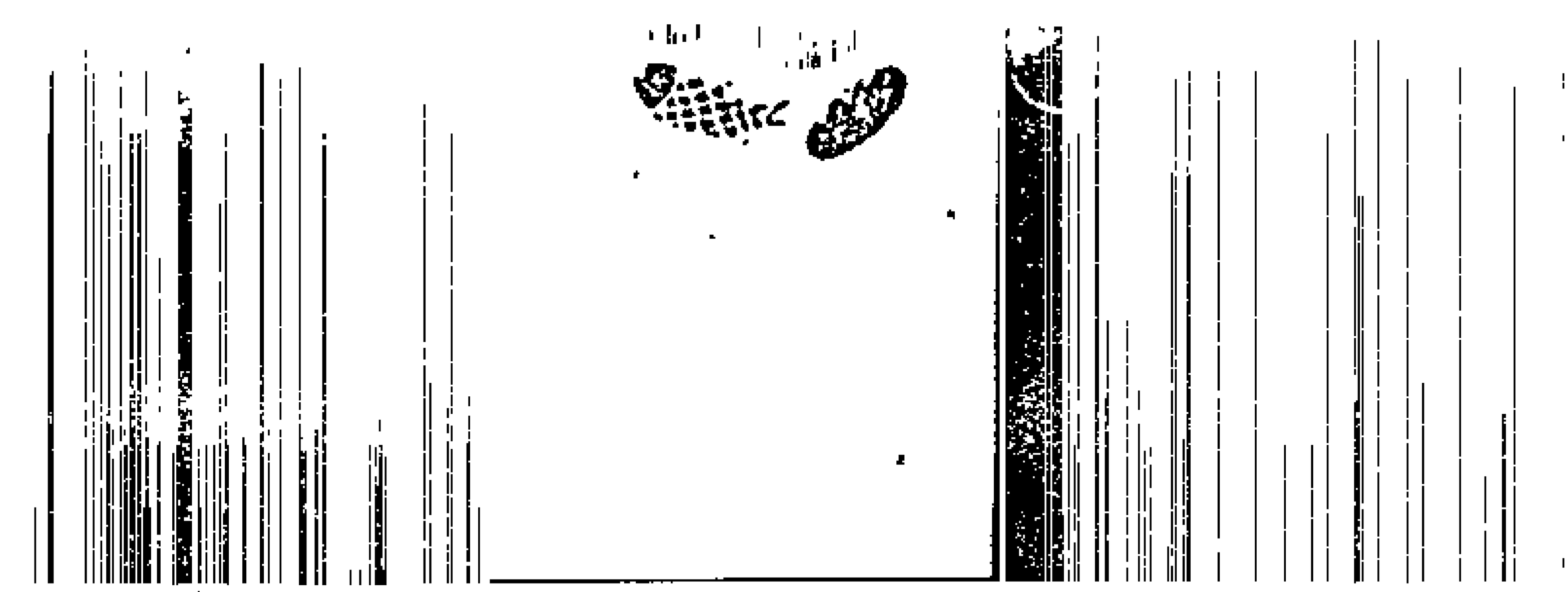
Reserve Bank governor Chris Stals was pleased with the Budget, which he said had come after an extremely difficult year in a tough international environment

Opposition parties criticised the Budget as lacking vision and skirting the need for economic growth to rise

The Inkatha Freedom Party felt there were missed opportunities that Manuel could have seized "There were many areas which could have led to economic growth He did not grasp those opportunities," said Gavin Woods, the IFP's finance spokesperson

The ANC praised the Budget, saying it showed the government's commitment to the RDP

The SACP also praised the Budget, saying it prioritised service delivery to the poor, poverty relief and employment creation programmes



MANUEL GEAR: Finance Minister Trevor Manuel's fashion statement yesterday was his tie, which sported a Biblical loaves-and-fishes motif — a reflection of how he saw the Budget allocations? *PICTURE: BENNY GOOL*

ciated," Shefters said "I haven't been able to pay the rent "

A breakdown of the Schefters' household budget and expenses paints a sad picture The monthly welfare grant is R435 Rent is R235, rates plus water is R100, electricity coupons amount to between R70 and R80, and their food bill is at least R500

She hardly smokes she says, however her eyes widened when she heard of the 41c increase on a pack of 20s cigarettes

Schefters does some "char jobbies" but this is only once a week twice if she is lucky

W Province coffers swell to cool R10bn

ANDRE KOOPMAN and KARIN SCHIMKE

THE Western Cape received R9,980 billion this year — up from R9,492 billion last year

The province receives 10 1% of the equitable share formula this year, compared with 19,6% for KwaZulu-Natal, 17 8% for the Eastern Cape, 14,8% for Gauteng and 13,2% for the Northern Province

In comparison to the Western Cape's almost R10 billion, the Eastern Cape has been allocated R15,956 billion, KwaZulu-Natal 18,707 billion and the Northern Province 12 035 billion

Next year the Western Cape is due to receive R10,323 billion and in 2001 R10,578 billion

Provinces with a higher proportion of schoolchildren and more people without medical aid are allocated more funds per capita than other provinces As a result, the Western Cape and Gauteng have received proportionately less than the Northern Cape, the Northern Province and the Eastern Cape

Finance Minister Trevor Manuel said the provinces had made significant progress over the past year in bringing expenditures in line with resources This was "a remarkable turn-around", he said during his Budget speech yesterday

Liquor industry times price hike with slight tax increase

JUDITH SOAL
HEALTH WRITER

SMOKERS will feel the effects of yesterday's increases in tobacco taxes and drinkers are about to pay a lot more for their sins — but that money won't go to the government, it will go to tobacco and alcohol producers, analysts said yesterday

The liquor industry took the Budget speech opportunity to introduce some heavy price hikes of its own, perhaps hoping the increases would be blamed on the government. (See table).

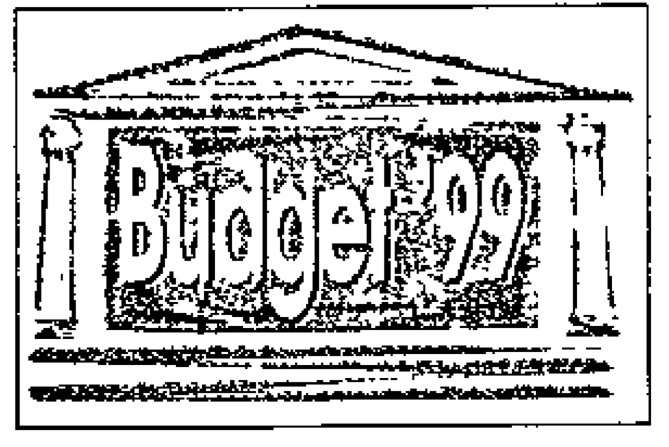
But the slight increase in alcohol taxes disappointed health workers

"We think the government missed an opportunity to improve the health of its citizens at the same time as increasing its revenue," said the Medical Research Council's Charles Parry

Tax increases of 1,6c on a can of beer, 2,7c a can of cider and 56,5c a bottle of spirits were announced.

"You can't call this sin tax These increases are way below the inflation rate and mean that the government is actually helping to keep the price of alcohol down — particularly beer, which is drunk by most South Africans.

"We know that alcohol misuse is a real public health problem, yet government is not doing everything possible to combat it. I can't understand



why not, given that taxes would also increase their income — unless they received some very heavy lobbying from industry "

Health workers welcomed the 41c increase in taxes on a box of 20 cigarettes, calling it a significant boost for public health

"Stopping people smoking is more important for public health than all the latest medical breakthroughs in microbiology or immunology put together," said Ray Abrat, professor of oncology at Groote Schuur Hospital

"Lung cancer is the most common killer worldwide and virtually everyone who gets it smokes More women die from lung cancer than breast cancer.

"It has been shown worldwide that increasing the price of cigarettes does reduce smoking so the tax increase is most welcome," he said.

Finance Minister Trevor Manuel announced yesterday that tobacco would be taxed at 50% This means that half the money you spend on a box of cigarettes goes to the government

The increased tobacco taxes will bring in an extra R495 million in government revenue, alcohol taxes only R123m

In a nutshell

Tobacco

- Cigarettes will go up by 41c for a box of 20, but it could be more if the industry introduces increases, as is customary
- Cigarette tobacco rises by 76c for 50g
- Pipe tobacco goes up by R1,56 for 100g
- Cigars are up by R7,33 for 23g

Alcohol

- Beer will go up by 18c for 750ml and 340ml bottles of beer (only 1,6c is tax, the rest an industry increase)
- Whisky will increase by R6,45 for 750ml (only 56,6c is tax)
- Brandy rises by R2,25 (56,6c is tax)
- Vodka rises by R1,25 (56,6c is tax)
- Five-litre boxes of red wine will increase by R6,78 (R1,70 is tax)
- Five-litre boxes of white wine will increase by R4,94 (R1,70 is tax)

Ministry of Justice in for 'tough' fiscal year

ANDRE KOOPMAN

THE budget of the hard pressed justice department has been cut by about 2,5%, the Justice Ministry has confirmed

Reeling from the demands of overworked and underpaid prosecutors who frequently embark on go-slows, strikes and work-to-rule industrial action, the department had hoped for more resources to fund the straining system

Justice Minister, Dullah Omar, said his ministry accepts that all the departments need to tighten their belts

"All of us must accept that in the current financial climate we have to take cuts We will do our best to manage our resources better and develop efficiency, though things will be a bit tough," he said

The department will allocate R1,3 billion to the administration of justice

Manuel said the budget of the Department of Justice has increased by just less than 20% per year over the past three financial years and that further real increases are relected in the MTEF allocations for the next three years

Manuel said that the judicial system is becoming inceasingly congested Apart from rising levels of crime, the courts see fewer admissions of guilt, greater provision of legal aid and more remands and case withdrawals.

Increased caseloads decreases in the number of judicial hours and growing numbers of prisoners awaiting trial exacerbate the situation

Caseloads for overworked judicial staff, including prosecutors, are increasing rapidly Cases opened in the justice cycle had almost doubled from 240 748 in December 1995 to 434 657 in June 1998

The large number of remands were also a substantial drain on court resources because cases were being sent back and forth between prosecutors and investigators while the case was being heard.

Correctional Services, struggling with overcrowded prisons, also did not get as much in the budget as they they had hoped for since their allocation increased by only 3,6% from R4,345 billion last year to R4,502bn this year, ministry spokesman Bert Slabbert said

The ministry had requsted R5,2 billion

The number of sentenced and awaiting-trial prisoners, as well as those serving community corrections, was projected to increase from 221 000 in 1998/99 to 248 000 in 1999/2000 and to 310 000 in the year 2001/2.

Crime-busting budget for police

ANDRE KOOPMAN

SENDING a clear message that the government is serious about combatting crime — whether organised or not — the police budget has increased by R773,046 million this year, of which R7 9 million will go towards preventing crime

The SAPS has prioritised a campaign of visible policing in order to curb violent crimes committed with firearms

They aim to increase the detection rate in fire-arms related cases and to improve gun control — R2 557 million of the total R14,5 billion SA Police Service budget has been allocated to detective services

The National Crime Prevention Strategy has also made crime against women and children a priority, and more emphasis would be placed on policing metropolitan areas

The biggest item in the SAPS budget is personnel costs, accounting for R11,32 billion

A cost-saving initiative, aimed at achieving a better balance between personnel costs and other spending, will be supported by restructuring the use of police reservists, releasing administrative staff into operational and basic policing duties, and replacing trained officers in administrative positions with civilians

A project has also been started to combat police corruption

Major concessions for middle- to lower-income groups

ANDRE KOOPMAN

FINANCE MINISTER Trevor Manuel announced major tax cuts for "the ordinary working people"

Giving effect to his slogan "More For all For ever" while delivering the Budget in the National Assembly he announced significant tax reductions for middle- to lower-income groups

Taxes for those earning R46 000 to R50 000 a year are reduced from 39% to 30% For those earning R50 000 to R60 000, the rate is reduced from 39% to 35%

In the R60 000 to R70 000 bracket, the rate is reduced from 43% to 40% Those earning more than R70 000 have an extra R1 475 a year in their pockets

Also, the level of earnings above which tax must be paid is raised to R19 526 for the 1999/2000 financial year, up from the current level of R18 500

Anyone over 65 receiving an income of less than R33 717 (1998/99 R31 950) will pay no tax

The primary rebate is raised from R3 515 to R3 710, and the secondary rebate for over-65s goes up from R2 600 to R2 775

The marginal tax rate remains at 45% for people earning over R120 000 a year

MARKETS REACT POSITIVELY

'Feel good' Budget welcomed

CT 18/2/99 (49)

THE BUDGET presented to Parliament yesterday, which Finance Minister Trevor Manuel described as a "good news" Budget, has been acclaimed across a broad front including interest groups as widely divergent as merchant banks and the SA Communist Party. **ANDRE KOOPMAN** of our Parliamentary Bureau reports

FINANCE MINISTER Trevor Manuel once again pulled the rabbit out of the hat by unveiling a "feelgood" Budget aimed at satisfying the needs of business and at the same time increasing social spending and reducing taxes for middle- to low-income earners

He performed a balancing act in his R216,8 billion Budget yesterday, increasing social spending and cutting corporate tax from 35% to 30% — a move expected to make South Africa more attractive to investors

The corporate tax cut is aimed at making the economy more competitive, encouraging the development of small and medium businesses and creating sustainable growth and job creation

MORE INSIDE

- Special 24-page Budget review in Business Report
- Economists give the thumbs-up — Page 5
- Putting policy before politics — Page 13

Manuel said it was a "good news" Budget and not an election Budget, but the relief given to workers reeling from high interest rates is sure to grab a few votes He provided a R4,5bn tax relief package for personal income tax payers While the major thrust of tax relief measures was aimed at people earning less than R70 000 a year all taxpayers would benefit, Manuel said

Property transfer duties were reduced to encourage home ownership

Manuel remained committed to the government's conservative Growth Employment and Redistribution (GEAR) policy while announcing a R1bn allocation for poverty relief programmes

Taxes on tobacco and alcohol have increased, some substantially Cigar smokers will pay R7,33 more per 23g and the price of cigarettes will increase by 41 cents on a packet of 20 The tax on pipe tobacco has risen by R1,56 per 100g

"We have outperformed ourselves" by bringing the deficit down from the projected 3,9% of GDP to 3,7% in 1998/99, Manuel told Parliament. The deficit was expected to further decrease in 1999/2000 to 3,5%.

Manuel's budget received high praise from economists and commentators who noted that it was investor-friendly

Rudolf Gouws, chief economist of Rand Merchant Bank, said: "I am extremely happy with the balance the minister has managed to find between, on the one hand, presenting a Budget which has a number of business friendly aspects to it, including the reduction in the corporate tax rate ... while at the same time presenting a quite credible case that delivery to the poor and the neglected has got going. This is quite a feat"

Equisec economist Dawie Roodt said the decrease in company taxes was good for foreign investment and the business environment.

The criminal justice system gets R23,5bn, of which the police force gets the lion's share, while the justice department's budget has been effectively cut by about 2,5%. Correctional services also received far less than they demanded

Manuel expressed disquiet about the growth in the public sector wage bill "The further restructuring of the public service — in line with the needs and requirements of our country and our development programme — is now urgent," he said

Owing to the fallout from global economic crisis, the slowdown in economic growth and high interest rates, the government had to revise its growth projections for 1999/2000 from 2% to 1,8%. This was expected to rise to 3,2% and 3,8% in the next two years, Manuel said

The New National Party described the Budget as a "damage control" exercise NNP finance spokesperson Theo Alant said the absence of a real increase in expenditure on crime-fighting was an indictment of the government. Alant said the ANC was being hamstrung by its SA Communist Party and Cosatu allies

Willem Botha of the the Freedom Front said Manuel "gives with one hand while taking with the other". He said those who earn above R70 000 a year were 28% of the total number of individual tax-payers but paid 66% of individual tax.

Democratic Party finance spokesperson Ken Andrew said: "Priorities in this budget should have been crime prevention, job creation and tax relief All were mentioned, but close examination of the figures reveal a sad lack of commitment Job creation on a sustainable basis should have been a second priority."

The SA Communist Party said it was particularly pleased that Manuel had issued a stern warning to unscrupulous loan sharks.

The ANC said the Budget showed commitment to the Reconstruction and Development Programme

BILLION-RAND SMILES: Deputy President Thabo Mbeki greets Finance Minister Trevor Manuel and the director-general of Finance, Maria Ramos, outside Parliament yesterday after Manuel's well-received Budget speech. *PICTURE: BENNY GOOL*

'We have outperformed ourselves' in bringing deficit down to 3.7% of GDP, says minister

Manuel drops company tax to 30%

(49) CT(BE) 18/2/99

Lynda Loxton

Cape Town — Tax cuts for companies and individuals dominated the "good news Budget" delivered to the national assembly yesterday by Trevor Manuel, the finance minister

The biggest surprise was a cut in corporate tax to 30 percent from 35 percent The cut in company tax was aimed at stimulating investment and encouraging job creation, even though it would cost the state R2,5 billion in lost revenue.

Manuel also unveiled a R1 billion poverty relief and employment creation plan. Contrary to expectations, he made no move on foreign exchange controls However, he told a media briefing that the Reserve Bank would announce new limits in a few days to reflect changes in inflation

He said the pace at which exchange controls should be relaxed would be re-examined over the next three months, especially in the light of recent developments in international financial markets.

Manuel said: "We have outperformed ourselves" by bringing the deficit down from the projected 3,9 percent of gross domestic product (GDP) to 3,7 percent in 1998/99. It was expected to move to 3,5 percent in 1999/2000

The R216,8 billion Budget (30,6 percent of GDP) focused heavily on social spending, setting new priorities in government spending and the continued need for fiscal discipline

Manuel praised the provinces, particularly the Western Cape and KwaZulu Natal, for the "phenomenal" turnaround in the quality of their financial management. This, he said, placed the whole economy on a much healthier footing.

CENTRE STAGE *Maria Ramos, the director-general of finance, and Trevor Manuel, the finance minister, outside parliament yesterday. Manuel said the Budget set new priorities in government spending and especially in fiscal discipline*

The tax cuts announced would strip out bracket creep, especially for lower- and middle-income taxpayers earning up to R70 000. Such cuts had been made possible by improved collections by the South African Revenue Services This would cost the government R4,8 billion in lost revenue

Manuel said the economy had been hard hit by the Asian crisis High interest rates had dampened confidence and growth was lower than expected at 0,1 percent in 1998.

He said he hoped interest rates would move down further later in the year, but this would have to take South Africa's low savings rate into consideration.

The economy was projected to grow 1,8 percent in 1999 and 3,2 percent and 3,8 percent respectively in the following two years. Manuel made no specific forecast on inflation in his speech but he told the media that he still hoped to introduce inflation targeting, although this would not be easy.

The instability in global financial markets had initially been felt in the capital account Its surplus had fallen by R5,4 billion after reaching a peak of R34,6 billion. Conditions had stabilised somewhat in the fourth quarter of last year

Manuel said that because of lower exports and higher imports by public corporations, the current account of the balance of payments was expected to register a deficit of 2 percent in 1998 against 1,5 percent in 1997

Despite slower growth over the last year, ordinary revenue rose 9,6 percent to R179 billion, or R2,3 billion more than expected

The revised national expenditure estimate for 1998/99 was R204,3 billion, or 7,2 percent more than in 1997/98

Manuel said although capital budgets remained modest, they were expected to increase through the growth in the number of public-private sector partnerships. "These partnerships are extremely valuable since they allow us to tap private sector savings to fund infrastructure and also open up many opportunities for small and medium-sized business."

Manuel said the focus of government financial management would continue to be on "better value for money" through reprioritisation.

"Departments will be asked to define more carefully and precisely what they will deliver with the resources which they have been allocated."

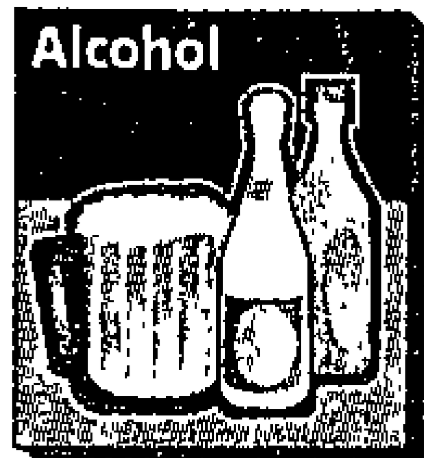
The government also hoped to raise R4 billion for the reduction of state debt from privatisation during 1999/00. Preparations were under way for further equity partnerships or outright sales of public enterprises, he said

Asked during the media briefing whether the R4 billion target was not too conservative, Manuel said there were quite a few processes under way, some of which were fairly complex. One example was Transnet, which was tied into the pension fund.

"We wouldn't like to overshoot that number .. we've tended to not be too adventurous in the past and haven't been far off."

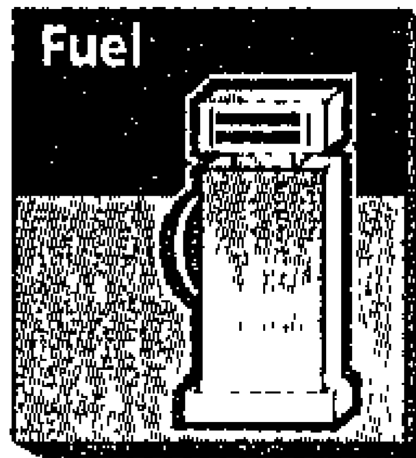
Manuel also said the restructuring of SAA was a complex issue because of the need to recapitalise the fleet.

The government was not in a position to estimate what proceeds would be realised, he said.

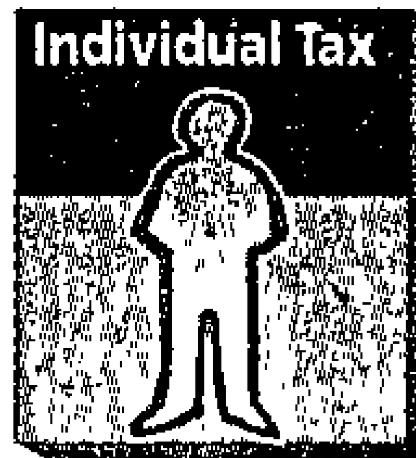


UP: Beer, wine, sparkling wine, cider, whisky, spirits

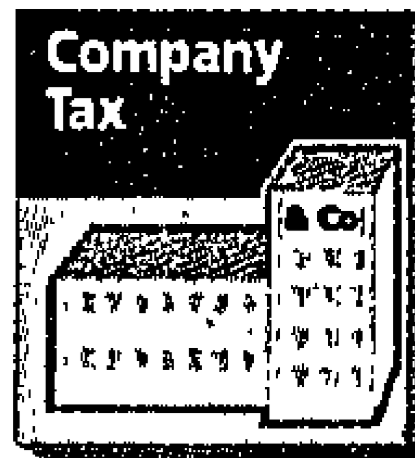
UP: Cigars, cigarettes, and pipe tobacco



UP: Fuel levy by 4c/l, but diesel is unchanged

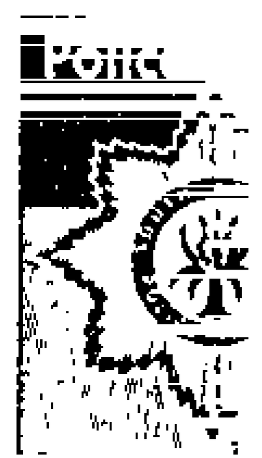


DOWN: PAYE tax on all income earners



DOWN: Reduction in rate from 35% to 30%

DOWN: Duties payable on property transfers



UP: C... prevention spending

Thumbs up as Manu

Finance minister generally praised for a disciplined Budget expected to boost investor confidence

By Jovial Rantao and Lukanyo Mnyanda
Cape Town

Finance Minister Trevor Manuel's Budget, characterised by a surprise business tax concession and job creation initiatives, has been widely hailed for its disciplined approach to fiscal policy

Manuel announced tax relief for low- to middle-income earners, putting R4,85 billion back into their pockets, and cut company tax from 35 to 30%. He allocated R3-billion to job-creation programmes, while stinging motorists with an extra 4c-a-litre levy on petrol. He again came down hard on smokers, raising the price of 20 cigarettes by 41c.

The financial markets, impressed by the balance struck between tax relief for companies and individuals, increased social expenditure and fiscal discipline, gave Manuel's Budget the thumbs up

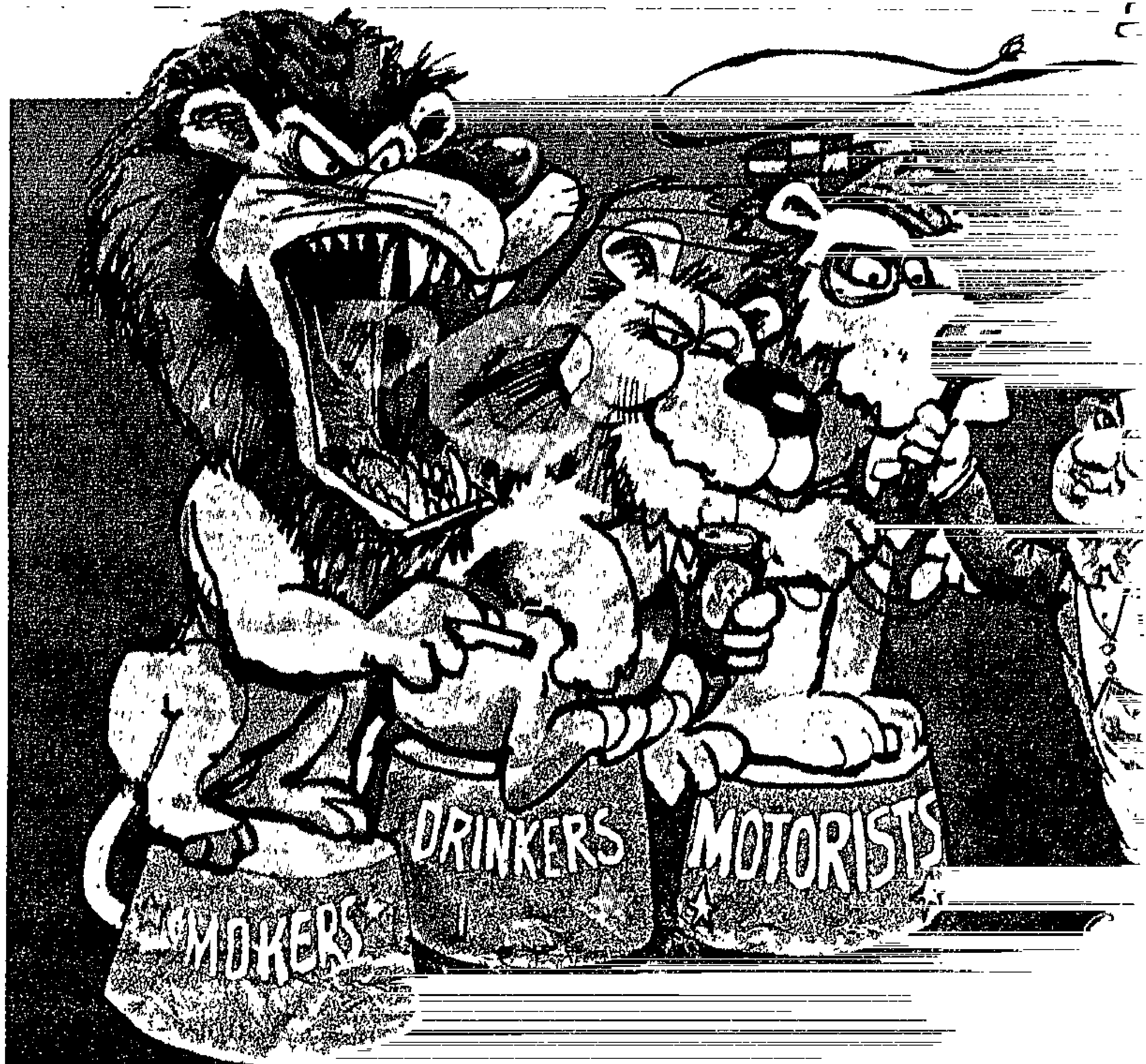
Economists and business leaders praised the Government's "bold" move to cut the tax rate on companies, interpreting it as a positive move aimed at boosting foreign investment and job creation.

Sandra Gordon, economist at Nedcor Investment Bank, said potential foreign investors who might have been concerned about the ANC pursuing populist policies ahead of the election had had their fears allayed.

Economists were, however, disappointed by the failure to make a policy statement on the further abolition of exchange controls.

South African Chamber of Business president Humphrey Khoza said the Budget was a confidence-building one which increased the level of certainty in fiscal policy, with an affordable emphasis on social expenditure

Reserve Bank governor Chris Stals was pleased with the Budget, which he said had come after an extremely difficult year in a tough international environment.



Opposition parties criticised the Budget as lacking vision and skirting the need for economic growth.

The New National Party described it as a "damage control" Budget. NNP finance spokesperson Theo Alant criticised the absence of a real increase in expenditure on crime-fighting.

The Democratic Party accused Manuel of ducking key issues by failing to prioritise government expenditure.

"Priorities in this Budget should have been crime prevention, job creation and tax relief," said DP finance spokesperson Ken Andrew.

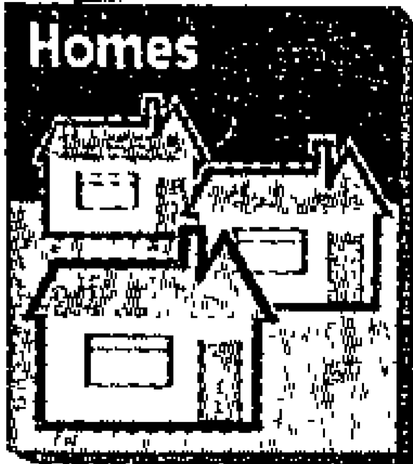
The Federal Alliance rejected the Budget as a typical election Budget which did not take into consideration the realities facing South Africa.

The Freedom Front's Willie Botha said although tax relief to individuals might appear impressive, Manuel gave with one hand and took with the other.

The IFP felt there were missed opportunities concerning economic growth which Manuel failed to grasp.

The ANC said the [illegible] showed the Government's [illegible]mitment to the RDP. T[illegible] Communist Party praised Budget, saying it priori[illegible] service delivery to the [illegible]

▶ **Comment and more reports, pictures** ... *Pages 6, 14 and Business Report*



DOWN: Duties payable on property transfers

UP: Crime prevention spending

DOWN: Less money to build facilities

UP: Money allocated to boost efficiency

UP: Social grants, women, children, elderly

UP: Navy, air force: less for the army

·lanuel cracks whip

(49) Star 18/2/99

ost investor confidence

Short reprieve before smokers, drinkers see prices rising

By Vivian Warby

Consumers can expect a few days' reprieve before retailers put up liquor and tobacco prices in response to tax increases announced by Finance Minister Trevor Manuel yesterday.

Prices increases are expected to vary from store to store, with a number of stores saying they would only start putting up prices next week. Other retailers would wait for new stock first.

A number of retailers had already put up alcohol prices from the beginning of the month when suppliers announced annual increases. In the case of beer, retailers said they would simply absorb the small tax increase announced.

Manuel hit smokers with whopping increases – for a pack of 20 that usually retails for R7, you will now be paying R7,41 and an extra R4 a carton.

And it's not only cigarette smokers who have been hard hit – cigar and pipe smokers will also feel the pinch.

Nicholas Rudi, co-owner of the Melville Cigar Exchange, said the increase on the duty on cigars of R7,38 per 23g would "really knock" the growing number of cigar lounges and pubs opening up.

A middle-range cigar will probably increase from R35 to R45 per cigar. The well-known and popular Montecristo, which sells for R65, will probably go up to around R90.

Jose Teixeira, owner of Melville Liquor Discounters, said increases in sin taxes would affect sales initially, but "people get used to it, or start buying cheaper brands".

The National Council Against Smoking has applauded the increase. Executive director Dr Yussuf Saloojee said "this will prevent more children from becoming addicted to nicotine than all the doctors in South Africa".

Edward Shalala, chief executive of the Tobacco Institute of Southern Africa said the excise

People get used to new 'sin' prices

tax policy of the Government would in the longer term erode the tobacco tax base, and the Government would eventually have to tax other products.

The liquor industry was happy with the minimal price hikes.

Beer costs retailers 1,6 cents more for a 340ml can.

The increase of 75,5 cents a litre for whisky was just as minimal. You will now pay R618,03 for a case of Bell's, as opposed to R611,28.

Benny G's managing director Rob Rutter was surprised at the minimal price increases.

as a typical ... did not ... ation the ... Africa. ... 's Willie ... tax relief to ... appear im- ... with one the other. ... there were ... concern- ... owth which

Manuel failed to grasp.

The ANC said the Budget showed the Government's commitment to the RDP. The SA Communist Party praised the Budget, saying it prioritised service delivery to the poor.

▶ **Comment and more reports, pictures** ... *Pages 6, 14 and Business Report*

Huff, puff bring the house down

Star (49) 18/2/99

Trevor Manuel could not resist singling out both President Nelson Mandela and Deputy President Thabo Mbeki for special attention during his Budget speech.

Announcing an additional tax rebate for people over 65, he said, to good-natured laughter from MPs on the floor of the house and spectators in the public galleries, that he hoped Mandela was listening.

Mandela, sitting in his presidential bench just to the left of the Speaker's podium, smiled in acknowledgment.

Mandela (80), who is retiring from politics after this year's general election, joked at the opening of Parliament on February 5 that he would soon be standing on the streets carrying a piece of cardboard stating he was unemployed and had a large family to support.

When Manuel announced an increase in excise duties on tobacco products, bringing the total tax on them to 50% of the current retail price, Manuel said: "Sorry, Mr Deputy President."

It was the turn of Mbeki, an avid pipe smoker, to smile.

Manuel, who was presenting his third Budget, drew a number of rounds of applause during his 80-minute speech, when he praised the Government's success and commitment to improving the lot of impoverished South Africans.

The loudest applause was reserved for the seemingly inevitable raising of the "sin taxes",on cigarettes, other tobacco products and alcoholic beverages.

MPs also applauded warmly when Manuel pointed to the presence in the public gallery of outgoing Reserve Bank governor Chris Stals and his successor-in-waiting, Tito Mboweni. – Sapa

Social services and poverty relief given a bigger slice

Cape Town Trevor Manuel has retained service delivery as a core priority for his Budget, promising that the Government's focus will remain firmly on investing in people and improving living conditions.

Manuel said the lion's share of non-interest spending (66%) would go to social services, with these areas of government set to receive R103,7-billion.

He said the global financial crisis of the past 18 months had highlighted the need to concentrate on uplifting the poor.

"The global crisis has highlighted that it is the poor and vulnerable, and in particular women and children, who bear the greatest burden of the pain when economic institutions fall," he said.

Admitting the global economic downturn had hurt local social and development programmes, he said these would strengthen as growth returned to the economy over the next few years. – Political Staff

Highlights of the Budget

- A R4,85-billion tax relief package for "ordinary working people" involving restructured tax brackets, reduced rates and a R199 increase in the primary rebate.
- A cut in the corporate tax rate from 35 to 30%, which means the Government will take R2,5-billion less in tax from businesses in the 1999/2000 financial year.
- An increase in excise duty on cigarettes, bringing total tax to half the current retail price, in a move designed to contribute to "healthy living".
- Beer drinkers to pay 1,6c more on a 340ml can, while a 750ml bottle of spirits goes up by 56,6c. Unfortified wine to cost 2,5c more a bottle, while excise duties on soft drinks are cut by 19%.
- Levies on petrol up 4c a litre, but no tax increase on diesel.
- Transfer duties on property lowered to encourage home ownership, especially among lower income earners.
- More money for the police in their fight against crime, a moderate increase for justice, and a cut in the amount spent on prisons.
- A moderate increase in the defence budget to R10,6-billion.
- Unchanged allocations to provinces for education, health and welfare.
- A call for urgent restructuring of the public service to slash the rising state wage bill.
- R3-billion for targeted poverty relief and job creation such as the Working for Water programme, giving effect to Jobs Summit commitments.
- Projected spending in the coming year of R216,8-billion and revenue of R191,7-billion, leaving a deficit of R25,1-billion, or 3,5% of GDP.
- Revenue of R179-billion in 1998/99, R2,3-billion higher than expected, leaving an estimated deficit of 3,7% of GDP.
- A downward revision of growth projections for 1999/2000, from 2% to 1,8%, expected to rise to 3,2% and 3,8% in the following two years.
- No new relaxation of exchange controls. – Sapa

One of the best packages in years, says business

(49) Star 18/2/99

STAFF REPORTER AND SAPA

Cape Town – The Budget was generally well received by business.

The National Association of Automobile Manufacturers of SA said the new tax proposals in the 1999/2000 Budget made it one of the best packages in years.

The R4,5-billion in tax relief for individuals and the reduction in corporate tax would "lend support to any upward momentum in the economy", said Naamsa president Christoph Kopke.

"The reduction in the nominal corporate tax rate from 35 to 30% is a most welcome development which will render South Africa's company tax structure more competitive internationally and which will improve South Africa as an investment destination," Kopke said.

He expressed relief that Manuel had not increased tax on fringe benefits such as car allowances, which Naamsa believed "was already at extremely high levels by international standards".

The reduction in tax rates and increase in rebates for the lower to middle-income groups would help to boost the disposable incomes of a large number of South Africans and thus increase demand in the economy. The proposals should also be well received by foreign investors, the business community and financial markets, added Kopke.

Econometrix director and motor industry analyst Tony Twine agreed the Budget would provide some relief in the "car-buying income group".

The South African Chamber of Business said the Budget was a confidence-building one which should have a favourable effect on financial markets and investors.

It increased the level of certainty in fiscal policy, being based on sound principles, with an affordable emphasis on social expenditure, said Sacob president Humphrey Khoza.

"Given current internal and external economic conditions, Mr Manuel's proposals will nonetheless be seen as a holding operation until after the elections, when the incoming government must develop and implement strategies to promote sufficiently high economic growth to solve the country's poverty and unemployment problems," Khoza said. He added that the deficit of 3,5% of gross domestic product targeted by Manuel should contribute to further reductions in interest rates soon.

The SA Municipal Workers' Union welcomed the poverty alleviation measures announced but said the money allocated to local government for services was disappointing.

CAPE ARGUS, **THURSDAY**, FEBRUARY 18, 1999

ARG 18/2/99

Markets, economists cheer 'good' Budget

(49)

Manuel 'did not go far enough', say opposition

CHARLES PHAHLANE

POLITICAL CORRESPONDENT

Economists and markets cheered the Budget which was hailed as positive overall while opposition parties charged that the Government did not go far enough.

The Johannesburg Stock Exchange and the bond markets finished on a high note buoyed by the "realistic" Budget.

"There is nothing big that is negative. Just look at the reaction of the market then we know that it is a good Budget," said Dawie Roodt, an economist at Transnet.

Nico Czypionka, chief economist at stockbroking firm Societe General Frankel Pollack, said the Budget was not an election one.

"It was not pivoting around the populist as some were saying. It is an analysts' budget," he said.

The South African Chamber of Business also welcomed the Budget saying that, despite certain "shortcomings and omissions" it supported current economic policy strategies.

But opposition parties said Mr Manuel failed to take opportunities available to him to stimulate economic growth.

Gavin Woods, Inkatha Freedom Party spokesman on finance, said Mr Manuel could have introduced ad hoc measures to curb inefficiencies in government like the bloated public service while waiting for the implementation of the Public Financial Management Act.

New National Party finance spokesman Theo Alant said the fact that there was no real increase in the Government's expenditure on crime was an indictment on the ANC leadership's commitment to it.

The Freedom Front said that although income tax relief to individuals could appear impressive, Mr Manuel "gives with one hand while taking with the other."

The Democratic Party said the "beauty of the Budget is skin deep." It said priorities in the Budget should have been crime prevention, job creation and tax relief.

The South African Communist Party welcomed the Budget and said it was particularly pleased that Mr Manuel warned unscrupulous micro-lending industries.

Adjusting his budget view: Trevor Manuel's cut in company tax will enhance investment and job creation by making South Africa more attractive to foreign investors

Take a bow, Trev

The millennium budget has proved to be a pleasant surprise for foreign and local investors alike, reports **Donna Block**

(49) M&G 19-25/2/99

Minister of Finance Trevor Manuel should stand up and take a bow. His end of the millennium budget has been a crowd pleaser in international money circles and foreign analysts are "pleased as punch".

They were somewhat surprised and see it as a major step forward for South Africa that the company tax rate would be cut to 30% from 35%. This will provide a much-needed impetus for increased foreign direct investment and the overall net result will be a significant improvement in company profits. Investment in South Africa and other emerging markets has been a sensitive issue for the past year, but most analysts are confident that foreign investment will improve in the present environment.

The current combined company tax rate — made up of a corporate tax of 35% and a 12,5% secondary tax on companies — stands at 42,2%, higher than that of many of South Africa's key trading partners.

Manuel said the new tax dispensation would cut the combined rate to 37,8%, which would fall more in line with other countries.

The finance minister also told Parliament he hoped the lower rate would make South Africa more attractive to domestic and foreign investors and said that in order to sustain growth and job creation it was important that South Africa work toward making the economy more competitive and that an environment be created where small and medium-sized companies can "develop and thrive".

The cut in company tax will also enhance investment and job creation by not only making South Africa more attractive to foreign investors but by translating into significant cash flow benefits for small and medium sized companies, thus giving them the ability to play a leading role in job creation and economic development.

According to Mike Schussler of FBC Fidelity Bank, "South Africa will be more attractive to a wider range of investors and will be more likely to attract more and more business." The rest of the continent also sees South Africa as a strategic position for business ventures.

But analysts also commented that attracting foreigners to set up shop in South Africa was not the only challenge facing the economy. The more formidable task is for South African companies to become global players and that any money which is saved as a result of a smaller tax burden may be used for assistance in training and education.

However, some analysts remained cautious about making too much out of the tax cut, saying issues including South Africa's infamous crime record would continue to trouble both foreign and local investors.

Manuel failed to provide a hike in real terms in the policing budget which would have contributed to the fight against crime. Crime remains a major obstacle to the South African government's attempt to attract foreign investment and play down the country's image as one of the world's most dangerous places — not helped by the recent murder of the chairman of Daewoo South Africa.

Foreign investors were also gratified to see that electioneering was not a part of Manuel's budget speech. There was some concern that in the run up to the elections in May the budget would become a pre election event or a "hyped" political tool used by the African National Congress to accumulate support. But as one New York specialist commented, the budget is a "a step in the right direction".

"It's all very boring but definitely positive, our hats are off to them [the government]," he added.

Although there was some expectation by international investors that remaining exchange controls would be lifted at this time, it was not a major concern to the investment community.

One New York broker said he was actually glad that they weren't lifted at this time as he doesn't think South Africa's markets could "swallow" any more exchange controls.

The budget review states that the government remains committed to the gradual relaxation of exchange controls contingent on macro economic sustainability.

Foreign money managers are also positive about the pace of privatisation, although they want to see continued improvement in this area. They are also concerned about the low level of domestic savings. However, they are not the only ones. The government is worried about the lack of savings as growth in South Africa continues to be dependent on inflows of foreign capital to supplement domestic savings.

Manuel made a point of addressing this problem in his budget speech and said that the high interest rates "signalled the importance of improving our saving performance, reducing our reliance on foreign capital flows". However, for the moment "we have to attract foreign investment, making our international relations a key focus of economic policy.

"Our commitment to sound and sustainable economic policies is increasingly recognised as our strength — our investment grade ratings have been confirmed by two international credit rating agencies."

Manuel said that the global economic conditions of the past year had weighed heavily on the country, saying that "for many, the steep rise in interest rates last year was a sharp reminder that there are both costs and benefits of more open international markets".

But, nonetheless, he remained committed to reducing the overall burden of debt and a fiscal approach which lowers inflation, "keeping basic goods affordable and protecting the incomes of the poor".

The global economic turmoil has been felt more severely by other emerging market countries, like Russia and Brazil, who have had trouble maintaining their debt burdens once a crisis broke.

One economist noted that the International Monetary Fund didn't have to come to South Africa's rescue during its crisis, and the government's monetary policy and spending controls have been a benefit to South Africa.

"South Africa has lived through 12 months which were pretty tough," Manuel said, making reference to the currency crisis which forced interest rates sky-high and brought the country to the precipice of a full blown recession.

Other countries hit by the same emerging market crisis had been forced to cut spending, but South Africa's "social service commitments are largely protected", he said.

Manuel predicted that South Africa's economy will grow by 1,8% of gross domestic product — which some international fund managers still believe may be wishful thinking — in 1999/2000, compared to a previous estimate of 2%, and the budget deficit will be held to 3,5% versus a revised 3,7% in 1998/1999.

Growth for the period will be well below original forecasts of 3% growth set out a year ago before attacks on the rand forced the Reserve Bank to tighten monetary policy and choke the economy.

Nonetheless, Trev, take a bow.

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GWS1AVA

A kick in the teeth for middle classes

Everyone is smiling about the Budget except middle and upper earners, writes LEIGH ROBERTS

(49)

TREVOR Manuel's Budget was, at first glance, easy on the eye. But its contents — and moreover, its omissions — hold gloomy undertones for middle- and upper-income citizens

The tax side of this year's Budget can be summed up in two words people pleasing Indeed, it was so obliging it conjures up images of Manuel lying back and thinking of England

The Budget was pleasing to business, the corporate tax rate was slashed from 35% to 30%

The Budget was pleasing to the bulk of Manuel's electorate tax relief at the lower end, and numerous references to women and other disadvantaged groups

The only citizens who are unlikely to have been gratified by Manuel's Budget are those who pay the bulk of the country's income tax — the 570 000 people (10% of individual taxpayers) who contributed 46% of the revenue from individual income tax last year

For sure, corporate tax rates needed to come down — to entice foreign investment, to counter the effect of prolonged high interest rates, and to stimulate much-needed job creation

And indirect taxes such as VAT couldn't have been hiked as it would have hurt the general electorate (despite the international trend to indirect taxes instead of direct taxes on income).

So that left the 570 000 taxpayers whose vote doesn't amount to much, notwithstanding the acknowledgement in the Budget Review of international consensus being that "high personal income tax rates impact adversely on the work effort, and encourage participation in the underground economy, triggering distortions in investments".

What the Budget made clear is that this scenario is unlikely to change in the medium term, despite the need for higher savings in the economy, and the fact that lower tax rates have succeeded in boosting economic growth in other countries.

Middle and upper income taxpayers can feel rightly miffed at an oft-said promise that was broken in this Budget — when tax collection improves, income tax rates can come down.

Collection has improved: the tax take will be R2-billion higher than last year's target. This is due to a new computer system at SARS and heightened investigations that have netted 181 000 new taxpayers.

Yes, this extra money has been allocated in this year's Budget to lower income tax rates. But it largely helps taxpayers with taxable incomes of less than R70 000 a year

There are other gloomy undertones in the Budget.

No move was made to relieve fiscal drag on taxpayers earning more than R70 000 a year; R3-billion was spent on relieving taxpayers in lower brackets

Unlike in previous Budgets, there was no renewed attack on fringe benefits But don't be fooled into thinking they have gone unnoticed

The tax authorities don't like perks — they distort the tax structure — so the lifetime of the few remaining fringe benefits that offer a tax saving to employees is likely to be short. This will slice into the take-home pay of many employees

No change was made in the Budget to the tax on retirement funds And no mention was made of the burning issue of how retiring employees will be taxed on their pension or provident fund payouts.

Some light was shed by Deputy Finance Minister Gill Marcus at an Investec post-Budget presentation in Johannesburg this week.

First of all, the current tax on retirement funds — 25% on a fund's rental and interest income — is here to stay Marcus said she was not comfortable with the rate (it jumped from its entry level of 17% in the previous Budget), nor is she happy about increasing it, but the fiscus needs the R5-billion-plus tax take from the industry.

Second, the taxation of the retirement industry should be looked at in all its dimensions, she said, and this included the taxation of lump sums. So it appears that certainty on how lump-sum retirement receipts will be taxed is going to be a long time in coming.

Third, the retirement industry was unlikely to be looked at in isolation, but rather in the context of savings in general, she said.

In Manuel's Budget there were no changes to the existing exchange control allowances. Thankfully, this is not a change in the policy of gradual relaxation of controls; it is merely a move to hand back responsibility for announcements to the Reserve Bank.

It is expected that the Reserve Bank will shortly announce inflation adjustments and new ceilings to the existing allowances.

Marcus said further exchange control relaxation would be influenced by international conditions.

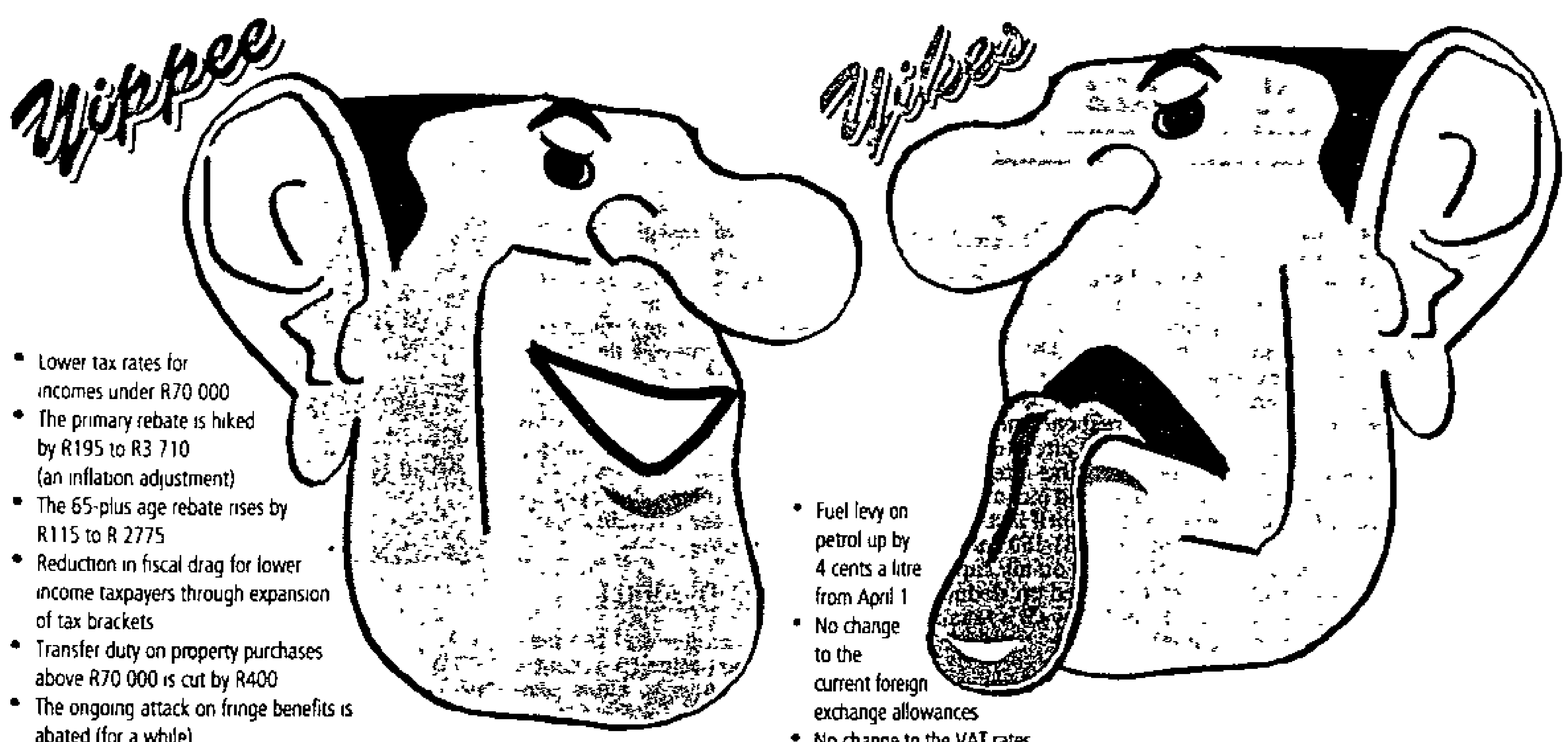
The tax changes contained in this year's Budget will certainly be keeping tax consultants busy making the most of structured salary packages while the perks can still be had, and using the existing estate duty and donations tax legislation for long-term protection of wealth

And there is a brand new issue for the consultants to tackle: should small business entrepreneurs convert from sole proprietorships and partnerships to a company or close corporation?

There is a huge differential between the 45% maximum marginal tax rate paid by an individual and the new 30% corporate tax rate. This makes the rewards of incorporation rich. Be warned, though, the Revenue Service has set up teams to investigate such arbitrage transactions.

But as is stated in the Budget Review: "Both local and international courts have held that taxpayers have the right to plan their affairs to minimise their tax liability"

Your Budget was a fine piece of electioneering work, Trev.



- Lower tax rates for incomes under R70 000
- The primary rebate is hiked by R195 to R3 710 (an inflation adjustment)
- The 65-plus age rebate rises by R115 to R 2775
- Reduction in fiscal drag for lower income taxpayers through expansion of tax brackets
- Transfer duty on property purchases above R70 000 is cut by R400
- The ongoing attack on fringe benefits is abated (for a while)
- No increase in tax on retirement funds
- No fuel levy increase on diesel
- Companies and close corporations score from the lower tax rate of 30% from 35%
- Watches, mineral water and soft drinks should come down in price with the excise duty relief
- State pension up by R20 a month to R520, but this is lower than inflation
- No change to estate duty or donations tax or the taxation of trusts
- Excise duty of 10% imposed on fireworks

- Fuel levy on petrol up by 4 cents a litre from April 1
- No change to the current foreign exchange allowances
- No change to the VAT rates
- Excise duty rises on cigarettes (20%), cigars (3700%), pipe tobacco (166%), beer (5%), wine (6%) and spirits (7%)
- Excise duty of 10% now on loudspeakers, blank tapes and computer discs, shaving preparations and unperfumed petroleum jelly (!)
- Uncertainty remains on how your pension or provident fund payout at retirement will be taxed
- The nation's tax burden rests squarely on the shoulders of middle and upper income taxpayers

ST (BT) 21/2/99

Revenue revamp raises money for budget generosity

(49) BD 22/2/99

Government revenues are up thanks to a team headed by Gill Marcus, writes **Hilary Joffe**

A STRIKING feature of last week's budget was its reliance on a hike in tax revenues despite a slowing economy. To the surprise of quite a few economists, this financial year's revenue take is up 10% and has exceeded the budget estimates by more than R2bn.

This reflected much improved tax collection as a result of the transformation of the SA Revenue Services (SARS). The 1999/2000 revenues are expected to rise again, with improved efficiencies budgeted to bring in an extra R2,7bn.

Deputy Finance Minister Gill Marcus, whose responsibilities include the revenue service, has played no small role in modernising the collection of taxes and duties.

She says the efficiency gain at the SARS will have added R13,4bn to tax revenues over the three years up to and including fiscal 1999/2000.

This comes close to the R15bn-R20bn the Tax Commission estimated in 1994 to be missing from the system. "We now believe that is an underestimation," says Marcus.

And the SARS — which has undergone far-reaching changes to its systems, technology, processes and people since late 1997 — is now well on its way to rounding up the missing taxes and customs duties.

In the process, it is making it possible for government to make concessions in reduced personal income and company tax rates which it would not otherwise have been able to afford.

Marcus can be proud of this achievement. Probably the only reason tax experts are reluctant to describe her as indispensable, is that no one wants to detract from the achievements of Finance Minister Trevor Manuel or of the other members of the team — SARS chief Trevor van Heerden and his deputy, Pravin Gordhan, as well as finance director-general Maria Ramos.

Marcus, 49, has seldom been out of the limelight since she returned from exile in 1990 to become spokesman for the African National Congress (ANC) and then chair of the parliamentary standing committee on finance, before being appointed deputy minister in 1996.

She is highly regarded in business and financial circles, where admiration for her efficiency and ability to grasp complex but crucial issues keeps growing. She has also remained consistently popular in her own party — she came in at number 12 on the ANC election list published last week.

Marcus took a very "hands-on" approach to the SARS, says Gordhan. "She has been meticulous in understanding its problems and has been very supportive of its moves to overcome these."

Revenue collection, as Marcus sees it, is not just about collecting money. "It is about governance." An effective revenue service gives investors — domestic or international — certainty and confidence. Government also has the task of protecting SA's economic base and to combat smuggling, grey goods and the like, it must be able to collect customs revenues efficiently.

"We have come off a very low base and we are nowhere near where we want to be yet," she said.

Gill Marcus... playing no small role

"But as we have broadened the tax base, we have been able to put the benefits back into the pockets of ordinary people." She gives credit to the SARS's staff: "Top to bottom, they have worked enormously hard to reorganise themselves and the collection of revenue."

There is a new computer network, new regional tax offices with authority devolved to them and the service has brought in some key professionals in senior posts. The idea, says Marcus, is that it should provide a fair and efficient service to taxpayers — the relationship should not be an adversarial one.

The service's success on the tax side has not been matched, so far, on the customs side — a joke doing the rounds recently characterised SA as a "duty-free zone". Nevertheless, Marcus says there have been significant successes in curbing smuggling, particularly of drugs.

But she stresses the magnitude of the task involved in reforming customs collection.

SA had 38 international airports, now cut to 10. There were 119 border posts — now narrowed down, for customs purposes, to 19 points of entry.

Under the previous government, the policing task at border posts superseded the customs task, because of tense relations with neighbouring countries. Now it is a case, says Marcus, of rebuilding customs in a democracy.

One of the crucial steps the SARS has taken is the move to a single file for each taxpayer, spanning income tax, value added tax, customs and the like, so that an individual is unlikely, for example, to escape scrutiny if he claims minimal income but imports a R10m yacht.

The SARS is also benefiting from government's ability to plug into international assistance. Sweden's tax authority has a five-year programme to second its top tax experts to the service. An excellent tax audit system has been developed, says Marcus, and by the end of next month 75 SARS staffers will have been trained by the Swedes to use it.

On the customs side, the SARS is being assisted by British government experts. And French customs is providing its expertise in combating smuggling and drugs, especially useful because of its close relations with French-speaking Africa.

Says Tax Commission chairman Michael Katz, who has also worked with Marcus on another of her responsibilities, the regulation of SA's financial markets: "She brings skill, enthusiasm and urgency to her task. She has a very keen commercial acumen and an understanding of the international environment."

Johannesburg Stock Exchange president Russel Loubser describes her as "super efficient".

Marcus spends almost all of her weekends, and what working days she can spare from finance ministry and party work, at her constituency in the Tsitsikamma region of the Eastern Cape.

From her office in Humansdorp she is helping to drive the creation of a Khoisan heritage site, part of the development of a "Tsitsikamma adventure" which includes forest trails and crafts as well as the world's highest bungee jump.

"I'm very lucky. The people are lovely and so is the area. The most exciting part has been people's rediscovery of their heritage and their pride and sense of purpose."

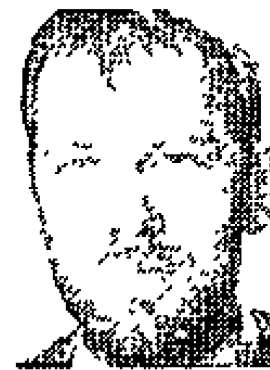
So which part of her job does she enjoy most? "I can't separate them. I give each a different part of myself, a different focus. But to me they are all part of a whole, all part of trying to get our new democracy working."

Now it's official: SA is falling apart

Budget report warns of ticking timebomb

(49) ARG 23/2/99

CHRIS SAWYER
POLITICAL CORRESPONDENT



A budget timebomb is ticking for South Africa in the next millennium because it is not spending enough money on maintaining vital public-sector assets like roads, hospitals, police stations and clinics.

The warning, in a Department of Finance budget office report used to compile this year's Budget and issued to the National Assembly's finance committee, was based on a review of the infrastructure needs of four government departments.

The Department of Education faced a shortfall of R1,3-billion in the funds it would need in the next nine years to repair the 18% of schools in such bad condition it would take up to their entire replacement cost to fix them, and the 40% which needed minor repairs.

Unless R8-billion was spent on rehabilitating existing health facilities, 30% of existing infrastructure would soon be beyond repair.

Other backlogs included a shortfall of up to R3,4-billion in the next 10 years in the transport budget and R1,5-billion in the public works budget in the next five years.

Estimates are that there is a possible R5,1-billion shortfall in funding for public-sector roads.

If no new construction was done or backlogs addressed, it was possible that the present budget could cover rehabilitation, maintenance and interest, but this was not desirable because of the country's economic policy objectives of growth and development.

Provincial roads needed the most maintenance, but with the possible exception of Gauteng no province was making adequate provision.

"In KwaZulu Natal alone, the bulk of the province's road infrastructure have not received routine maintenance for up to 17 years."

The Department of Public Works reported maintenance backlogs including R944-million on police stations, R386-million on magistrates' courts, R725-million on prisons, R109-million on administration offices and R5,5-billion on military bases.

In a submission to the Department of Finance, the Department of Public Works said it served no purpose to add to the country's infrastructure if funds were not available to maintain existing infrastructure.

The report's authors called for "innovative methods" to solve the backlogs, warning that trying to meet them directly through the national and provincial budgets would "place severe pressures on the fiscus".

In recent years, the capital budget had been crowded out by present expenditure, the report said.

"It can be argued that if the maintenance and rehabilitation of public sector assets is not addressed with some urgency, the nation risks not only losing its resources, but continued neglect could impair the nation's ability to meet its social and economic policy objectives."

The report said assets like roads and buildings could operate with minor maintenance spending, of about 5% of value, for long periods.

The report said roads were a good example, because they needed resealing every five years at a cost of R50 000 a lane a kilometre, but if this was not done in time the cost shot up to R200 000 a lane a kilometre and, in turn, if allowed to deteriorate to very poor condition, to R800 000 a lane a kilometre.

The report said that if the Government wanted to eliminate the backlogs in a shorter time, it would either have to allocate more money or accept a lower level of delivery.

SA does not support call to cancel its debt

(49) BD 23/2/99

CAPE TOWN — SA does not support the growing campaign for the forgiveness of its foreign debt because most of the liabilities were built up after the fall of apartheid, a senior finance official said yesterday

Finance director-general Maria Ramos told Parliament's finance committee that only about 5% of SA's total debt of more than R300bn was owed to foreign lenders.

Finance Minister Trevor Manuel said one of the most crucial issues to be addressed was the fact that any debt write-off would drastically increase the risk premium demanded for future government borrowing.

Of about R5bn of foreign debt ring-fenced in a loan standstill agreed to before the 1994 elections, only about R236m was still outstanding, Ramos said.

"The rest of our foreign debt has by and large been taken on by this government since 1995," Ramos said. "That debt is not up for any negotiation whatsoever."

Manuel said a campaign by various nongovernmental organisations and church leaders, both in SA and abroad, was well intentioned, although some issues were not fully understood. He said talks were under way with campaigners.

Neville Gabriel, national secretary of the Jubilee 2000 campaign to scrap all apartheid debt, said the bid was not directed at government but at companies

"We are not asking government to cancel or renege on debt .. We are asking corporations who benefited from supporting apartheid both at home and abroad to pay back something towards reparations."

Gabriel said some of the debt issued since the end of apartheid had been used to service the loans of the former regime The debt of southern African states that had suffered Pretoria's policy of destabilising the region should also be forgiven

High interest rates meant the cost of servicing SA's total state debt would amount to more than 20% of government expenditure in the current fiscal year

This month, international campaigners called for a thorough investigation into the role of the Swiss and German financial sectors in SA under apartheid, taking their cue from the probe into banks' involvement with the Nazis in the Second World War

The campaigners have urged financial institutions to compensate SA and its neighbours for damage caused by apartheid, through direct payments and by cancelling debt. — Reuter.

New calls to scrap apartheid foreign debt

CT 23/2/99 (49)

SOUTH AFRICA's total outstanding foreign apartheid debt amounted to just R235,8-million, finance director-general Maria Ramos said yesterday.

Addressing a National Assembly finance committee hearing, Ramos said loans taken out by the present government were unlikely to be open to renegotiation.

Her comments come amid growing calls — from the Jubilee 2000 campaign and other non-government organisations — for South Africa's apartheid debt to be written off.

South Africa's total state debt is projected to reach R377 billion by the end of March this year, with the bulk of the money owed to local institutions and pension funds.

Finance Minister Trevor Manuel told the committee some of the issues around debt write-offs were misunderstood.

He said he welcomed debate on the issue, and had met representatives from various non-government organisations to discuss their views.

Ramos said the government, while planning to borrow R6bn off-shore in the forthcoming financial year, could comfortably finance its deficit on the local market.

Offshore borrowing in 1999/2000 could take place in any foreign currency, although the Euro was currently looking the most favourable.

The government was also considering raising funds through other innovative financial instruments, such as inflation-linked bonds, Ramos said.

Manuel defended government's prediction that the economy would grow by 1,8% in 1999/2000, a figure which is considered optimistic by most economists.

He said he based his view on the fact that many companies had reduced their inventories and would have to start restocking, that interest rates were expected to fall, that the weaker rand would boost exports, and that the demutualisation of Sanlam and Old Mutual would boost growth.

Manuel said a long-awaited White Paper on Budget reform would be introduced in the first session of the new Parliament.

It would contain details of what the finance department wanted done to refine the budgeting process, as well as a financial management manual. — Sapa

FOREIGN CREDIT *Less than 10% of SA's debt stems from the apartheid era*

Manuel dismisses debt write-off

(49) CT (BR) 23/2/99

LYNDA LOXTON

Cape Town – Trevor Manuel, the finance minister, and Maria Ramos, his director-general, dismissed yesterday calls for South Africa's foreign debt to be written off

Answering questions from the portfolio committee on finance, they said only about R235 million of South Africa's debt of more than R300 billion was from the apartheid era.

Manuel said calls for this debt to be written off might be well-meaning, but showed the issue was not well understood.

Most of the debt had been built up since 1994 and any attempt to renegotiate any of it could affect the country's international credit rating.

MAN OF REASON *Trevor Manuel tells parliament yesterday that renegotiating debt could harm SA's credit rating*

He said a capital gains tax could still be on the cards and should be "flagged for further discussion."

Manuel said the 5 percentage-point cut in company taxes announced in the Budget last week was aimed mainly at small and medium-sized businesses, which had been hard hit by higher interest rates because of their higher levels of debt.

He said wage negotiations with the civil service would be "pretty tough" this year, given the choices that had to be made between the quality of the civil service and higher wages. He believed that wage increases should be based on performance.

He added that the white paper on budget reform was nearly completed. It should be presented to parliament at the beginning of the next session after the elections

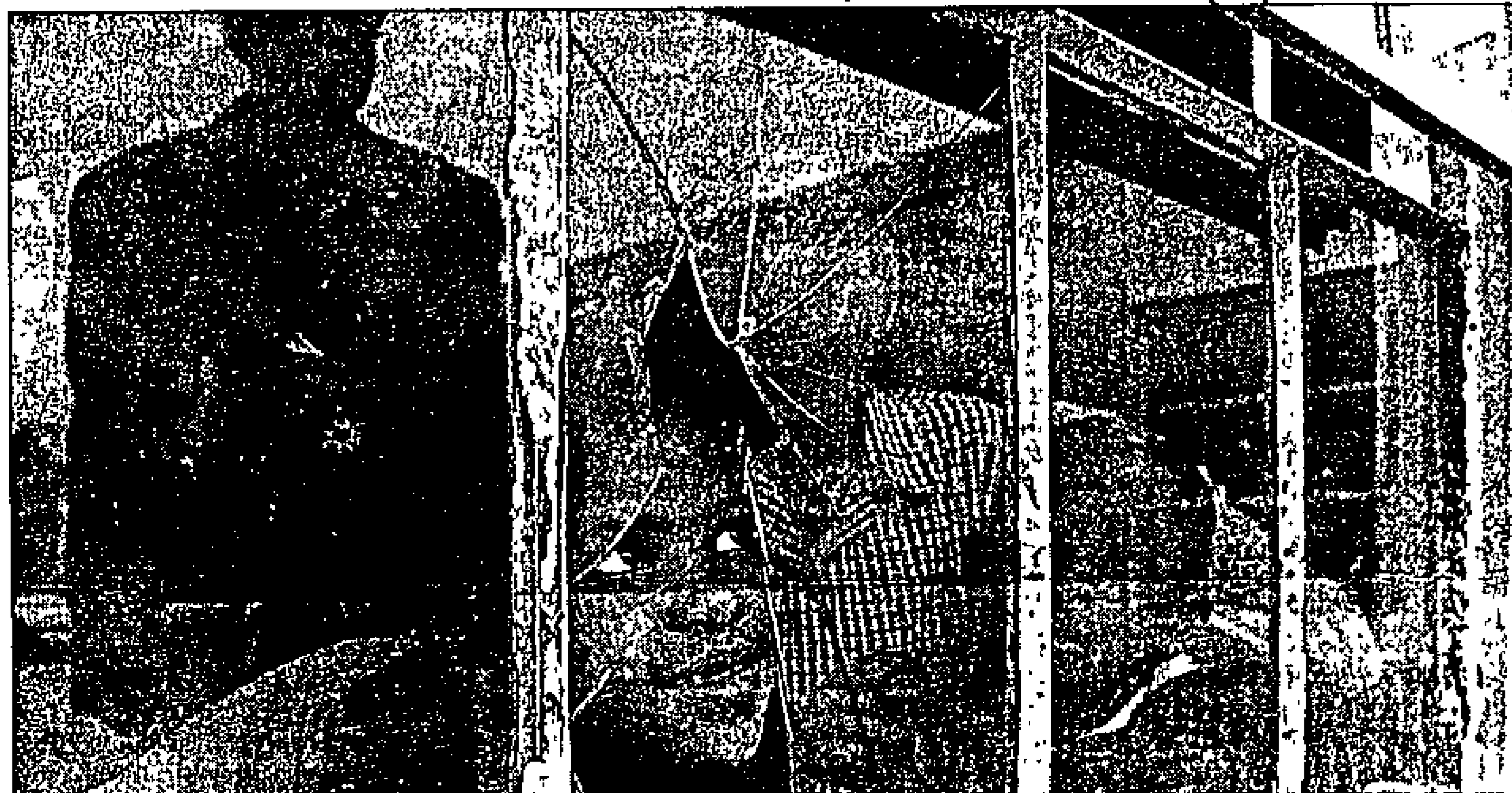
Public-private sector partnerships would increasingly be emphasised in the provision of infrastructure. This was in line with international trends, Manuel said.

'Truth' about SA's apartheid debt

CT 25/2/99 (49)

MOLEFE TSELE

Support for Maria Ramos's assessment of South Africa's indebtedness is misplaced



Jubilee 2000 says if SA's foreign debt were written off, a fraction of that amount would provide all our schools with textbooks. Pupils such as those at Mvula Independent School, Crossroad, would certainly benefit

THE ministry of finance wants to solve our apartheid problems by a statistical sleight of hand. Consider its claim that there is no apartheid foreign debt. Giving full meaning to Mark Twain's aphorism about three kinds of lies — lies, damned lies and statistics — director-general of finance Maria Ramos and her departmental colleagues claim that the foreign debt is "only" some 5% of the total debt.

Even if this were true, 5% translates into R15-billion. It is interesting to hear that R15-billion can be dismissed as trivial. Yet:

❑ A mere 0.17% of R15-billion would restore the rail service to what it was before the recent cuts.

❑ R4-billion would provide housing for the 200 000 families on Cape Town's housing waiting list.

❑ R400-million would provide all our schools with textbooks.

The finance department, however, wants us to believe that R15-billion is not worth a raised eyebrow.

What is more, R15-billion is merely that part of the foreign debt acknowledged by the finance department. The total apartheid foreign debt is in fact more than R100-billion.

There is an easy explanation for the discrepancy between Ramos's figures and ours. She conveniently chooses to exclude parastatal and private-sector debt from the equation. The R15-billion is the current size of only the government's portion of the total foreign debt.

Excluded from the government debt are the private apartheid foreign debts of the parastatals (the Eskoms and Transnets etc), private companies, banks and other financial institutions.

All foreign debts, however, are the responsibility of the Reserve Bank and are paid out of our national foreign-exchange reserve, with a very direct impact on our national balance of payments. This is why it is called our "national foreign debt". But this is precisely what the finance department does not want us to know.

The international sanctions campaign against apartheid and the government's attempts to get around it account for both the smallness of the public debt and the large size of the private debt.

The finance department is keen to present Jubilee 2000's position as being unilateral repudiation of the foreign debt. This falsehood allows the department to be a scaremonger, to conjure up a most horrendous retribution by the international community. History suggests the opposite.

We have good reason for expecting our foreign creditors to agree to cancellation of the debt. Thanks to the precedent set by the government of the United States, international jurisprudence allows South Africa to call on the Doctrine of Odious Debt. This doctrine frees our democratic government from all foreign debt liabilities incurred during apartheid.

Morality compliments the Doctrine of Odious Debt. Jubilee 2000 attributes a sense of morality — albeit a belated one — to our creditors.

Moral outrage resulted in Swiss banks recently agreeing to refund the profits made out of the Holocaust. The condemnation of apartheid as a crime against humanity was based in no small part on the lessons learnt from the Holocaust.

An appeal to those who profited from apartheid might similarly result in them agreeing to cancel debts that continue to penalise the same people who suffered under apartheid. Pressure and direct action both here and abroad might be required to encourage the creditors to do the honourable thing. A negotiated settlement would be reparations to the majority of our population apartheid abused so grievously.

All this — and more — remains untouched by the "quiet reasoning" of the finance department.

Take, for instance, the additional matter of the Government Employees Pension Fund (GEPF). This fund is the largest single component of apartheid's internal debt. The finance department wants us to believe that any meddling with the fund would both create financial havoc and destroy the life savings of "ordinary", nice South Africans entitled to the security of comfortable living after a lifetime of hard, honest work. Neither of these claims has the slightest validity.

> We have good reason for expecting foreign creditors to agree to cancel our debt

The department is also happy to spread the idea that the fund has nothing to do with apartheid. Apartheid is in fact at the very heart of the fund. The massive injection of public money into the fund came about as a result of an effectively secret deal between a dying apartheid regime and its most senior officials in 1989.

Distinguished human rights lawyer George Bizos, in his recent book, *No One To Blame?*, details how police general after general, facing the threat of being exposed as criminally responsible for the terror and murder of the apartheid death squads, took early retirement on full pension. These are the direct, intended beneficiaries of the unusually generous pension scheme created in 1989. But the finance department continues to pretend that the scheme has nothing to do with apartheid!

Another myth the department refuses to ditch is the idea that the fund consists entirely of pensioners' contributions. The reality is that the vast majority of the fund is public money put there by the government since 1989.

However, unlike other government money — such as that paid to the heavily means-tested recipients of child benefit — the finance department insists that the GEPF alone is beyond public control. Therefore, while the recipients of child benefit — officially defined as being among the poorest of the poor — have had their meagre benefits slashed in order to spread the benefit more widely, the GEPF, reflecting all the inequities of the apartheid wage structure, is said to be untouchable.

Keeping the fund untouchable means a very heavy and continuing drain on the public purse. This ensures that those discriminated against by apartheid continue to be discriminated against by the fiscal preference given to the apartheid-designed GEPF.

Making the finance department's position even less tenable is the fact that it is perfectly possible to change priorities without threatening the pension of single member of the GEPF.

The fund sits on huge reserves put there by the government. Reverting to a pre-1989 scheme would, at the stroke of an accountant's pen, make this money available to transform the lives of those apartheid condemned to poverty.

> The finance department suffers from an overwhelming fear of upsetting investors

Given the strength of the argument against the apartheid debt, the obvious question is why, rather than leading the campaign against the apartheid debt, is the finance department so assiduous in its efforts to rubbish the campaign?

The answer is now an open secret. The department suffers from an overwhelming fear of upsetting international investors. Yet this anxiety is misplaced.

The evidence shows that:

❑ Rather than punish the apartheid government for its 1985 debt default, the international creditors did everything in their power to help the odious apartheid regime (see *Challenging Apartheid's Foreign Debt* (1997) by Jeff Rudin, AIDC, Cape Town). Why should one presume that the same creditors would behave differently towards the now democratic post-apartheid government, even if our government, as part of its efforts to overcome the legacy of apartheid, were to challenge the apartheid debt?

❑ Law and the power of morality make a negotiated cancellation of the foreign debt perfectly feasible.

❑ Enhancing this prospect is the fact that the foreign debt is small when compared with other debts that have been written off, or effectively cancelled, without a murmur. Britain, for instance, still owes the USA $14.5-billion dating back to the World War 1. This sum is more than what the whole of sub-Saharan Africa owes the US. Recently the US, for patently political purposes, cancelled Egypt's foreign debt and cut Poland's debt by 50%.

❑ The Government Employees Pension Fund provides the government with a number of options, all of which are capable of releasing money for large-scale attacks on poverty and of achieving this without endangering the pension of a single person.

❑ Shaping all the government's socio-economic policies is the apparent imperative of attracting foreign direct investment. The smallness of our domestic savings is supposed to be behind this alleged imperative. Foreign direct investment (FDI) doubled last year. What has passed without comment is that domestic capital leaving the country exceeded FDI by some 26% last year (*Business Day*, November 11, 1998). If nothing else, this puts the whole emphasis on foreign investment in its proper perspective.

Behind the finance department's rigid anxieties is the lack of political will, or self-confidence, to challenge the so-called Washington Consensus, despite the current crumbling of that consensus.

There is a huge amount of popular support abroad for the cancellation of apartheid's foreign debt and mass support at home for a more equitable use of public money than the presently constituted GEPF.

The government has both the moral authority and the popular backing to do what is right.

● Dr Molefe Tsele is chairperson of Jubilee 2000 South Africa

'Apartheid creditor banks' named

CT (BR) 3/3/99 (49)

RONNIE MORRIS

Cape Town – Three German banks (Deutsche, Dresdner and Commerzbank), and three Swiss banks (Credit Suisse, Union Bank of Switzerland and Swiss Bank Corporation), were named yesterday as "apartheid's major creditor banks" by Mascha Madorin, a Swiss economist.

Falling into the same category were British banks Barclays, NatWest and Standard Chartered; US banks Citibank, Manufacturers Hanover and Morgan Guaranty; and France's Banque Indo-Suez and Credit Lyonnais.

Madorin was speaking at a press conference called by the South African Non-Governmental Organisation Coalition to launch a campaign to force international financial institutions that helped bankroll apartheid to make reparations.

The apartheid government used foreign credits "as an opportunity to postpone negotiations and intensify its repression and war", she said.

Anglican Archbishop Njongonkulu Ndungane was quoted by AFP as saying: "Our objective is to target international financial institutions which colluded under apartheid.

"We want them to make reparations through a massive capital injection plan towards education and job creation."

Ndungane's campaign is backed by Swiss and German non-governmental organisations. It follows the release in Geneva of a report by Madorin and journalist Gottfried Wellmer into apartheid-caused debt.

According to the report, South Africa's foreign debt had grown to R86,7 billion by 1993. Switzerland is owed R7,9 billion and Germany R10,5 billion.

Madorin and Wellmer's report said foreign investors in South Africa made a profit of \$3 billion a year between 1985 and 1993.

They said since 1968, after the closure of the gold market when Swiss banks founded their own gold pool and bought gold from South Africa, there must have been consultations between the major banks, the Swiss National Bank and Swiss ministry.

In 1980 the capital export limit stood at Sf300 million (R1,3 billion). "How is it possible, then, that (between 1981 and the end of 1984) the liabilities ... towards Switzerland were increased by Sf2 billion?"

CALL FOR DEBT CANCELLATION

World banks' dirty SA loans

CT 3/3/99 (49)

SOME of the world's biggest banks propped up the apartheid regime in its dying days, lending it billions of dollars. Now the new government is saddled with the debts. **MELANIE GOSLING** reports.

MAJOR European and American banks poured billions of dollars into the apartheid government which had a foreign debt of R50bn for 1993.

Now the new government is having to carry the debt of those Swiss, German, American and British banks that colluded with apartheid, with 20% of our national spending being diverted to servicing debts.

These were the findings of a Jubilee 2000 report released yesterday, entitled *Apartheid-Caused Debt. The Role of German and Swiss Finance*.

Speaking at the launch, Archbishop Njongonkulu Ndungane, Jubilee 2000's patron, said these financial institutions should now make reparations through "a massive capital injection plan, some form of Marshall Plan, that will go towards education and job creation".

He was delighted that the Swiss parliament, as a result of pressure from the International Campaign for the Cancellation of the Apartheid Debt, will discuss today whether or not to set up a "truth commission" to further investigate Swiss banks' support for apartheid.

"The government is being hamstrung by deals between the apartheid regime and those who supported them by providing foreign finance. These supporters are to be considered accomplices," he said.

In 1995, South Africa needed almost half of its gold export income to pay external interests and dividends whereas only one-fifth of this income was used for this purpose in 1980.

About 90% of the long-term debt in 1993 was owed to four creditor countries. The US, Germany, Switzerland and the United Kingdom.

The report says 30 major banks and 230 small creditor banks accepted a proposal in 1986 to reschedule the foreign debt of the apartheid government, which prolonged the rule of apartheid in its dying days.

A technical committee was formed in 1986 representing the major creditor banks. These included:

- Three German banks: Deutsche, Dresdner and Commerzbank.
- Three Swiss banks. Credit Suisse, Union Bank of Switzerland and Swiss Bank Corporation.
- Three UK banks. Barclays, NatWest and Standard Chartered.
- Three US banks: Citibank, Manufacturers Hanover and Morgan Guaranty.
- Two French banks: Banque Indo-Suez and Credit Lyonnais.

These banks will be targeted by Jubilee 2000 with demands for debt cancellation and compensation.

German capital was the most important financier of the public sector in the apartheid era, with claims against South Africa amounting to DM7,4bn in 1993. Gains made by the businesses came to about DM8,4bn for the period between 1971 and 1993. This excludes trade.

The Swiss were the second most important financiers of apartheid's public authorities. But, the report says, the "investment zeal" of the Swiss business centre has been reduced to the level of the 1970s since the new democratic government was elected.

The right to debt cancellation should be regulated internationally and no longer left to arbitrary acts of individual settlements, the report stated.

"If there is ever to be any hope of a successful international sanctions campaign again, those financial institutions which profited from supporting apartheid repression cannot continue to be rewarded now for their odious profiteering," the report said.

Ndungane said shifting the responsibility of the debt to the new democratic government was creating enormous difficulties in its attempt to redress the imbalances of the past.

REPARATION TIME: European and American banks that propped up apartheid by pouring in billions of dollars to the former government, must now make reparation, says Swiss economist Mascha Madoerin. With her is Anglican Archbishop Njongonkulu Ndungane at a media briefing yesterday.

PICTURE: OBED ZILWA, AP

Apartheid debt a 'conservative' R50bn

BD 3/3/99 (49)

Jubilee 2000 report singles out Germany and Switzerland as major lenders to Nationalist Party government

Tim Cohen

CAPE TOWN — Campaigners for the cancellation of apartheid-era foreign debt published a report yesterday which fixes the most conservative figure to be waived at R50bn.

The Jubilee 2000 report, presented at a function yesterday by Anglican Archbishop Njongonkulu Ndungane, focuses on the source of apartheid-era debt, singling out Germany, Switzerland, the UK and US as responsible for 90% of the loans.

The campaign called on international financial institutions which "colluded" with SA's pre-1994 governments to cancel the outstanding debt and for those who made profits in SA during the apartheid era to pay reparations.

Ndungane said the institutions were accomplices in a crime against humanity and called on German and Swiss churches and non-governmental organisations to support the campaign "for reparations from those financial institutions that colluded with apartheid, as we face the challenge of nation-building in a post-apartheid era".

Ndungane said he was delighted that the Swiss parliament had bowed to pressure from the International Campaign for the Cancellation of the Apartheid Debt, and would debate today whether or not to set up a "truth commission" to investigate the role of its country's banks during the apartheid era.

"We sincerely hope that the Germans will follow suit," Ndungane said.

According to the Jubilee 2000 report, the total foreign debt "in the narrow sense" of the state as a whole was R50bn in 1993 and R35bn in 1989. According to campaigner and the report's co-author Mascha Madorin, this constituted the "most odious debt of the regime".

The figure is drawn from the SA Reserve Bank Quarterly Bulletin and includes not only central government, but also public corporations and public authorities. It also includes not only debt but also foreign liabilities, which would at that time have consisted mainly of Eskom bonds.

The R50bn figure is broken down into the foreign liabilities of central government (R9,61bn), the foreign liabilities of other public authorities (R8,849bn) and the foreign liabilities of public corporations (R31bn).

The Reserve Bank, which defines debt more narrowly to exclude liabilities, estimates the total foreign debt of all sectors of government including parastatals at the end of 1993 to be about R15bn.

Government's own estimate of the debt of central government alone, as published in the 1998 budget review, was R5,2bn out of a total debt of R189bn.

This has led the finance department to suggest the campaign is off target because SA's foreign debt is such a small proportion, about 5%, of its overall total debt, constituting about 5% of the total.

However, the campaign argues in favour of a greatly expanded definition of what constitutes debt, taking the view that the inclusion of foreign investments is justified because the anti-apartheid movement was adopting a pro-sanctions, anti-investment stance at the time.

Hence, not only direct foreign debt of central government but also foreign liabilities such as Eskom bonds, ought to be included in the net of what is considered apartheid debt.

No quick boost for campaign to erase apartheid debt

(49) BD 5/3/99

Deciding whether foreign banks should compensate South Africans for their role in supporting racism will not be easy, writes Tim Cohen

WHEN two Swiss banks finally agreed to pay $1,25bn to holocaust survivors because of the role the two banks played in laundering Nazi gold, suddenly the possibilities for compensation for oppressed people everywhere became something less than a hopeless dream.

The question now is whether South Africans can legitimately claim compensation from, as it happens, these same two banks and a host of others for their role in banking apartheid.

Superficially, the two claims do not seem that far apart, apartheid was declared a crime against humanity just as the holocaust was the very crime which gave rise to the term.

Unfortunately, this is where the problem starts rather than ends. If the victims of apartheid are to be compensated by its former bankers, what form ought the compensation take and how should the level of compensation be determined? The answers to these questions are most volubly provided by the campaign for the cancellation of apartheid debt which is endorsed by Anglican Archbishop Njongonkulu Ndungane.

The campaign, Jubilee 2000, proposes that the most appropriate method of compensation is the cancellation of SA's foreign debt. This week researchers published the names of the banks involved and provided estimates of the level of foreign debt in 1993. This is considered the key date because it was at this point that the liberation movements called for the lifting of sanctions.

The research did not pinpoint and trace the exact exposure of each of the individual banks concerned. In addition, the names of the banks stated in the report are those most likely to have been apartheid's bankers rather than those definitively proved to have been involved. The researchers made the likely assumption that because the banks had representatives on the committee established in 1986 to reschedule SA's foreign debt, they were also apartheid's bankers.

The banks, which number 30 major banks and 230 small creditor banks, include a host of established names. Deutsche, Dresdner and Commerzbank from Germany; UBS, Credit Suisse and Swiss Bank Corporation from Switzerland, Barclays, NatWest and Standard Chartered from the UK, Citibank and Morgan Guaranty from the US, and Banque Indosuez and Credit Lyonnais from France.

The minimum level of foreign debt to be waived was set at R50bn and, in a sense, this is an uncontroversial figure because it is drawn from SA's official statistics as reflected in the Reserve Bank bulletin. The figure shows the foreign liabilities of the SA government and parastatals in the autumn of 1993, just before the African National Congress joined government. It also reflects, according to the researchers, the "most odious" apartheid debt.

However, in many other ways, the figure is highly controversial. Firstly, it includes not only the foreign debt, but also the foreign liabilities of SA at the time. Debt forgiveness cannot also be liability forgiveness because liabilities may or may not eventuate while debt (in theory) always comes home to roost.

Secondly, the liabilities include those of parastatals, which at the time consisted mainly of Eskom bonds. The campaign justifies the inclusion of these investments because of the anti-apartheid movement's campaign against investment in SA at the time. But this campaign was hardly uncontroversial and it is hard to argue that an investment in expanding the electricity network was an act of oppression, especially as elections were imminent.

But there are two larger problems facing the campaign. The first relates to the way it has been framed. However logical it might seem, calling for debt forgiveness by the foreign bankers of apartheid implicitly limits the size of the claim precisely because so few foreign banks were prepared to lend money to the then government. As the finance department points out, SA's foreign debt amounted to only about 4% of SA's total government debt.

There also is a problem of perceptions. For black South Africans apartheid was a living hell and many argue that it was similar to the holocaust because it was ethnic in character and oppressive in nature. But the hard fact is that those not directly affected tend to see apartheid as merely another example of oppression by a government.

Unless these questions are addressed effectively by the movement (or they gain the support of influential New York pension fund managers as representatives of holocaust victims did) SA cannot hope for a quick boost in its desire to see government debt reduced.

NGOs challenge 'too much secrecy in the budget process'

CT (BR) 24/3/99 (49)

LYNDA LOXTON

Cape Town — The finance committee of the next democratic parliament might have to appoint a task team to examine how civil society could become more involved in setting national budgetary priorities, it was agreed yesterday.

During its last meeting of this session, the portfolio committee on finance held a wide-ranging discussion on the extent to which the executive could draw up budgets unilaterally, and to what extent it should try to involve non-governmental organisations (NGOs) in the process.

Trevor Manuel, the finance minister, and Maria Ramos, his director-general, said a great deal had already been done to involve the general public in the budgetary process, but said there were some decisions the executive would have to deal with alone.

This did not go down well with some NGO representatives, who claimed there was still too much secrecy about the budget process and that they wanted a greater say in how government spent and raised its money.

In particular, they wanted details of the budget to be published earlier each year to allow greater debate, and for parliament to be given powers to amend money bills such as the budget. At the moment, parliament cannot amend money bills.

Ramos argued that it was far more important for there to be a more transparent budget process, as was being attempted through the medium-term expenditure framework. This framework gave a rolling three-year preview of the budget.

Manuel said that not enough use was being made by civil society of the increasing amount of information being released about government finances. He said he was disappointed that parliamentary committees were not discussing departmental budgets in more detail.

OPENNESS *Trevor Manuel, the finance minister, and Maria Ramos, his director-general, are grilled about the openness of the budgetary process during a discussion of the national assembly's finance committee yesterday*

There is no free lunch, even with debt relief

What are the implications for SA in the debate on the writing off of foreign debt? **Raymond Parsons** looks at the possibilities

BD 26/3/99 (49)

I WOULD like to address recent statements by world leaders urging that the foreign debt of the poorest countries be written off — coupled with important segments of domestic opinion calling for the writing off of debts incurred by the government during the apartheid era.

Recently US President Bill Clinton called on the international community to take steps aimed at "forgiving" up to $70bn of global debt to ensure that no country committed to fundamental reform was saddled with a debt burden that prevented it from meeting its people's basic human needs, and from enjoying higher rates of economic growth

The international gold market was sent into a minor tailspin by the suggestion that the International Monetary Fund (IMF) sell part of its gold reserves to finance the writing off of third world debt.

The issue is gaining international momentum, and it is possible that some form of multilateral agreement may be reached What is not so clear is how SA would benefit from the process, given its stage of development.

It could be argued that the setbacks for emerging and developing markets in the wake of the Asian crisis may have something to do with the sudden increase in international interest in debt relief on the part of the leaders of the industrialised world. Whilst such calls may have altruistic intentions, they are also made in the knowledge that debtor countries would not be the only ones to benefit from debt relief.

In a globalising world, any improvement in developing economies would almost certainly result in an increased demand for imported capital and consumption goods from industrialised countries.

The proponents of such relief would probably also not be unaware of the potential of using debt write-offs as a means of restoring the influence of the IMF and the World Bank.

It is almost certain that the ability of poorer countries to gain access to debt write-offs would be linked to, and conditional on, their adoption of IMF-type structural adjustment programmes.

Whilst this should not necessarily make us view debt write-offs negatively, it should encourage a more realistic assessment of the benefits of the process

Where does this leave SA?

It is an open question whether, for purposes of debt cancellation, SA would be regarded as a "developing nation" by international agencies It is not ranked among the poorest countries in the world. Many international negotiators to see it as a "middle-income" country

In view of the fact that interest on government's accumulated debt constitutes the single largest expense item in the national budget, and as this is an election year, it would be surprising if some political parties did not seize on the debt issue.

After all, how many houses, schools and hospitals could be built if the state did not have to use more than R40bn to pay interest on its debt?

Added to this is an argument that it is inappropriate and immoral to place the burden of repayment on the democratically elected government

We need to ask the following questions.

- How much apartheid debt still needs to be repaid, and what proportion is owed to foreigners and locals?
- What were borrowings in the apartheid era used for, and what has become of the assets that were purchased?
- What would the implications of any unilateral debt write-off actions by SA be on its future ability to borrow funds, both locally and internationally?
- How much debt are we talking about?

According to the Reserve Bank, the government had a total debt of R102bn at the end of 1990, of which only R2bn was foreign debt. Following the elections in April 1994, government debt had climbed dramatically to R210bn, of which foreign debt amounted to R5bn. By the end of fiscal 1998 sovereign debt had risen further to R336bn, of which about R15bn was foreign.

These figures illustrate two things The first is that at the time of the last elections, foreign debt only made up 2,4% of total government debt, and that in the post election period this has grown to 4,5%. Second, the decision on when the apartheid system ended has a significant influence on the amount of debt in question.

Since the foreign debt of 1994 had an average maturity of 30 months, there would seem to be no significant "apartheid era" foreign debt to write off. Our level of foreign debt is low This means that the focus of any write off of apartheid debt would have to be on the domestically held debt of R205bn

However, 76% of the marketable portion of that debt was "owned" by the public investment commissioners, banks, insurers and private pension funds, which means any write-off would have significant implications for those who have their life savings in such institutions

The next question is: What has become of the "fruits" of apartheid debt?

While it is true that particularly in the latter years of apartheid, much of government's borrowing was used to finance current expenditure it is also true that most of the physical infrastructure that was created still exists

It can also be argued that, towards the end of the apartheid era, the government made significant attempts to reduce racial inequalities through the budget in areas such as black education and social pensions. Most of this increased spending was funded by debt.

This is not to say that significant inequalities do not still exist but we must see the difficulties in isolating the "apartheid portion" of current debt.

If it was decided to pursue the issue of debt write-off unilaterally, what would be the implications?

First, apartheid foreign debt no longer exists on a large scale, so any attempts to write off existing foreign debt would have little moral basis and could damage the international investment rating that SA has been trying so hard to cultivate.

The state's economic strength is seen as an immutable guarantee against reneging on its debt. Future attempts to borrow funds offshore could become more difficult and costly

While these risks would be eliminated if SA were to be the beneficiary of a multilateral programme of debt relief, the amount of foreign debt involved is relatively small and the interest savings would be minimal.

In light of SA's efforts to differentiate itself from other emerging markets, it is doubtful that we would want to be lumped with highly indebted countries.

If debt forgiveness was extended to other African countries, SA could well gain It could have a positive effect on trade in southern Africa although it would depend on how the write-off was structured.

If, on the other hand, the debt write-off was only applied to domestically held debt, all of the holders of pension funds, retirement annuities, endowments, and life insurance policies would be adversely affected.

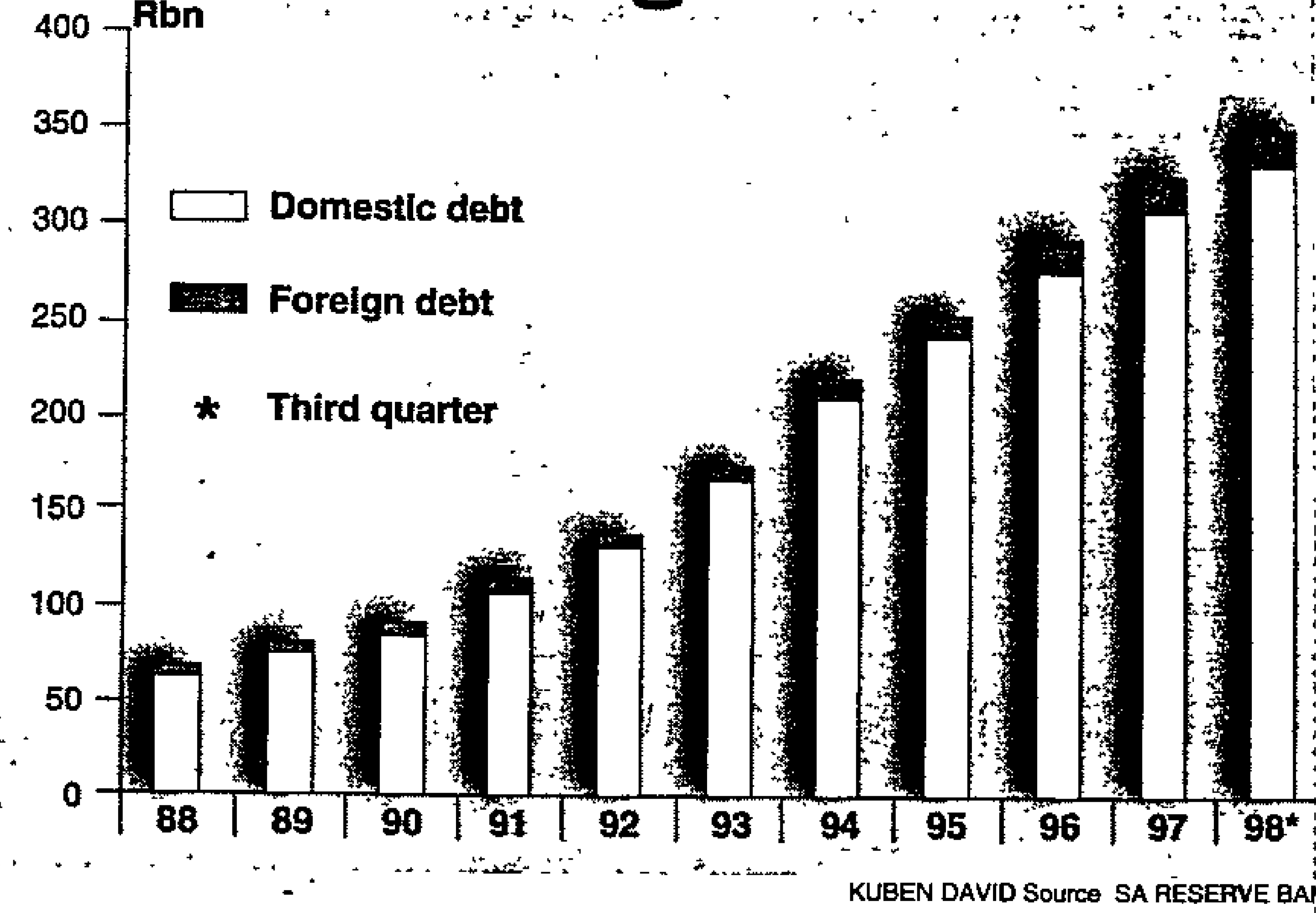
The danger would be that the careful balance between fiscal prudence and social spending could be upset, sending out all the wrong signals about the progress we want to make

The broad campaign to seek debt relief is not one which business can ignore. The debate has relevance to financial markets and investor perceptions. At present it is still a rather lopsided debate, likely to generate unrealistic economic expectations.

As a country interested in the welfare of the continent, we need to encourage initiatives that can help countries out of their "poverty trap". This reminds us that the imperatives of globality are indivisible in that a country cannot pick and choose which elements it likes and discard the rest.

The post-1999 government will need a clear strategic direction against which priorities are selected and assessed How we deal with debt relief must be placed in the context of SA's longer-term economic perspectives and the need to put the economy on a new growth path

Parsons is director-general of the SA Chamber of Business This is an edited version of his address to the Pretoria Chamber of Business yesterday



Workers 'do not know what Gear is'

BD 29/3/99 (49)

Reneé Grawitzky

MORE than 67% of Congress of SA Trade Unions (Cosatu) members do not know what the Growth, Employment and Redistribution (Gear) strategy is, according to a survey released at the weekend.

The survey, which was released by the University of Witwatersrand's Sociology of Work Unit (Swop), also shows that 63% of workers interviewed knew nothing of the National Economic, Development and Labour Council (Nedlac).

Those that did know of it, believed it to be a body dealing with worker issues or conflict resolution.

Swop director Eddie Webster said that the strains at leadership level over issues such as Gear did not seem to be reflected at a rank and file level.

The survey indicates that Cosatu members will continue supporting the African National Congress in the elections despite a lack of delivery on wages and access to land.

However, an increasing number of Cosatu members planned not to vote (11%). There was some support for the United Democratic Movement in the Eastern and Western Cape, and limited support for the Inkatha Freedom Party (1%) in KwaZulu-Natal.

At the same time, more than 50% of workers interviewed believed they could not rely on political parties to protect their interests

The survey, conducted late last year, set out to assess Cosatu members' attitudes towards political democracy.

The results also revealed some interesting changes towards mass action to achieve political demands. Cosatu members were less likely than in 1994 to resort to ongoing mass action to force government to meet its electoral promises.

Some researchers argued that this reflected a depoliticisation of the labour movement Another argued that the alliance had been a very effective instrument of containment.

Webster said that the results demonstrated "a commitment to participatory democracy in the workplace and an expectation that this will take place in the parliamentary arena as well".

The fact that workers had very little knowledge of issues beyond the workplace such as Nedlac, raised the question of Cosatu's capacity to sustain its involvement in such bodies, he said.

World Bank takes a dim view of SA's recovery prospects

(49) BD 9/4/99

Simon Barber

WASHINGTON — Prospects for SA's economy making a substantial recovery this year are "growing dimmer", according the generally gloomy prognosis for emerging markets in the World Bank's latest annual survey of global development finance

The report finds that SA should post gross domestic product growth his year of between 1% and 2%, lagging behind the 3,1% pace projected for the rest of sub-Saharan Africa.

"The government's commitment to financial stability will keep interest rates high, although the rand's recovery towards the end of 1998 points to some room for moderate cuts. Some restocking of inventories is also anticipated after sharp drawdowns in the second half on 1988," the report states.

"A moderate real depreciation of the rand will benefit exports and the trade balance, although it will be difficult to find any real strength in the external sector without a more robust recovery of Asian demand and world trade generally."

Net total private capital flows to SA fell from \$3,6bn in 1997 to \$1,9bn last year, of which \$482m was debt while \$1,4bn reflected net equity purchases.

The pace of foreign direct investment in new and existing SA operations also plunged last year, according to the report, falling to \$1,1bn from \$1,7bn. Outward direct investment by SA firms was \$2,7bn in 1997 up from \$0,7bn in 1996 as capital controls eased.

For Africa as a whole, growth rates will be held back by slower growth in Europe and strong competition from Asian countries with dramatically weakened currencies. These will continue to dampen demand in major export markets and deter flows of foreign direct investment.

Agricultural prices are also expected to remain flat, while the present oil glut is thought likely to persist for the next 12 to 18 months, limiting the overall growth of African oil exporters to 1,1%.

The "biggest single threat" to Africa's near-term economic prospects come from civil war in the Democratic Republic of Congo, which is regarded as endangering "the stability of the entire central African region".

Debt creep: Page 7

WHAT A WASTE OF MONEY!

ST 11/4/99

Spendthrift province squanders millions of taxpayers' rands

JUSTICE MALALA (49)

THE North West legislature has uncovered huge financial bungling in nine provincial government departments and the loss of millions of rands of taxpayers' money.

The legislature's public accounts committee says in a new report that departments flouted tender rules and paid millions to consultants and other parastatals — in one case R30-million was paid to the Bophuthatswana Broadcasting Corporation by the Health and Social Welfare Department — while the provincial treasurer had suspended such payments.

The Finance Department — headed by MEC Martin Kuscus — was found to have granted five loans totalling R56-million for which loan agreements are not in place and for which no repayments have been received.

The Health and Social Welfare Department, headed by Paul Sefularo, comes in for particular censure.

The committee said the treasury should investigate the R30-million payment and determine "whether action should be taken against any government officials".

The report, for the 1996/97 financial year, was compiled after evidence was heard from officials and the auditor-general. It also found that in most departments budgets were exceeded, with the Education Department spending R304-million with no authorisation.

The report paints a picture of an administration that casually spent money without proper authorisation and planning, resulting in massive losses to the state. For example, the committee found that there had been "fruitless expenditure" of R1,4-million by the Health and Social Welfare Department on the hiring of fax machines, photocopiers and accommodation for the establishment of a training centre which was closed down months after it was started.

The committee found that the department had paid R281 274 to a computer training centre, despite the fact that the tender board had not approved the payment. It also paid R1,27-million to a security firm in the 1996/97 financial year in spite of its contract having expired.

In most departments budgets were exceeded – the Education Department spent an unauthorised R304-million

The committee found that tender board approval for the purchase of goods and services worth R17,8-million and contracts worth R270 000 could not be found and that R407 000 had been lost in a contract with a private hospital.

The Safety and Security Department violated tender board regulations, resulting in unauthorised expenditure of R480 000, the committee found.

The Department of Tourism and Environmental Affairs made a R50-million payment to the former Bophuthatswana Parks Board at a time when such funding should have been decided by national government. In the Transport Department, R295 601 was paid to a security firm for which a contract was not submitted.

Efforts to contact the heads of these departments were unsuccessful

Good news for markets as higher tax inflows testify to better collection practices

Manuel surprises with 3,3% budget deficit

(49) CT (BR) 16/4/99

Matt Getz

Johannesburg – Vastly improved revenue helped the government record a much lower deficit figure in 1998-99 than had been previously estimated, Trevor Manuel, the finance minister, said yesterday.

He said the deficit was 3,3 percent of gross domestic product, lower than the 3,7 percent estimated when the government released its 1999-2000 Budget on February 17.

The main reason for the improvement was higher than estimated revenue collection of R3,4 billion. Expenditure was also higher, but a much less significant R393 million.

Manuel said the higher revenue "is further evidence of the success of the revenue authorities in strengthening our tax system".

March's tax collection alone (not included in these figures) was R22,1 billion, up 22,5 percent on March last year.

The minister also said the higher revenue was confirmation of "the underlying recovery in the broader economy this year".

But economists disputed that conclusion. "The economy is still dead on its feet," said Dawie Roodt, the chief economist at Ecosec, an independent consultancy. "I think (the South African Revenue Service) is doing an exceptionally good job."

He felt better tax collection could help government finances improve for another year, but after that the fiscus would need a much stronger economy for sustained improvement. Roodt forecast no growth this year and 2 percent next year, hardly matching population growth.

Still, the news was to be welcomed. In itself, it could help this country out of its economic morass: the lower the government's deficit, the less it has to borrow and the more room for interest rates to come down.

There was good news for the market in the revision of borrowing needs. Manuel said the government would have to issue bonds worth R12 billion this year, down from the previously estimated R14,8 billion. That indicates a strengthening in bond prices because of reduced supply.

"That should be well received by the market," said Rudolf Gouws, the chief economist at Rand Merchant Bank.

"The market has been dead lately. Rates have been standing still, mainly because of uncertainty about the elections.

"Government finances are not a huge concern, but this will be another factor in holding the market up."

The revised deficit will also make it easier for the government to meet its target for this financial year of 3,5 percent.

"They're starting on a better basis," said Gouws. "Even if the weaker economy takes its toll on revenue, they should match or even better that number."

Gouws did not see evidence of a recovery yet, but he expected growth of 0,5 percent this year.

Dream of a better life

Sowetan 20/4/99

South Africa needs the courage to decide which economic strategy will best suit the country. Gear is just not one of them, **Mike Muendane** insists

(49)

I HAVE always had a problem with the concept of "reality" in common parlance, especially as it refers to something that we should accept as unchangeable.

This has become quite common in South Africa today as we are asked to accept certain economic realities, and so on. The word "reality" seems to stop any further argument

In fact, if you insist otherwise, you are made to feel guilty of either ignorance or stupidity. The sad part is that most of us accept the guilt, while the real culprits get away with murder.

Try the following on your friends: "John's mother has three sons, Tom, Dick and ..." Ask them to complete the sentence. You will be amused as most will say: "Harry"

Not to worry, this has nothing to do with cleverness or its opposite. It is simply conditioning – it applies in all other situations, unless we stop and question our assumptions or paradigms.

When we do so, we suddenly realise that, in time, reality can be changed into a different form. The important thing is not that it can change but that we have the ability to create our own reality.

In fact, what we call "reality" is invariably created by human beings and therefore can be unmade by them.

It therefore makes me sad that when people fail to transform the economy of the country, they blame it on reality and it is often made to look even more formidable or fierce when it is qualified as "harsh economic reality".

And everybody complies. This is how powerful the "Tom, Dick and Harry" syndrome is.

An article in *Sowetan* on April 9, "RDP's ideals swamped by harsh economic reality", observes that the ideals of the Reconstruction and Development Programme still linger in the "dreams of the black majority for a better life", yet it no longer exists.

It then adds: "The vision simply did not square with global economic realities."

Why should it?

When the Government abandoned the RDP in 1996, it was an act of yielding to neocolonialism which the African National Congress, as a liberation movement, deprecated in other Third World countries.

Everybody who took them seriously legitimately expected them to resist the pressures of powerful Western countries to turn South Africa into a neocolonial state.

The adoption of the Growth, Employment and Redistribution policy, however, put South Africa firmly in the grip of foreign interests.

The substitution of Gear for the RDP is now being glorified as ushering South Africa into the global economy. Of course, it sounds nice to be part of the international community.

But, as it turns out, Gear has impoverished this country in several ways. All the ills that we are now going through can be directly ascribed to Gear. It was adopted "to meet with the need to comply with economic realities".

Gear is actually a nicer name for structural adjustment policy, which the World Bank and the International Monetary Fund have forced many African countries to follow, to their detriment.

Gear prescribes that the state must reduce expenditure. The effect of this has been escalating unemployment. The upshot of unemployment is crime, of course.

> **"When the Government abandoned the RDP in 1996, it was an act of yielding to neocolonialism"**

Unemployment results from reduced production, and one of the causes of reduced production is shrinking demand for goods and services

Government expenditure forms the bulk of total demand in the country. Therefore when Government reduces demand, fewer goods leave the factory which, in turn, cannot continue to produce more goods. The result is that it has to reduce its staff, who have to be retrenched.

A reduction in expenditure in the welfare area means that our handicapped people and pensioners have to carry the brunt. They receive very low pensions, yet many of them have to look after their grandchildren, whose parents are unemployed.

In the last six months or so, the country has been in technical recession because of Gear. In addition, we all remember how because of speculation on the rand, foreign exchange rates worked to the disadvantage of South Africa.

The Government blamed this on economic storms in other countries, notably Southeast Asia. While this is true to some extent, these storms found us very weak because of reduced investment.

Contrary to expectations and promises by the Government, growth rates not only slowed but were also reversed. The three percent growth rate we were promised by this year was actually less than one percent at the time of the budget

Countries that suffer from under-investment, such as South Africa, are more vulnerable to speculative action Inertia on the part of investors within South Africa and potential and aspirant foreign investors is the cause of lack of investment in South Africa.

There are many causes of this inertia. The major one is of course uncertainty. Investors are quite happy to invest in a country that promises economies of scale even if they do not like the economic policies of that government

The important thing is that they should be sure about the permanency of the policy. South Africa does not however offer this certainty.

Although Deputy President Thabo Mbeki is on record as having said Gear is non-negotiable, the Congress of South African Trade Unions and the South African Communist Party are decidedly opposed to it even if they are part of Government

Investors are not sure which part of this hybrid government will prevail – the ANC component or the Cosatu-SACP one.

Foreign investors consequently held their horses, while local companies are opting for offshore listings to escape any likely tempests in the economy arising from the dichotomy within government.

The lowering of the Business Confidence Index from 105 points in 1996 to less than 85 this year is testimony to these facts

Now you even have more senior Cosatu members appearing on the ANC election list. Investment activity is destined to plummet even further.

South Africa needs a developmental macroeconomic policy that empowers its own people and not powerful foreign economic countries. Of course, we can chart our own course using our own paradigms

We should ask ourselves questions such as: Shouldn't we process our own raw materials? Shouldn't we ask foreign buyers of our commodities to pay us in the rands rather than US dollars, and in that way free ourselves from the hegemony of the American dollar?

A change of paradigm, of course, involves courage to question existing paradigms. Does the present Government have that courage?

I think not.

(The author is the general secretary of the Pan Africanist Congress.)

'Gear is aggravating globalisation effects'

BD 4/5/99 (49)

Nomavenda Mathiane

GOVERNMENT's growth, empowerment and redistribution (Gear) policy worsened the effects of globalisation on rural economies, National Land Committee deputy director Dave Husy said yesterday.

Addressing a nongovernmental seminar on the impact of macroeconomics on children's rights, Husy said the majority of SA's population were in rural areas which lacked infrastructure and where unemployment was at its worst. Schooling facilities were poor and children had to travel long distances to school.

He was also critical of the land reform programme, arguing that it was market-driven and was not meeting the needs of the people who needed access to the land.

The seminar was attended by representatives from childrens' organisations such as the National Children's Rights Committee, Disabled Children of SA, Idasa Children's Budget Project, the United Nations Children's Fund, the SA Human Rights Commission and the Interfaith Community Development Association.

The three-day seminar plans to review the plight of children in relation to social structures, family budgets, local government budgets and national budgets, including budgets to implement "child friendly" legislation.

In order to understand government policies and legislation as they impact on childrens' lives, speakers such as Neil Coleman of the Congress of SA Trade Unions, Thoko Mkwanazi-Xaluva from the office of Deputy President Thabo Mbeki and Murphy Morobe, chairman of the Financial and Fiscal Commission, have been invited to address the seminar.

The seminar will end tomorrow.

NEWS

ANC refutes charge of doubling debt

(49) CT (MR) 5/5/99

LUKANYO MNYANDA
ECONOMICS EDITOR

Johannesburg – Total government debt had grown at just over 11 percent a year between 1996 and 1999, in contrast to New National Party (NNP) charges that it had doubled during the ANC's first term of office, Trevor Manuel, the minister of finance, said yesterday.

Manuel was responding to NNP accusations that the ANC had mismanaged the economy, leading to the government's debt almost doubling from R192,2 billion in the 1994 financial year to a projected R377,4 billion this year.

Speaking through his spokesman, Logan Wort, Manuel said the NNP had neglected to mention that a large proportion of the R52 billion surge in government debt between 1994 and 1995 was caused by the newly elected government taking on the debt of the former homelands, which could be classified as apartheid debt.

The NNP had also failed to come clean on pre-1994 debt.

Dawie Roodt, an economist at PLJ Financial Services, said the homeland debt taken on by national government in 1995 amounted to R13 billion – a quarter of the new debt.

According to the 1999 Budget review, total debt more than doubled in the last six years of NP rule, from R79,9 billion in 1989 to R192,2 billion in 1994.

During that period, total debt as a percentage of gross domestic product rocketed by more than 10 percentage points to 48,6 percent in 1994, compared with 38,1 percent in 1989.

Manuel said earlier this week that the increasing debt had been caused by the NP "spending like there was no tomorrow ... because there was no tomorrow for them".

Government debt grew 27 percent to R244,3 billion in 1995, with the rate of increase slowing to 14 percent and reaching R279,5 billion in the 1996 financial year. It has since grown by 35 percent to a projected R377,4 billion for the 1998-99 financial year.

Theo Alant, the spokesman for the NNP, yesterday continued to blame the ballooning debt on the ANC government, attributing the surge in government expenditure between 1989 and 1994 to political turmoil.

Roodt said that although the ANC government was not doing enough to cut government expenditure, it was doing "better than the last lot".

Varig suspends flights to SA

AUDREY D'ANGELO

Cape Town – Falling sales and a 35 percent drop in the exchange rate of Brazil's currency against the US dollar since January will cause Brazilian airline Varig to suspend its two weekly flights to Johannesburg from Sunday.

SAA has been asked to carry its passengers on a codesharing agreement, and has been discussing the possibility of increasing its flights from two to three a week to cope with the extra numbers.

Varig is a member of the Star Alliance of eight international airlines led by Lufthansa, which has made a joint bid for a stake in SAA together with Singapore Airlines.

Coleman Andrews, SAA's chief executive officer, has identified South America as a growth market, and said the airline was looking for a commercial partner in the region.

SAA is also in discussions with Singapore Airlines over possible codesharing on routes to South America. Singapore wants to serve the market, which is too far for it to reach with nonstop flights, by way of South Africa.

Paolo Rodrigues, the general manager of Varig in southern Africa, said he believed Varig's withdrawal was "a temporary measure" and that its flights would resume when Brazil's economy recovered.

He said the economic downturn and the steep fall in Brazil's currency had resulted in a 35 percent drop in Varig's international passengers and a 15 percent drop in domestic passengers.

Rodrigues would remain in this country and Varig would continue to sell tickets and take bookings, he said.

MACROECONOMIC STRATEGY

Few prospects left for a vigorous debate on Gear

(49) CT (BR) 11/5/99

LUKANYO MNYANDA

"Long live Gear. The debate is dead." Although Thabo Mbeki, the man most likely to be inaugurated as South Africa's president on June 16, is unlikely to be seen chanting this slogan at pre-election rallies, public utterances by ANC leaders in recent weeks seem to have firmly established the hegemony of Gear supporters in the ANC-led alliance.

Agreement from the ANC's alliance partners, the South African Communist Party (SACP) and labour federation Cosatu, to leave divisive debates on economic policy out of the election campaign have only helped to enforce the perception that the ANC's commitment to orthodox, free market economics will gather steam after June.

Gear – the growth, employment and redistribution strategy – came into being in 1996 mainly as an attempt to appease the financial markets at a time when the rand was coming under massive attack.

As a conservative strategy premised on the need to continue cutting government expenditure and reducing the fiscal deficit as a percentage of gross domestic product, it has attracted heavy flak from the ANC's alliance partners.

Other unpopular aspects include the commitment – if not implementation – to flexible labour markets and privatisation as a way to reduce the massive state debt.

Some Cosatu and SACP leaders have gone as far as branding it a betrayal of the reconstruction and development programme (RDP), with the more colourful critics referring to it as a self-imposed structural adjustment programme.

Gear opponents in the alliance were strengthened by the emerging markets crisis, which left South Africa with record high interest rates and destroyed any chances of growth and job creation targets being met, creating conditions for the ANC's "non-negotiable" strategy to come under discussion.

The release of an alliance discussion paper, The State, Property Relations and Social Transformation, which explores far-reaching changes to economic policy and calls for a review of key aspects such as fiscal targets and privatisation, seemed to have set the stage for protracted and lively debates on economic policy.

But the impetus was soon lost as the alliance partners chose unity ahead of the jobs summit in October, with the summit producing virtually no debate on policy, except a one-sentence declaration committing the party to the strength and coherence of its macroeconomic policy.

And opportunities for debate seem to have been lost again – possibly for good this time – because the alliance partners have let the need for a public show of unity ahead of elections take precedence.

Opposition parties have not helped matters either and have failed to rise to the occasion, meaning the ANC will go into next month's elections without having to account for the policy choices of the past five years.

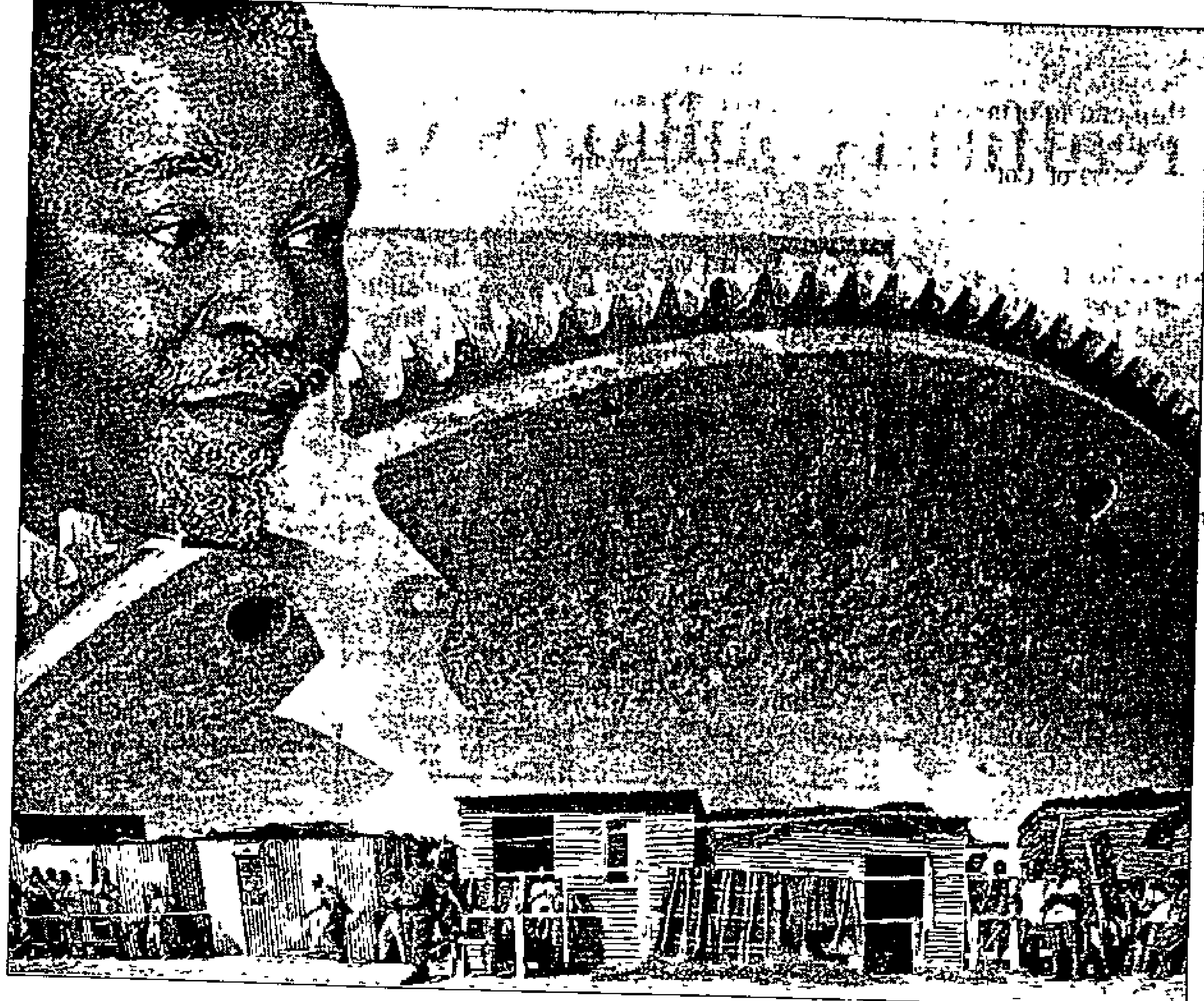
The left has also failed to take whatever semblance of debate there is to the grassroots, so prospects of a popular challenge to Gear are limited. Surveys indicate that an overwhelming number of the people who will vote ANC on June 2 do not know what Gear is, meaning the technocrats in the ANC will have free rein as far as economic policy is concerned.

"Mbeki is firmly behind Gear. I think there will be less room for debate after the elections as he (Mbeki) gives the impression that he is more interested in implementation," says John Luiz, a senior lecturer at Wits University's economics department.

Jeremy Cronin, the SACP's general secretary, admits the elections have "sidelined" the debate on economic policy but believes not all is lost. He argues that overwhelming support in next month's elections would create conditions conducive to a "mature debate" within the alliance, while a public debate now would only provide ammunition to opposition parties.

"Gear was an emergency measure and came at a time when the party was feeling weakened and besieged by external factors. A strong movement with massive electoral support gives you greater leeway to push your RDP goals through," he says.

But another school of thought says the ANC will be able to push on with the implementation of Gear, irrespective of what Cosatu and the SACP say, for exactly the same reasons that Cronin says will make debate easier.



An approval rate in the region of 60 percent should imbue the party with enough confidence to follow its own agenda, with the knowledge that it has another five years to manage any nasty responses from its alliance partners.

Senior ANC politicians, including Mbeki himself, have not given any indications they will compromise and have instead promised the financial markets accelerated implementation of Gear. While some commentators like Luiz believe the ANC has only managed to avoid debate with its alliance partners on Gear by not fully implementing the strategy, party leaders have indicated this will change.

Although the markets are not expecting much, Mbeki has committed himself to a review of labour legislation, which some business organisation and opposition parties on the right claim is too inflexible.

Other senior figures, from Mbeki's economic adviser Moss Ngoasheng to ANC Deputy President Jacob Zuma, have publicly pledged accelerated implementation. Trevor Manuel, the finance minister, has budgeted a R4 billion windfall from privatisation proceeds this financial year in contrast to the more cautious approach adopted in his earlier Budget speeches.

Dennis Dykes, the chief economist at Nedcor, says although Gear is by no means a "closed project" and there is likely to be debate about its targets, the basic principles of fiscal and monetary policy have full support of the ANC leaders.

The medium-term expenditure framework, which spells out government expenditure over three years, will make a complete overhaul of economic policy difficult. "The reality of life in the global world will make it hard to go back on Gear principles. They could if there was a swing in international thinking, but it would be suicidal in the current environment."

While the ANC's left-wing allies might look to the party's manifesto for signs of a more flexible approach to Gear, their optimism seems premature.

Although the ANC commits itself to increased social expenditure in the manifesto, the government has given no indication of reviewing its fiscal deficit targets upwards, which could spark another violent reaction from financial markets.

In contrast, Manuel hinted after unveiling the Budget that increases in social expenditure, which has rocketed to 61 percent of non-interest expenditure, were not sustainable and should bottom out in the next few years.

Vague pledges by the ANC to ensure that monetary policy advances development objectives hardly translate to a rejection of Gear, as some on the left are so desperate to believe.

Gear has proved more resilient than its opponents had bargained for. An even stronger commitment by an ANC fresh from a convincing electoral victory would mean the left will have to undergo some serious soul-searching after June 2.

Bishops lay joblessness at power brokers' feet

(49) CT(MR) 14/5/99

LYNDA LOXTON

Cape Town – Business, government and labour were severely taken to task yesterday by the Southern African Catholic Bishops Conference (SACBC) for not doing enough to promote growth and job creation in South Africa.

In a 48-page pastoral letter, the SACBC called on the wealthy to accept higher rates of tax to reduce the wide disparity between rich and poor in South Africa.

The tax burden on lower and middle-income earners should be further reduced and balanced by an increase in estate duties and in the top marginal rate for the wealthiest sectors of the population. The bishops also called for a "solidarity tax" while some executives had their pay scales frozen or cut until an equitable situation was reached.

The SACBC said the rich had an opportunity and a moral duty to assist in redressing economic imbalances "by willingly accepting higher levels of taxation, especially when such increases do not threaten or deny them a comfortable standard of living".

Business had to take much of the responsibility for the wage differentials in South Africa, which were among the highest in the world. They said South African business executives earned, on average, 100 times more than the average wage paid to workers. In Japan executives earned seven times the wage of a worker.

The SACBC accused banks and financial organisations of reaping "very high profits" from speculation in the money markets, with negative consequences for the rand, rather than from investment in the productive capacity of South Africans or in the country's infrastructure.

High interest rates had also contributed to these profits. This was exacerbated by companies which exerted a monopoly or near-monopoly in economic sectors.

"In this context it is important for business to move away from repeated calls for labour market flexibility, which in reality means suppressed wages and benefits, while the cost of other inputs, such as capital and raw materials, remain inflexible.

"A willingness on the part of the financial sector to accept lower, but still adequate, profit margins would significantly reduce business's capital costs.

"The same can be said with regard to monopolies in many of our primary and secondary industries, which lead to unnecessarily high raw material costs."

The SACBC said the business community was in a position to address such problems, and should lose no time in doing so.

"It is unreasonable to expect workers, many of whom earn disturbingly low wages, to (accept) labour market flexibility while others in the economy, notably the banks and the large primary producers, remain inflexible."

DEBT *Two bonds issued recently meet this year's fiscus requirements*

Ramos rules out borrowing

ZINTLE FILTANE

Johannesburg – The government would not borrow any more money offshore after it completes its borrowing in the first quarter of this financial year, Maria Ramos, director-general for finance, said yesterday.

But, she said, an exception would be made if a sound opportunity presented itself through the European Medium Term Note programme, which allowed for the government to borrow $2 billion.

South Africa recently launched two government bonds, completing its R6 billion borrowing for this fiscal year.

TIGHT REINS *Maria Ramos, the director-general for finance, says a R4,4 billion windfall helped reduce borrowings* PHOTO: JOHN WOODROOF

(49) ARG 15/5/99

Bonds firmed on the launch of the first, a Euro issue with a lifespan of seven years. The market was not as enthusiastic on the second, a 10-year dollar stock issue, which was launched on Wednesday as confidence in emerging markets fell following the sacking of Russian Prime Minister Yevgeny Primakov and his cabinet as well as the resignation of US treasury secretary Robert Rubin.

The foreign borrowing would reduce the amount of debt issued via the local bond markets. Bruce Donald, a gilts analyst at Merrill Lynch, said domestic bond issuance was estimated at about R30 billion this year, or R2,5 billion a month, compared with just more than R39 billion last year, or R3,3 billion per month.

No foreign borrowing was done last year due to turmoil in emerging markets, he said. Foreign loans made up 4,9 percent of government debt. The good news was that the tax base expanded when an unbudgeted amount of R4,4 billion found its way into the fiscus. This, said Ramos, helped reduce borrowing by R3 billion.

Donalds said better-than-expected results on revenue collection and the fiscal deficit raised the credibility of future targets and should reassure the markets that no u-turn in economic policy was in sight. "It's also good for the bond market to the extent that it should help allay worries about supply of stock into the bond market due to rising parastatal borrowing requirements."

Bonds held at weaker levels in late afternoon trade yesterday, pushing the yield on the R150 bond to close higher at 15,080 from 15,13 percent. The rand was at R6,2185 against the dollar from R6,2237 and at R10,0776 to the pound from R10,0724.

Local markets ended lower yesterday as Wall Street fell on the release of higher-than-expected CPI data, dealers said.

The all share index lost 48,4 points to 6753,9 and the resources index shed 24,3 points to 4152,1.

Dealers said next week's market performance would be guided by yesterday's Wall Street close but warned that with elections looming, investors were likely to be cautious. The Dow Jones Industrial Average was down 173,83 at 10933,36 last night.

SA broadly passes most tests for IMF's contingent credit lines

Government's decision to apply for membership of exclusive borrowers' club may depend on the company the country would have to keep, writes Simon Barber

(49) BD 18/5/99

THERE is a growing consensus at the International Monetary Fund (IMF) that SA would qualify for, and benefit from, one of the fund's contingent credit lines, should government choose to apply.

SA's name has come up on every occasion fund management has discussed candidates who could meet the strict criteria for obtaining such a credit line, a source says.

Finance director-general Maria Ramos and outgoing Reserve Bank governor Chris Stals, who participated in the development of the new contingent credit-line concept, have expressed interest in applying.

This is not just another highly conditioned IMF loan. Rather, it represents a commitment by the fund to provide short-term finance of up to five times a member country's quota — in SA's case up to about $12bn — in the event the member, through no policy failure of its own, faces balance of payments problems because financial crises elsewhere have spooked international capital markets.

The commitment will be made only to countries which ask for it and then convince the fund's board that they deserve it. In other words, that their policies are so transparently sound that it would be irrational for investors to turn against them in a generalised flight — or even to test the IMF's commitment.

SA has been buffeted by financial upheavals in Asia, Russia and Latin America because its domestic markets are relatively liquid and investors have tended to use the rand as a proxy for other emerging market currencies, argues analyst John Davitte, of the internet-based advisory service, Ideaglobal.com.

Davitte, in an analysis of possible qualifiers for the credit line, says SA would not only be "an ideal candidate" — in terms of already meeting most of the fund's criteria — but would reap important gains just from having the commitment, and implied stamp of approval, in place.

The SA conundrum is that the paucity of its central bank reserves requires the maintenance of high interest rates to attract and keep foreign savings in the country.

These rates in turn stifle the sustained growth which would make it easier for government to implement the kind of labour market and other structural reforms without which the economy will continue to suffer.

A contingent credit line would theoretically more than double SA's foreign reserves. Were SA to qualify for such backing, the result could be a sea change in the market's perception of SA risk, according to Davitte, curbing foreign exchange volatility and ushering in "a new era of lower real interest rates".

To qualify, an applicant must:

Be implementing policies deemed unlikely to give it cause to call on funding resources and cannot already be in balance of payment difficulties;

Have been, and continue to be, positively rated in the fund's annual article IV surveillance of its policies;

At minimum, subscribe to the fund's special data dissemination standards requiring release of timely, comprehensive and accurate financial statistics;

Preferably be adhering to the Basle core principles for banking supervision as well as codes the fund is developing for fiscal, monetary and financial transparency;

Have "constructive relations" with private creditors and be making "satisfactory progress" in managing its external debt and international reserves; and

Be able to submit, and make public, a quantified, multiyear economic and financial programme on the understanding that it can be adjusted as events dictate.

SA broadly passes most of these tests.

It was an early subscriber to special data dissemination standards and has recently moved to long-term macroeconomic planning.

It has also had contingent credit lines with private banks "for a very long time", an IMF official noted

A question mark hangs over how well, in its desperate need for the very kind of liquidity such a credit line could offer, SA has managed its international reserves.

"The country's Achilles heel is the low level of central bank reserves (about $5,3bn), against which there is a debilitating $24,2bn oversold position on the forward book," Davitte said

He predicts the fund will be flexible, pointing out that in their own statements about the contingent credit line initiative, top fund officials have acknowledged that no country would meet all the criteria perfectly.

It is unlikely that any country will announce in advance that it is formally seeking a credit line in case it gets turned down, which would send an unfortunate signal to the market. Fund staff expect interested countries to test the waters on a confidential basis.

Ramos has said that in assessing whether to apply, SA will consider who else may be in the contingent credit line club.

If membership becomes too broad, being granted such a credit line might ironically cease to be a seal of approval and be regarded more as a stigma and sign of vulnerability

Other candidates are said to include Argentina, Hungary and Mexico.

Mbeki to keep RDP and Gear

ET (BR) 19/5/99 (49)

JAMES LAMONT

Johannesburg – Thabo Mbeki, the deputy president, committed the government yesterday to continuing the macroeconomic policies of the ANC's first term of office should it win the elections.

Speaking at the Investec Guinness Flight investment seminar, Mbeki said the policies of the Reconstruction and Development Programme (RDP) and the Growth, Employment and Redistribution (Gear) macroeconomic package were appropriate for the ANC's second five-year term of office.

"The RDP programme, as a broad policy framework, remains relevant," he said "I also believe that policy (Gear) remains correct and that the next government will continue to be bound by it."

Gear, which is characterised by tight fiscal discipline and a reduction in the budget deficit, was introduced in May 1996. Although latest data shows inflation has fallen to 7,7 percent, economic growth has been squeezed by high interest rates and the economy has not created jobs.

At the Presidential Jobs Summit last October, the union movement said it remained opposed to Gear, while opposition parties have argued that Gear has never been fully implemented

Mbeki appealed to investors to ignore speculation over a Cabinet reshuffle, which may include Trevor Manuel, the minister of finance, and the closure of ministries as a cost-saving measure.

Mbeki said the ANC had no plans to use a two-thirds parliamentary majority to alter the constitution to curtail the powers of provincial government or to restrict the independence of the Reserve Bank However, he would seek better co-ordination between the Reserve Bank, the ministry of finance and the government

"The matter of attracting foreign investment remains a concern. But we need to note that the inflows of foreign capital into the country have been good and strong in 1996, 1997, 1998, but not sufficient," Mbeki said

He proposed once again the establishment of an advisory council on foreign investment, that would include international businesspeople, to help stimulate capital inflows

Mbeki also signalled collaboration with the World Bank over a southern African regional infrastructure plan and in finding solutions for the government's Year 2000 compliance difficulties

Sunday Times Business Times
May 23 1999

State set to Gear up macro-economic policy after elections

(49)

MARIA RAMOS

GOVERNMENT PRIORITIES

By THABO KOBOKOANE

GOVERNMENT will continue its "unshakeable" commitment to sound macro-economic policy after the elections, according to the Department of Finance.

"The policy course has been taken. We will continue to improve public finances, reprioritise expenditure, and focus on efficiency and delivery," says Director-General Maria Ramos.

Her comments come in the same week that Deputy President Thabo Mbeki recommitted himself to the growth, employment and redistribution strategy, saying the next government should continue to be bound by it, including fiscal deficits reduction.

Ramos says inflation targeting is likely to be introduced only after governor-elect Tito Mboweni takes the reins at the Reserve Bank.

Ramos says it would be "unrealistic" to expect the state to set inflation targets on its own, even though targeting is the prerogative of governments the world over.

"It has to be in consultation and agreement with the central bank. Fiscal and monetary policy will have to work in tandem," she says.

She also emphasises that the size and rate of the government's wage bill remains unaffordable. "We can't afford to raise the wage bill at the rate at which it has been increasing in the past three to four years," she says. Public service reform has been important and will become even more important, she says.

On the forward cover book, Ramos says there have been different proposals from financial institutions to convert it into long-term debt, but government is not contemplating this because it does not believe in using the forward book for liquidity.

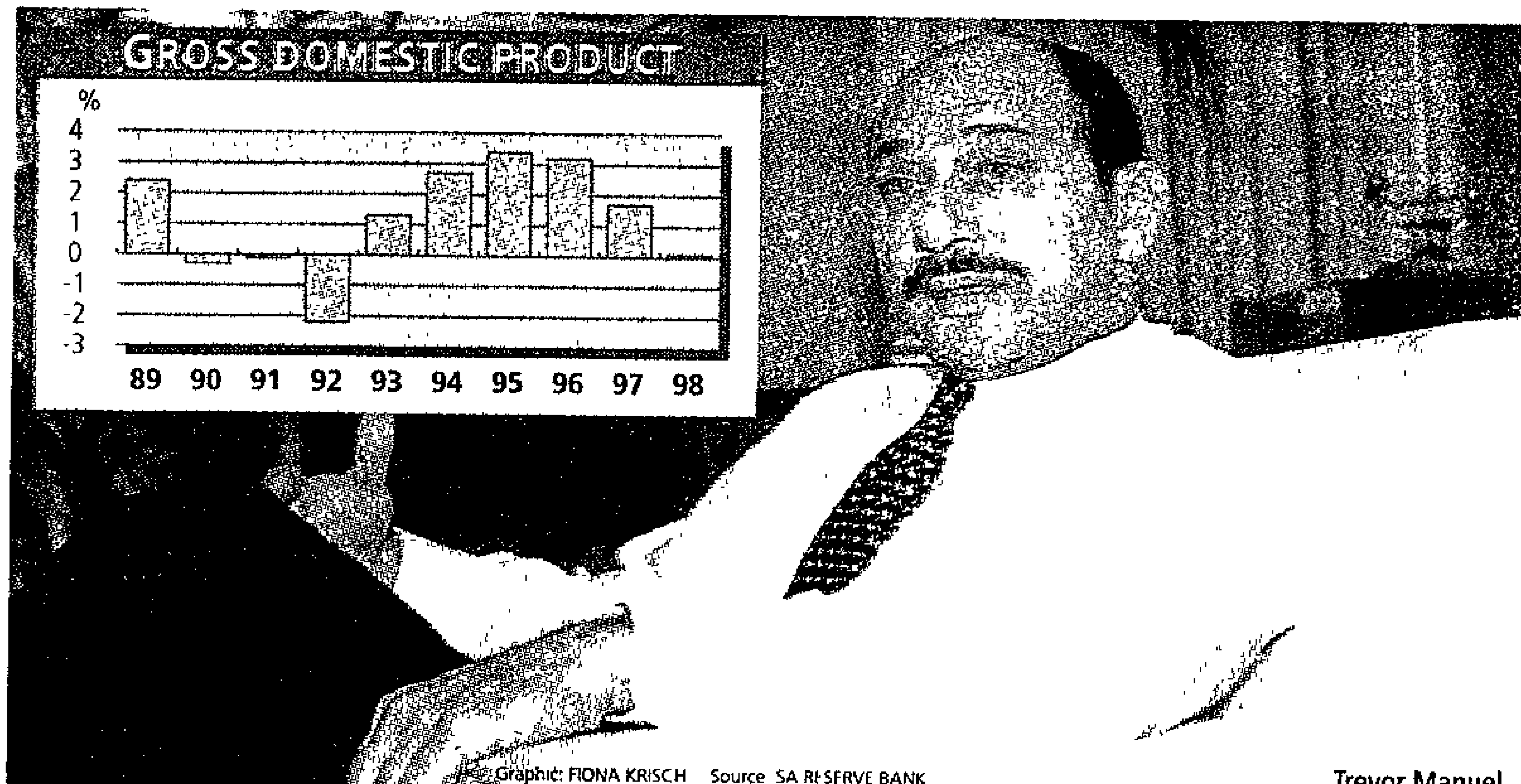
"We have said we don't want to be in the forward market and that we will work our way out of it in an orderly fashion. That's exactly what we aim to do," she says.

"We would also need to be convinced that converting a portion of the forward book into long-term debt would put us in a better position," says Ramos.

On moves to create a super regulatory body to oversee financial regulation and supervision, Ramos says developments in the domestic market and global trends are being watched.

SA is also set to increase its interest in the African Development Bank from 1% to 5% as shares become available.

ST (BT) 23/5/99



Graphic: FIONA KRISCH Source SA RESERVE BANK

Trevor Manuel

State needs to change into a higher Gear

(49) ST (BT) 30/5/99

Government needs to administer more bitter medicine to get the economy healthy, writes THABO KOBOKOANE

When Chris Liebenberg resigned as Finance Minister in 1996 and was replaced by Trade and Industry Minister Trevor Manuel, critics raised concerns about the government's lack of commitment to fiscal discipline.

Manuel's appointment put the purse strings firmly in the hands of the ANC for the first time.

Three years on it is hard to find any major critics of government's performance in the macro-economic arena or of Manuel's leadership: indeed many see it as the most visible achievement of the ANC government to date.

By all accounts, the ANC has done far better in holding together the country's finances than the National Party did in more than 46 years of government.

"This government has laid the foundation for better economic growth," says PLJ Financial Services economist Dawie Roodt.

One of the most important contributors to this is the government's macro-economic policy framework, Gear. Reviled by trade unions, the strategy was the government's clearest commitment yet to sound economic policies.

Launched in June 1996, the strategy aimed at cutting the budget deficit to 3%, creating over 400 000 jobs a year and pushing economic growth to 6% annually by 2000.

On the first, it has had remarkable success. Until 1993 the budget deficit stood at about 8%. It now stands at 3.3%, despite the recent global economic crisis. It is an achievement made possible by Manuel's motto of "tax smarter, not harder". Granting the SA Revenue Service autonomy to improve tax collection has been a key contributor to the success. There have been other achievements, like the relaxation of exchange controls.

But not everything is as rosy. Despite the bitter medicine of the past three years, the economy is not healthy. Apart from 1995 and 1996 (when growth was 3.5% and 3.2% respectively) growth has been stagnant in the past five years. The global economic crisis did not help either, forcing the SA Reserve bank to hike interest rates to 25.5% to ward off currency speculators. While debate has raged over the protection of the currency, the use of interest rates has choked growth prospects.

At best analysts expect an economic turnaround to emerge in the second half of 1999, picking up significantly only next year.

This is cold comfort for the estimated third — and rising — of the economically active population which is unemployed. Government estimates at least 350 000 new jobs are needed a year to keep unemployment rates at current levels.

This is a daunting task and the next five years will be crucial.

Most economists reckon difficult political decisions will need to be taken in two areas: privatisation and labour market flexibility.

Government has so far played a delicate balancing act in privatisation despite the labour movement's protestations but if recent ministry comments prove correct, then privatisation is speeding up. "We need to see rapid movement in this area," says Standard Corporate and Merchant Bank economist Johan Botha.

A more difficult task may be addressing business concerns over the labour market dispensation. Deputy President Thabo Mbeki has more than once signalled government's intention to "review" the swathe of labour legislation.

That decision will require tough political will. It is unlikely unions will simply allow government to amend their hard-won rights.

Several economists are nevertheless convinced some kind of amendment will take place. "I think it will probably happen. We will see some kind of relaxation for small and medium sized businesses to allow smaller companies to employ people cheaply. But there will not be anything for big business," says Roodt.

Gear 'will impact badly on SA's working class'

(49)

Sowetan 1/6/99

By Edward Cottle

A NUMBER of articles have appeared in *Sowetan* giving support to an African National Congress vote, including one from South African Communist Party general secretary Blade Nzimande.

He argues that the ANC has placed the working class at the centre of its programme for transformation and therefore we must vote ANC (*Sowetan*, May 17).

In particular Nzimande stresses that "the working class can make its vote count and impact positively on economic policy." What is amazing about his assessment is that it suffers from deliberate amnesia.

Did the working class in South Africa give the ANC a mandate to implement the Reconstruction and Development Programme (RDP) or the neoliberal Growth, Employment and Redistribution (Gear) strategy?

It is by now a well-known fact in the mass movement that the ANC has abandoned the RDP and unilaterally replaced it with Gear.

This is why Gear was rejected by the Congress of South African Trade Unions (Cosatu) at its congress in 1997 and its central committee in 1998 as a policy which serves the rich and not the poor.

The struggles about privatisation, exclusion of thousands of students from higher education, toilets in the bushveld, giving housing delivery to the private sector and the retrenchment of about 500 000 workers since 1994 were indications that the RDP had been abandoned.

While the biggest formations in the working class movement reject Gear (including the SACP), Nzimande wants to know in his article why "ultra-left detractors" want to question a Gear vote.

Is the tripartite alliance not supposed to question a Gear vote? No, he justifies Gear by claiming that it is only in the alliance that discussion is taking place about appropriate economic policy.

Is it not strange that when the working class consistently rejects neoliberal policies, the leaders always seem to find some way in which to justify them?

This is why alliance leaders are doing everything to confuse workers about Government policy and delivery.

A look at the ANC election manifesto is a clear example. The alliance have given its full support to the ANC because the manifesto is based upon the RDP.

But this manifesto is completely silent on contentious issues such as Gear or privatisation. The manifesto is also completely silent on targets for delivery on housing, job creation, health and so on.

Yet it is a well-known fact that the ANC Government's budget is clearly in line with Gear. According to Sally Timmel, director of Fair Share, every "RDP ministry" had its budget cut in real terms.

- Education by 3,9 percent;
- Health by 0,8 percent;
- Welfare by 3,7 percent,
- Housing by 14,3 percent,
- Water by 21,6 percent,
- Transport by 3 percent, and
- Land by 15,5 percent

Furthermore, the Government intends to retrench between 50 000 and 100 000 civil servants. The tax reduction of five percent for corporations will further shift the tax burden to individuals.

Individuals are paying 42 percent and corporations 15 percent in tax revenue, whereas in 1960 17 percent came from individuals and 43 percent from corporations.

Now, Nzimande, tell us how the Government is going to deliver with a Gear budget!

ANC deputy president Jacob Zuma also said after the release of the ANC manifesto that Cosatu and the SACP had been won over to the debate about Gear and that "nothing was going to change" in terms of Government policy.

It seems that the only people who are "unclear" about government policy are the alliance partners.

How then, when we are shown over and over again that the ANC consistently undermines the position of the working class on economic policy, does Nzimande claim that workers will be able to impact positively?

The only reason he can make the claim that the working class will impact on economic policy is because he is playing a key role in sowing ideological confusion and hence division among militants who up to now have been quite coherent in their attack on Gear.

By doing this the SACP is giving the ruling classes a guarantee that their Gear policy will remain intact and therefore the wealth of the country will not be tampered with.

All the ruling class parties have given their support to the Gear policy and differences have only been about the pace of implementation.

So while the alliance partners trumpet delivery, the ANC will continue to implement Gear, which is going to accelerate the impoverishment of the working class.

Thus, by locating itself within the ANC, instead of an ultra-left armchair, the SACP is trying to deliver the working class bound hand and foot to the ruling class.

(The author is a former educator and researcher of the South African Commercial, Catering and Allied Workers' Union.)

SA needs an injection of Japanese thrift

ET (PR) 8/6/99 (49)

MARY TOMLINSON

Whatever the reasons for South Africa's notoriously low tendency to save, there appears to be the beginnings of a consensus in the government that the issue needs to be addressed.

Chris Stals, the governor of the Reserve Bank, has said that over the past five years gross domestic savings as a percentage of gross domestic product (GDP) declined from an average annual rate of 19 percent to 16 percent.

Last year total savings declined to only 14 percent of GDP.

The gap between the minimum required fixed investment and domestic savings is therefore increasing. Less than 1 percent of this figure is considered personal savings.

Trevor Manuel, the finance minister, has said the government's policies were hampered by one of the lowest savings rates in the world The government's growth, employment and redistribution strategy says the aggregate savings rate would have to be raised to 23 percent of GDP to support an average growth rate of more than 4 percent a year in real incomes

The way households save is influenced by issues such as trading off between future and present consumption, life stage, the extension of credit facilities and so on

One way for governments to influence savings behaviour is through the tax rate. While, typically, the loss of tax revenue would result in higher budget deficits, in South Africa incomes are too low to take advantage of incentives such as tax relief on interest.

Another means of increasing savings may well lie with the Japanese model. Thrift has long been seen as a virtue in Japan. From the end of the 19th century until the end of the second world war, Tokyo promoted savings as a way to achieve national goals.

Savings were regarded as an important source of funding for new industries and the military. They were a way to help Japan catch up with the most advanced western countries.

After the war, Japan encouraged savings as a means of rehabilitating the economy and stamping out high levels of inflation.

In 1952 the Central Council for Savings Promotion was established as the central organisation of Japan's savings movement, which until then had been completely under government control.

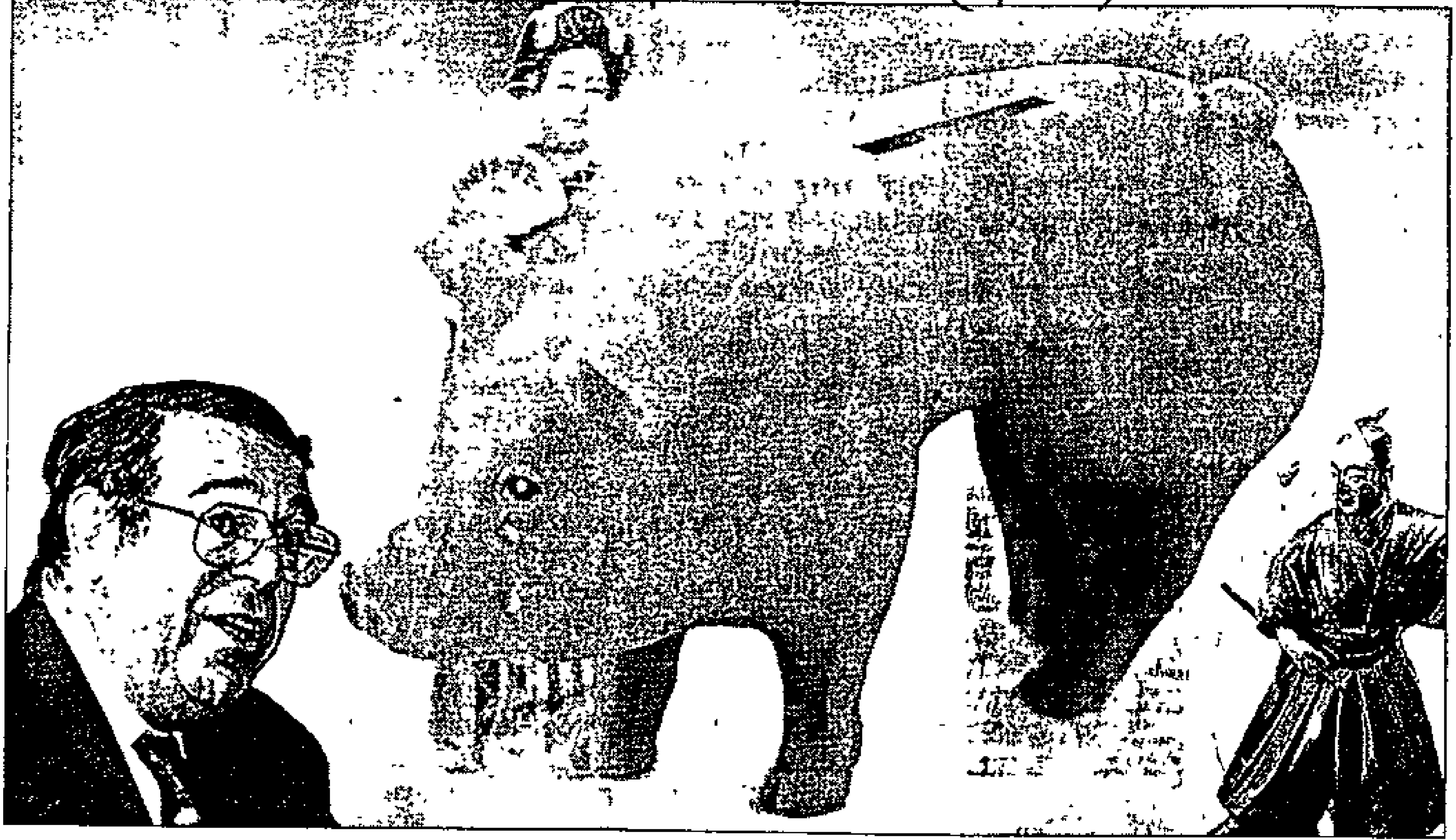
The council oversaw a number of initiatives to promote savings for capital accumulation to support Japan's economy, which was growing through the manufacture of exports.

Promotional activities centred on lectures, but also included distributing housekeeping account books throughout the nation.

From 1958 to 1961, the council took the movement to the grassroots level by promoting local savings committees.

Model Savings District systems, set up in 1958 to focus on group activities, underpin the current savings promotion programme. The districts link up with women's organisations to provide special planning and savings advisers and consultation services.

As the Japanese economy entered its high-growth period, the savings campaign gradually shifted its emphasis.



It now focuses on helping the Japanese to learn how to guard individual financial health – for instance by saving towards old age – as well as that of the economy.

The programme's activities have expanded over the years to include the dissemination of information through TV and schools.

The weight given to savings promotion in Japan is best demonstrated by the organisations that have been involved in it over the years. Today these include the Bank of Japan, the ministry of finance and the ministry of education.

The central council itself is made up of representatives of financial, industrial, broadcasting and consumer organisations. Local governments are responsible for establishing local savings promotion committees.

The measure of success for Japan's savings promotion movement is best demonstrated by the country's stagnating economy. Today the Japanese are being asked, for the first time, to consume rather than save, to help lift themselves out of recession.

However, households across the country, highly programmed over all these years to save, are actually consuming less than they did back in 1970, when the government began keeping this type of statistic.

International evidence points to the fact that gross domestic savings provides a useful tool for predicting a country's ability to compete in terms of growth.

Bringing the discussion home to South Africa, examination of the country's personal savings ratio reveals that in the 1970s personal savings were around 8 percent of personal income. By the early 1990s it had dropped to about 2 percent.

The time may therefore be right to begin a wide-ranging discussion around savings promotion, linking it to the attainment of crucial national goals.

Any discussion around approaches to increase personal savings – for instance ensuring that loans are not accessed without a proven track record of savings – would also have to look at the important issue of how to turn such increases into productive investment, including where such savings should occur.

For a country like South Africa, obsessed with debt and credit, a shift in the collective mindset towards saving rather than consuming would certainly reshape the economic debates.

□ *Mary Tomlinson works for the Banking Council*

Unions look to 'economic freedom'

(49)

Frank Nxumalo

CT (BR) 9/6/99

Johannesburg – The National Union of Metalworkers of South Africa (Numsa) said yesterday it was certain the victorious ANC would use its political power to fundamentally transform the national economy

Numsa said the majority of people in South Africa – especially workers – had yet to achieve economic freedom

The union said this was particularly true with regard to Gear, the government's macro-economic policy of growth, employment and redistribution, as it had "strong elements of labour market flexibility".

"The ANC should now seize the moment to effectively drive the process of change by supporting investment that will create lots of jobs," Numsa said.

"The unemployment toll in South Africa has risen faster than most analysts predicted.

"We hope and trust that in the next five years their (the ANC's) policies would be to increase social spending so as to avoid the social hardships brought by unemployment."

Cosatu, the trade union alliance, said the ANC victory signalled the confidence that the overwhelming majority had in the national liberation movement, especially "in the correctness of its approach to transformation and delivery and in the diligent manner with which it has executed its historical mission over the past five years".

Cosatu said the resounding defeat of the opposition parties, on the other hand, made nonsense of their claims of wide-scale support and presented the democratic movement with the opportunity to drive the programme of social transformation with greater vigour and determination.

Cosatu said it would work with the ANC towards speeding up delivery, building the economy and creating jobs, combating crime and corruption, transforming the state and building a better Africa and a better world.

'AT LEAST R20M PLEDGED'

Businesses to foot much of Mbeki's R47m bash

THE presidential inauguration and farewell to President Nelson Mandela will cost the taxpayer less than the 1994 ceremony. **CHRIS BATEMAN and JEAN-JACQUES CORNISH** report.

HALF the costs of next Wednesday's "spectacular" R47-million presidential inauguration in Pretoria will be met by big business and will therefore cost the taxpayer less than the historic "Rainbow Nation" inauguration of President Mandela in 1994, said Faizal Dawjee, spokesperson for the inauguration committee in Pretoria.

Asked for a breakdown of costs, Dawjee said this would only be available afterwards, "when people give us their detailed breakdowns".

"The budget is still being consolidated and big business sponsorships are flooding in. We had R10m confirmed on Tuesday and have been promised at least as much again — I reckon it will cost the taxpayer less than half of the R47m," said Dawjee

He said that, according to the Department of Foreign Affairs, President Mandela's inauguration had cost about the same, and taxpayers had footed the bill.

The largest-ever group of world leaders to visit South Africa will descend on Pretoria next week to attend Thabo Mbeki's inauguration and Nelson Mandela's farewell.

Water Affairs and Forestry Minister Kader Asmal, who is chairman of the organising committee, said 96 governments had accepted. However, the leaders of the world's richest countries — Britain, Canada, France, Germany, Italy, Japan, Russia and the United States — will miss the event. They are attending the G8 summit in Cologne, Germany.

IN THE WINGS: Thabo Mbeki

Asmal said the guests would include five members of royal families, 30 presidents — at least 27 from Africa — and six deputy presidents.

A further 11 countries would send their prime ministers and a half dozen their governors general

The event would include a peoples' concert, a symphonic poem, a "spectacular" fly-past, banquet and an international soccer match. Artists billed for the concert include Brenda Fassie, Johannes Kerkorrel, Rebecca Malope, Hugh Masekela, Jimmy Dludlu, Lucky Dube, Boom Shaka, Youssou Ndour, Angelique Kidjo, Papa Wemba and Manu Dibango

Asmal said the biggest slice of the budget would be for security, followed by accommodation. Guests would have to pay to get to South Africa. In spite of Asmal's reticence on who has confirmed attendance, the guest list is becoming an open secret.

Nigeria's new president Olusegun Obasanjo has scheduled a press conference at breakfast on June 16. This would force reporters wishing to cover the ceremony to make a choice. They have to be in place at the Union Buildings by 6 30am on the day.

Mandela himself let the cat out of the bag about Libyan leader Muammar Gaddafi being here. He told reporters at the weekend that anyone who had a problem with South Africa hosting the "Brother Leader" should go and jump in a pond.

Iran has let it be known that woman vice-president Massoumeh Ebtekar would lead their delegation.

Asmal allowed that the secretaries general of the UN, the OAU and the Commonwealth had all indicated they would attend

We also have a good idea who will not be there If Slobodan Milosevic were to arrive, South Africa would be obliged to arrest him and turn him over to the UN Tribunal, which has indicted him on charges of being a war criminal since he received his invitation.

CT 10/6/99

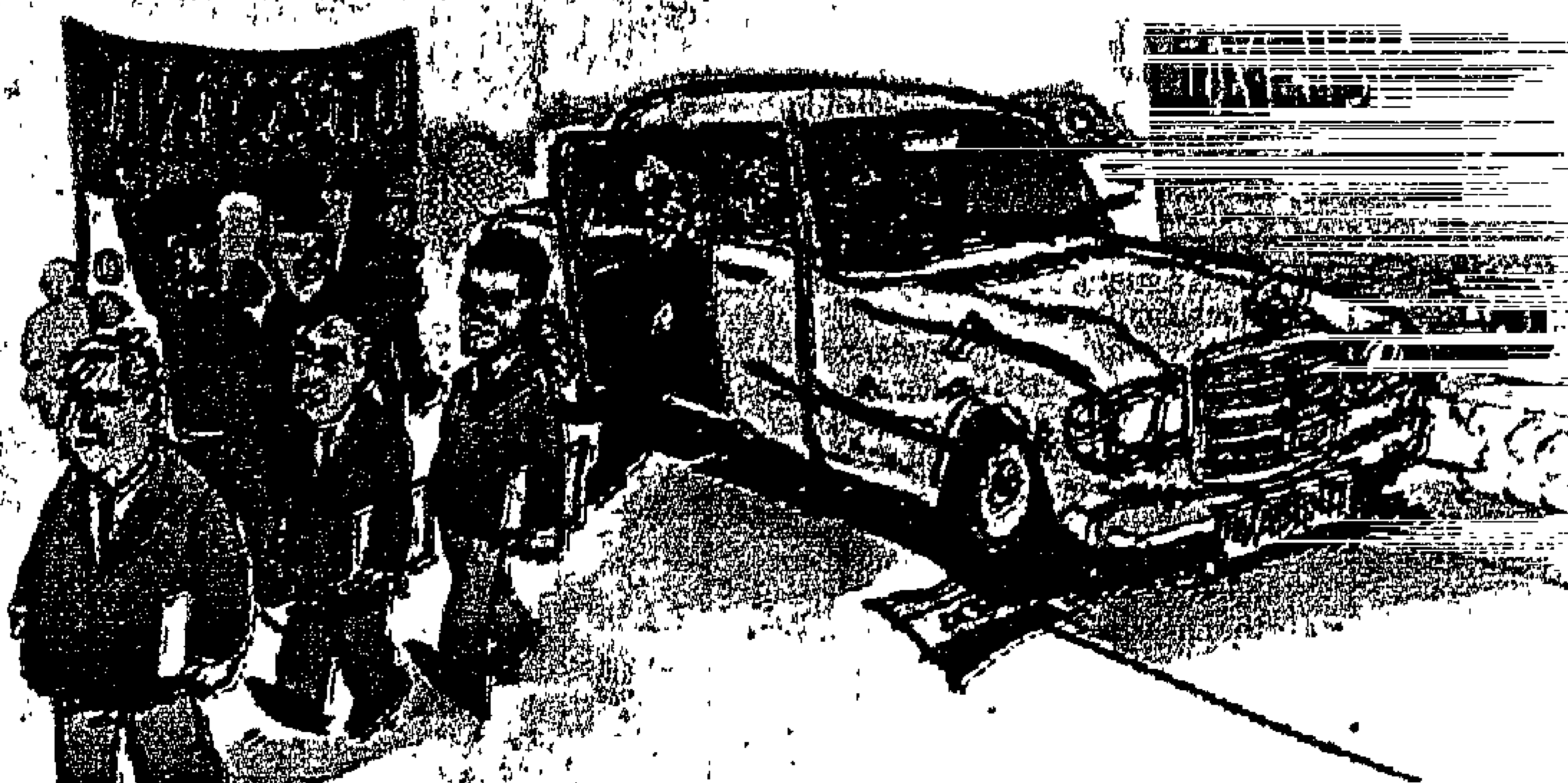
CAPEARGUS IS

Mbeki's tough eco

In the first article in a two-part series, Contributing Editor to the Cape Argus **PIETER LE ROUX** looks at possible scenarios for South Africa's economic future under the Mbeki government

CRONY CAPITALISM

'Who owns the old Merc?'



There are those who argue that South Africa's future is predetermined by the globalised world economy. They believe that its Government's policies cannot really influence future socio-economic growth paths.

But in a scenario exercise undertaken by the PSG financial services group and Siphumelele, a black empowerment investment group, this point of view was rejected.

It was concluded that very different futures could await South Africa, depending on the policy choices made.

In this article two of the possible choices prescribed by some groups close to Government are discussed, both of them leading to undesirable outcomes.

They are presented as scenarios, as plausible stories of the future.

Tomorrow a third possible scenario, far more desirable than the first two, is offered.

The first scenario is called Crony Capitalism or "Who owns the old Merc?".

In this scenario the Government decides to follow the advice received from many economists and white and black business leaders who argue that growth will only be possible if labour costs are forced down and fiscal discipline is maintained.

In spite of strong opposition from the trade unions, the Government therefore rescinds significant aspects of the labour laws and enhances the power of businesses to hire and fire.

Furthermore, export processing zones are established to facilitate the cheap and competitive production of goods for the export market.

These changes are undertaken in an attempt to encourage overall economic growth.

It is contended that such growth would enable Government to ensure that there is a rapid increase in black ownership of the economy.

Government responds to the pleas for support from the black business community by implementing stronger affirmative action policies and by strengthening procurement rules that aim to ensure that black-controlled companies benefit from Government expenditure.

In defending this approach, Government spokespeople refer to the high growth rates countries such as Malaysia have experienced.

They point out that in the first two-and-a-half decades after the new economic policy was adopted in Malaysia in 1970, the Gross Domestic Product grew by a factor of five.

The percentage of the economy controlled by the native Malaysians increased from less than 0,05% to about 25% of the economy, and the percentage of people living in poverty fell from more than 60% of the population to less than 20%.

Critics of this model respond that inequality, however, also grew, and that a high environmental price was paid for the very rapid industrial growth.

Whatever the merits and demerits of the Malaysian model may be, it becomes increasingly clear that, in the South African context, crony capitalism does not deliver the high economic growth it was hoped to achieve.

The attempt to imitate Malaysia fails for several reasons.

In contrast to Malaysia, South Africa is not on the doorstep of a major industrial country, such as Japan, expanding its industries in areas where labour costs are low.

South Africa, even if wages are cut significantly, cannot provide labour as cheaply and as efficiently as countries like China.

The first decade of the new millennium is, in any case, one of growth in the knowledge industries, and not one in which cheap labour is crucial for economic success

Finally, and most fundamentally, because of the strong tradition of democracy among the trade unions and among many in the business sector, the attempts to impose authoritarian growth is vehemently opposed and leads to severe political conflicts that undermine growth.

Although the Government had at the outset promised to create a new vehicle to take South Africa into the third millennium, the story of South Africa becomes a conflict over the question of who owns the old Merc.

The poor walk outside in the dust, while the business class rambles by.

Skills and capital erode, and average economic growth remains below 3%, with the consequence that affirmative action increasingly causes conflict.

At the end of this decade, the security forces increasingly have to be called in to quell the left-wing opposition to crony capitalism.

In some circles there is talk of a military putsch, where as others believe that conditions are favourable for a left-wing takeover

The second scenario is one of moderate macro-economic populism. It is called "Kick starting the combi taxi".

In this case the Government, on the advice of several left-wing economists, rejects the Gear target of a 3% deficit and commits itself to deficits in the range of 8% to 10%.

The argument is that the additional funds that become available will not only enable the Government to deliver the needs of the poor much more rapidly, but it will also create a demand-led stimulus for much higher economic growth.

In line with this policy, the Government expands its house building programme extremely rapidly, and it significantly increases expenditures on education and health.

Although there are attempts to increase the taxes raised, these additional expenditures are made primarily by borrowing more money.

Where as such populist policies have, when they were implemented in Latin American countries in the 1970s and the 1980s, often led to a few years of high growth before the economy crashed, the crash in the South African case comes virtually immediately.

The reason for the inability of populist policies to sustain high growth, even in the short run in South Africa is very low foreign exchange reserves.

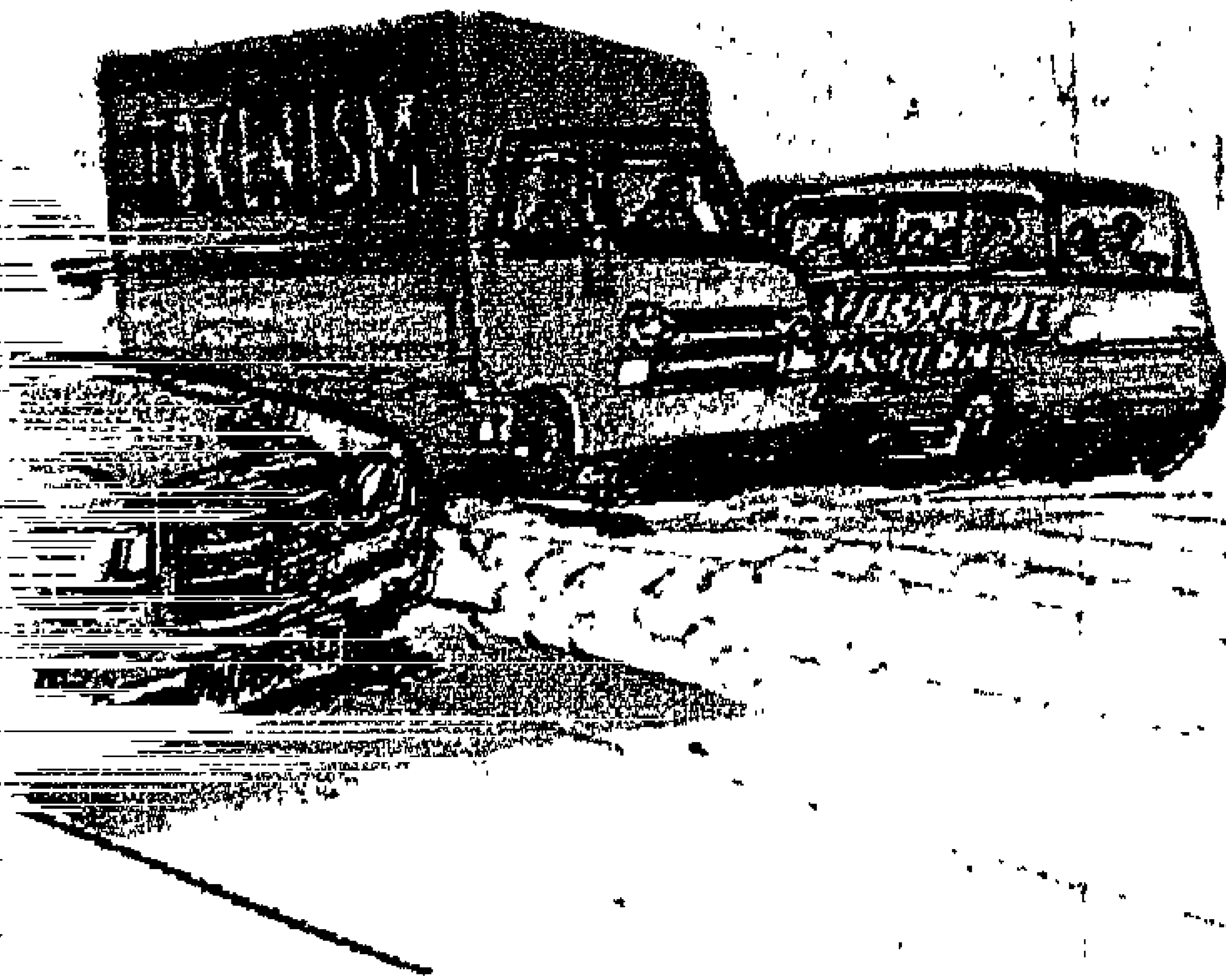
At $4-billion it is the lowest of all the countries contained in The Econ-

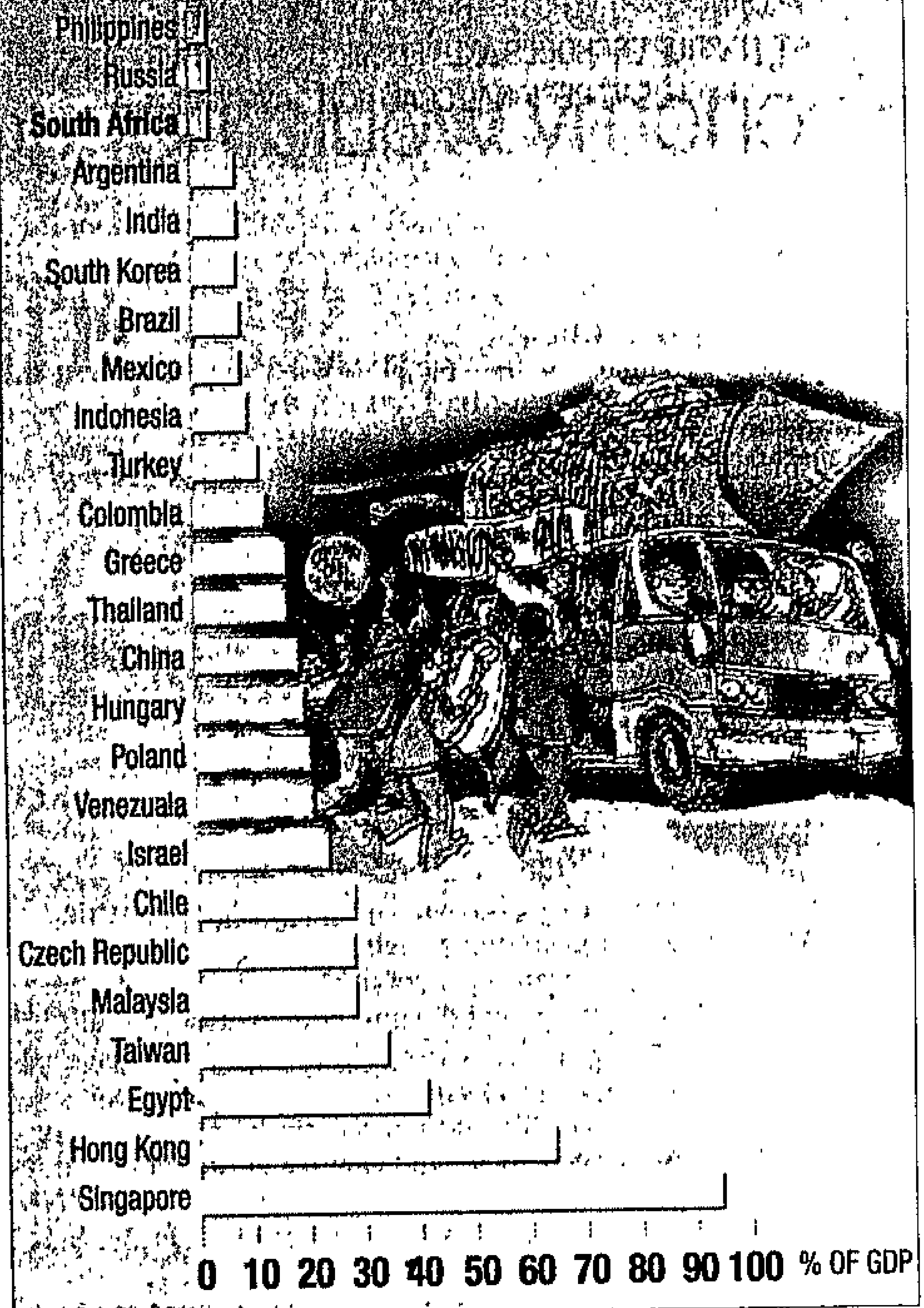
ARGUS ISSUES

ᴝconomic choices

(49) ARG 17/6/99

-' old Merc?'





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At $4-billion it is the lowest of all the countries contained in The Economist's list of emerging markets.

Even if one looks at reserves as a percentage of GDP, South Africa is the third lowest at 3,3% – just slightly higher than the 3% of Indonesia and Russia (see graph).

The economics of populist policies is clear.

The additional wages and profits received because of the increases in expenditure on housing, health and education lead to an additional demand for goods and services.

This leads to some increase in production, but primarily to more imports or higher prices.

Because of the low foreign exchange reserves, more imports soon lead to pressure on the rand and to devaluation, which further flames the inflationary fires.

In circumstances of high inflation and devaluation, there is a rapid flight of skills and capital, which cannot be stemmed by the counter measures the Government tries to adopt.

The intention of those proposing the populist policies were laudable. But instead of stimulating economic growth and enhancing the long-term delivery of housing, health and education, these policies soon lead to an economic melt down.

The combi taxi is more popular than the old Merc – because it can accommodate more people.

However, a taxi that has to be kick-started to get it going cannot transport a large number of people at high speeds.

It blows its gaskets and burns its bearings.

The end of the story is sad for all.

Whereas the populist policies were imposed to escape the fiscal discipline imposed by Gear, the Government, once the economy has collapsed, has to go cap in hand for bridging funds to the International Monetary Fund and World Bank, which will inevitably impose far harsher conditions.

The first scenario, crony capitalism, or "Who owns the old Merc?" will be realised if an uncritical attempt is made to imitate the policies that worked so well for Malaysia from 1970 until the recent bout of Asian flu

The second scenario, moderate macro-economic populism, or "kick starting the combi taxi", will be realised if the Government commits itself to the populist policies proposed by many of its left-wing critics.

■ The third of the PSG group and Siphumelele scenarios, growth and reconstruction, or "the air bus takes off", will be explored tomorrow.

■ *Pieter le Roux is a professor in development studies, and director of the Institute for Social Development at the University of the Western Cape. He co-ordinated the scenario exercises carried out by PSG and Siphumelele*

GDP defies expectations

Revised data shows SA was never in recession and more buoyant than previously thought

BD 22/6/99 (49)

Samantha Enslin

SA WAS plucked out of a technical recession yesterday after the release of revised gross domestic product (GDP) data for last year, and was given further hope of improved growth with banks cutting lending rates

Data released by Statistics SA yesterday showed that SA's GDP, on a seasonally adjusted annualised basis, had grown 0,4% in the first quarter of this year, surprising economists who according to a Reuters' poll were expecting a decline of 0,3%

Stats SA released revised data for last year which showed SA was not in recession as the data previously indicated. Technically, a recession is defined as two consecutive quarters of negative growth The revisions show SA experienced negative growth only in the third quarter of last year when the economy contracted 2,3% compared with a previous estimate of -2,5% In the fourth quarter of last year growth was revised upwards to 0,2% from a previous -0,3% Last year real GDP growth was revised to 0,5% from 0,1%

The data released yesterday was based on a new accounting framework, a change in the base year to 1995 from 1990, and a rebenchmarking of economic activity.

Finance director-general Maria Ramos said the data showed the economy was more buoyant and more resilient than previously believed and that the data supported expectations of better growth. However, economists said even though the growth scenario had improved, the economy was still weak and there remained further scope for interest rate cuts.

The improved growth in the first quarter of this year was based on increased activity in the following sectors: finance, real estate and business services, community and government services, transport, storage and communication, and the electricity, water and gas industry However, these were counteracted by decreases in the agricultural, mining and quarrying, and trade and catering industries.

Equities were buoyed by the data. The Johannesburg Stock Exchange's all share index rose 96 points or 1,4% to 7 094 yesterday, driven by strong gains in the financial index which climbed 298 points or 3% to 10 192

The government's R150 bond closed at a 14,375% yield — 1,5 basis points firmer. The rand lost 2c against the dollar to R5,9950 after SA's four major commercial banks cut interest rates by 100 basis points to 18%

The review was conducted during a period in which SA's economy was becoming more integrated into the world economy and the new approach altered the weights of different industries, their contribution to economic activity, and recorded industries which previously were not included.

Economists expressed confidence in the data saying that the new approach meant that SA was now in line with best international practice in national accounting.

The average annual percentage growth in real GDP for the period 1993 to last year was revised to 2,7% from 2,2% a year.

The revised data also showed that the average level of GDP had increased by between 11% to 14% in the five-year period, with the level of GDP rising 13,7% to R738bn last year from R649bn.

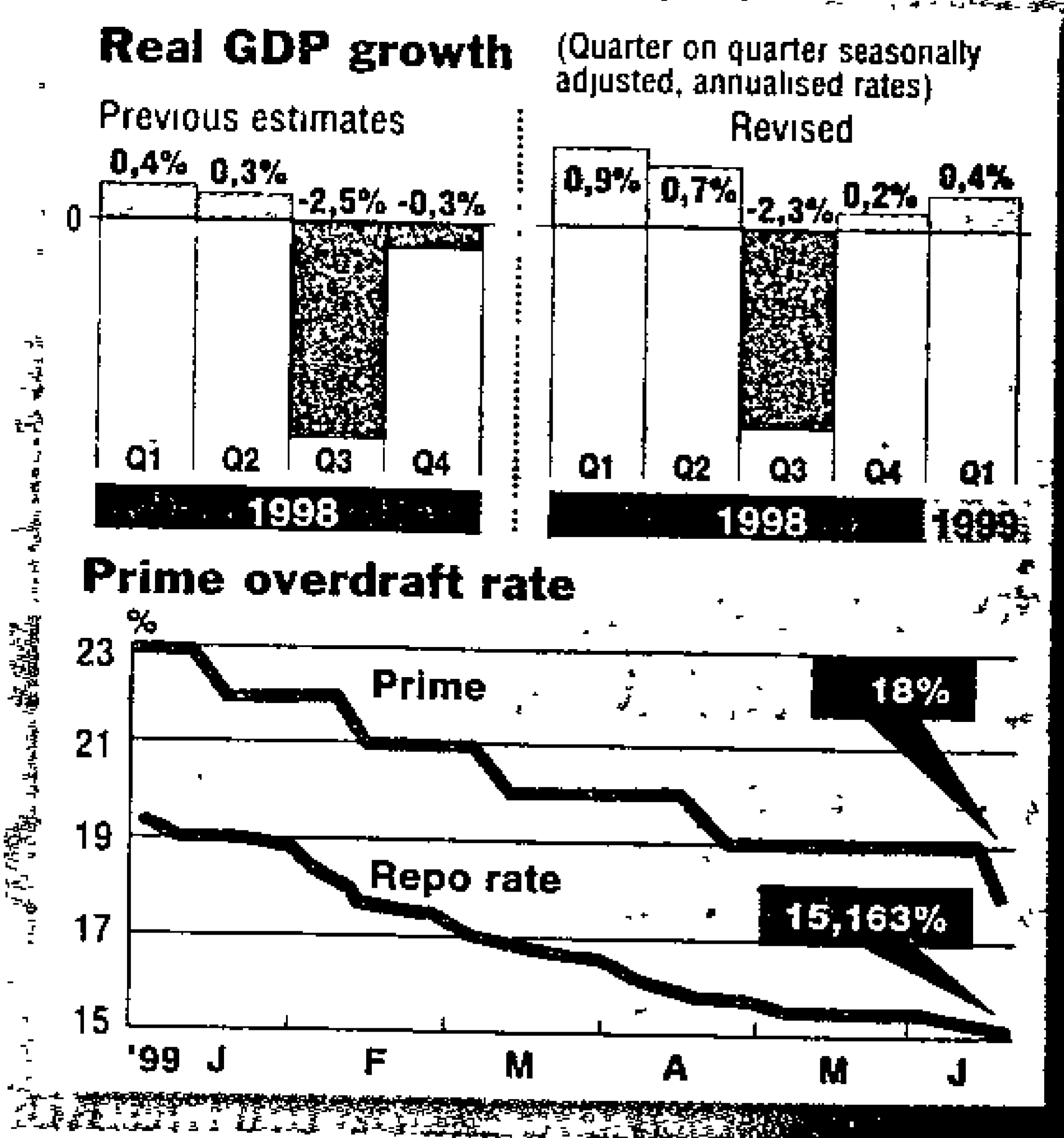
ABN Amro economist Colen Garrow said the higher level of GDP would positively influence per capita GDP rates, which were often used as a yardstick by which investors assessed a country.

Ramos said that on a preliminary basis the debt-to-GDP ratio for fiscal 1997/98 was expected to be 48% on the revised data from 55,6% on the previous data. The preliminary estimate for the deficit for fiscal 1998/99 was 2,9%, down from a previous estimate of 3,3%.

She said the figures showed SA had benefited from the globalisation of the economy. "We have to run with this and take advantages of the opportunities."

Economists agreed, saying that with declining inflation and interest rates, a steady rand and uncertainty over the elections out of the way, there was an opportunity to take advantage of the prevailing upbeat mood. Some economists suggested an appropriate move would be to raise the limit on institution's asset-swap allowances while others suggested an announcement on reviewing labour market legislation.

Comment and analysis: Page 13



Maria Ramos and Mark Orkin

MATTHYS MOSS Source: I-NET BRIDGE/ STATS SA

Service sector contributions reflect growth

BD 22/6/99

In the second of a two-part series, **Mark Orkin** gives the background to Statistics SA's GDP review and explains why the figures have changed

(49)

OUR first general election five years ago marked the inception of nonracial democracy in SA. It signalled the opening of the economy to a world system being globalised by the communications revolution and an emphasis on the production of services.

Structural changes in SA's economy are evident in Statistics SA's five-yearly review of gross domestic product (GDP) estimates for 1993-98, released yesterday.

The undertaking has achieved three things simultaneously: it brings forward the base year for real GDP comparisons from 1990 to 1995, applies the new protocols of the latest United Nations System of National Accounts 1993; and revisits GDP for the 1993-98 period, in total and by sector, quarterly and annually.

It sets the relative weights of the sectors for the next five years, but its significance is also immediately apparent.

The overall finding is a higher level of activity than was previously discerned, an increase of between 11% and 14% depending on the year. For example, GDP at present prices increases from R649bn to R738bn in 1998.

While the contributions of the goods-producing sectors have declined relatively, service sectors have increased rapidly. Since these effects of opening the economy have become more marked in the later years of the period, the average annual growth rate in real GDP also increases.

The graphic compares the contribution to GDP of the respective sectors, or "industries" as the System of National Accounts 1993 calls them, at the time of the old and new base years, 1990 and 1995. The contrast is clear: the five goods-producing sectors on the left have suffered relative declines, as has wholesale and retail trade. The five service sectors on the right of the graph have experienced increases.

Thus, the percentage contribution of agriculture in the 1995 base year declined between 1993 and 1998 from 5,3% to 3,9%, mining and quarrying from 9,7% to 7,0%; and manufacturing from 25,2% to 21,2%.

Conversely, the contribution of transport and communication increased over the period from 7,4% to 8,9%; finance, real estate and business services rose from 14,5% to 16,4%, and general government services from 13,8% to 16,2%.

The reasons for these changes are a mix, by sector, of new activity; existing activity better measured; and the non-neutral effects of the new System of National Account conventions.

Examples of rapidly growing activity reflected in revised GDP weights are cellphones, internet and satellite television in communications; the increase in stock exchange and other transactions in financial services; and rapid growth in private medical provision under community services.

Examples of existing activity better measured (which led to declines rather than increases in some instances) are the contribution to GDP of forestry, imputed rentals from owner-occupied housing stock, properly known since Census '96; and government services.

Informal activity in the various sectors has been better addressed. In the growth of the taxi industry; the use of firewood, the spread of microlending, and the activity of traditional healers.

The new conventions are sometimes neutral, but sometimes raise the level of GDP. For example, the rightmost bar of the graph represents financial intermediation services. It vanishes under the new system.

Its negative effect is in part distributed across the sectors, notably to wholesale and retail trade, where it largely explains the relative decline. But it is in part reclassified in the case of households as final consumption expenditure and boosts GDP.

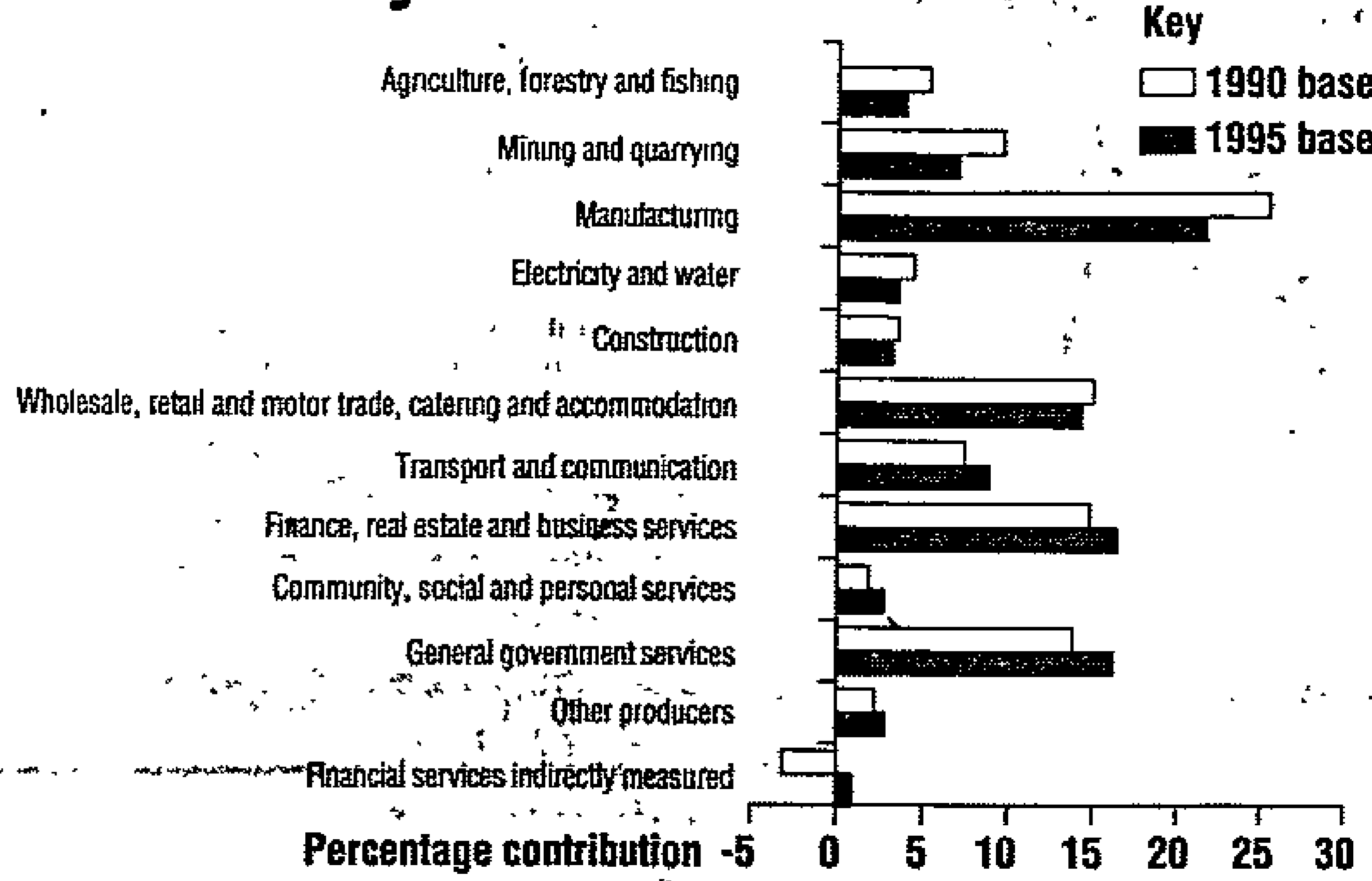
Another such example is that the provision of infrastructure by government — roads, bridges and dams — is brought into reckoning for the first time, with its annual contribution to GDP quantified via depreciation.

Some of these changes feature more prominently towards the end of the revision period. So the average annual growth in real GDP has also increased, from 2,2% to 2,7% a year over the five years. The different year-on-year revisions, by between 0,5% and 1%, are all upwards except for 1995.

The effect of the exercise should not be surprising. Analysts remember that the previous round of revisions in 1993 (in an economy still comparatively isolated by sanctions) increased the GDP level over the preceding five years by an average 4%.

On top of that, an upward revision of 2% to 3% in some developed countries simply from the application of the new system has lately been reported.

Percentage contribution to GDP in the base year



KUBEN DAVID Source: STATS SA

The statistical services of the time were still isolated. Since then, the national accounts sections of Stats SA and of the Reserve Bank — which estimate the GDP from the production and the expenditure sides respectively — have benefited from an infusion of Swedish technical assistance and training in the use of primary and secondary data sources and the application of the new system.

The resulting improvement in quality is confirmed in the shrinking of the "residual", which measures the discrepancy between the Stats SA and the Reserve Bank estimates, from 1,5 to 0,5%.

The combination of a changing world context, a rapidly adjusting economy and the latest measurement methodologies have led to the effects explained above. Now economists and policy-makers can update the inputs to their models and address the macroeconomic implications.

Orkin is head of Statistics SA.

Anna Mhlangu creates intricate traditional Venda jewellery from beads. She sells her creations in downtown Johannesburg. PICS ANTONIO MUCHAVE

Creating a unique national image

(49) Sowetan 24/6/99

By Faizel Ismael

THE value is in the image. No company has understood this better than De Beers. Almost every nation on earth now regards it as prestigious to buy a diamond ring for an engagement.

South African gold, by contrast, does not have an image abroad. South African gold bullion is sent to Switzerland, where the Swiss brand "UBS" is stamped on it and it is sold as Swiss gold.

This practice will now change as the gold industry has begun to develop its own brand. Consolidated Bullion has come up with the brand name "Ra" to market African gold as the purest and oldest in the world.

This could enhance the marketing efforts of the jewellery sector. In jewellery, especially, the value is in the image as the raw material – gold, diamonds and platinum – is available to all at similar prices.

In South Africa the jewellery industry is relatively small and undeveloped. Two years ago the industry began to think of how it could use the "New South Africa" to market its product.

The Department of Trade and Industry (DTI) began discussions with jewellers, urging them to change their image from being predominantly Eurocentric to one that reflects the uniqueness of the South African culture.

Copying European designs means the industry will always be second best. Building unique images of the new South Africa will put the industry in a unique position internationally and enable it to compete with the best international designs and images.

This year the industry has produced more than 50 new designs to be displayed at an exhibition in Italy this month. This industry has had to struggle with itself and begin to search for and capture the images of the new South Africa – capturing the spirit of the new democracy and the fusion of different cultures in an African landscape.

In the craft industry a renaissance is taking place, with new products being developed. Traditional indigenous talent and designs are being fused with the more formally cultivated designs emerging from design schools and European influences.

This is beginning to make South African crafts unique – adding significant value to it in international markets. In addition, local arts and craft producers are also beginning to respond to the challenges of international markets.

The "African Christmas Tree" is a response to the demands of the markets and this year is destined to be successful in European and United States markets.

In the clothing and fashion industry, South African designers have been copying European designs and thus far have failed to become significant in the fashion centres of the world.

Recently Errol Arendz, the celebrated Cape Town fashion designer, was in France to test his fashion range in the major departmental stores of Paris with the DTI's assistance.

He says South Africans have a long way to go to compete in Paris. However, this industry has to understand that to compete internationally, South African products must be unique.

Thus, the recent SABC2 initiative to promote traditional couture, called "Culture to Couture", has created an interesting platform for designers who are struggling to create this new South African culture.

> **'The 'made in SA' move begins to bear fruit'**

South Africa is well-placed to develop indigenous designs that emerge from the fusion of cultures in South Africa and also appeals to the international markets.

Thus, in several industries, the challenge is to produce unique images and designs that will appeal to international consumers, enabling South Africa to compete on its own terms.

The cultural and creative industries – arts and craft, music and film – could contribute to and enhance the image, design and marketing of other consumer products.

The DTI has conceived a campaign to market local consumer products in some of the world's major retail stores. Products like clothing, textiles, processed food and wine could be marketed together with South African arts, crafts and music.

In other industries such as electronics, capital equipment and the auto industry, South Africa needs to project a high technology and design content, and of quality that is unique.

Some of South Africa's products are already making this image possible. Capital equipment producers in mining, agriculture and forestry for instance have produced unique products.

In the wine industry, the first phase of the new South Africa's rapid entry into global markets facilitated the sale of South Africa's wine, with the Mandela factor drawing consumers to local wine.

In the wine industry, too, the value is in the image. This is what Australia and New Zealand understood more than 10 years ago. They successfully repositioned their wine in the market in the mid to upper end.

South Africa's wine industry needs to develop a global campaign as well, built on the uniqueness of the country from which it originates.

Thus, in most industries, developing a new image for products is linked to the image of South Africa as a whole.

Branding South Africa will give producers in industries like the clothing sector the confidence to develop their own brands rather than selling little-known American brands for which they have to pay royalties.

Industries have begun to use the opportunity offered to them by the new South Africa – the unlocking of talent and the different indigenous cultures – to bring their creativity to the fore and create a new dynamism in South African culture, art and design.

The search to build a new brand for the South African economy is also bound to the country's search to create a new identity and culture. Part of this new culture is linked to South Africa's new international role.

The new South Africa has become a vigorous campaigner for the total ban of landmines, the non-proliferation of nuclear weapons and the elimination of weapons of mass destruction.

South Africa is also being recognised as a peace-maker for its efforts at brokering peace in complex conflicts such as the Lockerbie issue, East Timor and the Great Lakes region.

In other forums, South Africa has fought for the rights and dignity of labour and a concern for the environment. The gold industry has begun to market gold extracted from reclaimed mined dumps as "Green Gold".

Thus, South Africa is beginning to create a new brand. The DTI is encouraging industries to build on these efforts and contribute in a partnership with government to create the new South African brand.

The African renaissance is beginning to take place in South African industries.

(The author is the Department of Trade and Industry's chief director of export trade promotion.)

Watchdog gets tough on finance

(49)( )

'Service delivery at risk'

PARLIAMENTARY BUREAU
ARG 25/6/99

The auditor-general has issued a stern warning to the provinces and local government alike to tighten their financial controls or face a further deterioration in delivery.

In his general report on the accounts of the national government for 1997-98 tabled this week in Parliament, Auditor-General Henri Kluever once again targeted the lower levels of administration for their poor performance.

He was especially critical of local government where he said the poor financial positions reported last year had not changed. "The future functioning of local government and the maintenance of adequate service levels could be seriously affected by the continuing deterioration," he said.

Regarding the provinces, Mr Kluever said that management of public funds remained "a source of grave concern". Among the critical issues he identified were late rendition of appropriation accounts, weaknesses in internal control systems, shortages of well-trained staff and insufficient control over suspense accounts and bank reconciliations.

No province was spared criticism for its financial management, including Gauteng. Mr Kluever said that while Gauteng's financial statements and returns for 1996-97 were received on time, the majority had to be referred back for corrections due to material errors and discrepancies. He said there had been "extensive warrant voucher fraud".

The summary for most other provinces focused on the 1995-96 audit as the most recent statements had not been received in time. The summary included a litany of "more serious issues", including fruitless expenditure where rent was paid for unused accommodation, serious shortcomings in internal checking and control and unauthorised expenditure.

With some of the provinces, including Mpumalanga, Mr Kluever found numerous deficiencies with regard to overpayment on salaries and said his audit was "seriously hampered by the inability of the provincial administration to submit supporting documentation for audit purposes".

The Eastern Cape, which has come under regular fire for poor financial controls, was again highlighted. However, he did acknowledge that the "extent of unresolved financially related matters inherited from the former Transkei and Ciskei administrations (had) severely affected ... efficiency".

The Northern Province audit report included one bank account overdrawn by more than R353-million.

Cracks start to show in global fi

(49)

ARE we heading for economic Utopia or going to hell in a handcart? Economic globalisation is hailed as the way to go, but critics say global markets are engines of social and environmental destruction, doomed to failure like the centrally-planned economies of Marxist countries. Environment Writer **MELANIE GOSLING** reports.

RIOTS: The "Carnival Against Capitalism" riots in London last week may be the emergence of a new movement of those at the fag-end of

AT first glance, last week's photographs of riot police, protesters and burning city streets could have been from Beijing, San Salvador or apartheid South Africa, or any other country where citizens have risen up violently against state tyranny.

Instead they were shot in London, and the 5 000 protesters hurling bricks, setting cars alight and smashing buildings were not unleashing anger against an unjust political regime, but were protesting against capitalism.

The London riots last Friday, which caused damage of £2 million and saw 38 end up in hospital, were part of an international demonstration with organised protests in other major world capitals. They were timed to coincide with the G8 summit in Germany when the heads of the world's richest nations met in Cologne

Most of the protests were peaceful, but the clashes between demonstrators and police in London were the worst Britain has seen since the poll tax riots in Trafalgar Square in 1990 While the issue which triggered that unpopular form of local taxation was clear, last week's riots have left the country a little baffled What were they really about? Did these guys really get so worked up about Third World debt and globalisation of the economy?

Some have dismissed the violence, saying it was just a bunch of protesters who enjoy a punch-up with the police and will infiltrate any peaceful protest to do so The London police think otherwise

"Storming the Liffe building and smashing up a Mercedes showroom is not something that just happens with a bit of rabble-rousing These were deliberately targeted and the violence appeared to be more organised than even the Trafalgar Square riots," a London police spokesperson said.

What is significant is that the demonstrations come at a time of increasing criticism of capitalism from economists in the free market system. Some are saying that what began as a fair way of distributing resources, with the "invisible hand" of supply and demand determining market prices, seems to have grown into a monster with the globalisation of the economy.

Barely a decade old, economic globalisation has seen a spread of industry and technology worldwide, made possible by the unfettered freedom of trade and the movement of money around the world without restrictions It is hailed as the only way for the world economy to go, but critics say the cracks in the system are already appearing.

American economist David Korten says the problem is not capitalism, but a badly corrupted global economic system that is gyrating beyond human control The system has become so powerful and perverse, that it is becoming difficult for managers of big business to run their companies in the public interest, even if they wanted to.

The system has spawned transnational corporations, many of which control more money than do many national economies But, as British writer John Vidal says, unlike governments, these economic giants "are barely subject to outside scrutiny, unaccountable, unquestioned and barely watched So immense are they, and such is their skill in levering vast markets, so grand their resources, so great their influence in government corridors and so sophisticated their power to lobby, cajole and influence government and world bodies, that they are now units of governance But they have avoided, so far, the messy business of having to be moral or socially accountable to the public."

There has been a worldwide rise in unemployment, poverty, crime and environmental destruction. While many see economic growth as the answer to these problems, Korten argues that many of them stem from the quest for economic growth. It is this which is accelerating the breakdown of our social fabric and the ability of the world's ecosystems to regenerate.

"It is also intensifying the competition for resources between rich and poor — a competition the poor invariably lose Governments seem incapable of responding, and public frustration is turning to rage"

The root of the crisis is that economic globalisation has caused a shift in power away from governments, responsible for public welfare, towards a few corporations which are driven by one aim, to make money This, says Korten, has concentrated large amounts of economic and political power in the hands of an elite few, whose share of the pie continues to increase

Propaganda through the world's corporate-dominated media helps them spread this message, and "constantly reassure us that consumerism is the path to happiness, governmental restraint of market excess is the cause of our distress, and economic globalisation is a historical inevitability and a boon to the human species In fact, these are all myths propagated to justify greed by a small elite whose money enables them to live in a world of illusion apart form the rest of humanity "

While the global economy had weakened competition at the core, it had intensified it among smaller businesses Forced to produce more profits in a shorter time, they are shedding staff

Since the advent of the global market which allows corporations to move their factories and money anywhere in the world, poorer countries compete for their favour As economist Jeremy Brecher writes "The consequence is a 'race to the bottom' in which wages and social conditions tend to fall to the level of the most desperate "

The ugly side of this is child labour, cheating workers on overtime and operating unsafe facilities.

Competing for the favours of transnationals can also be disastrous for the environment, advertisement by the P government in *Fortune* m illustrates "To attract com like yours we have felled tains, razed jungles, filled moved rivers, relocated all to make it easier for your business to do business"

Global capitalism, unstable, is showing its first British economist John Gra lieves the recent Asian ec crisis was the first demons that unrestricted global m capital can have disastrous quences In his book *False The Delusion of Global* he says mainstream not understood the Asian because, according to the pre view, it could not occur

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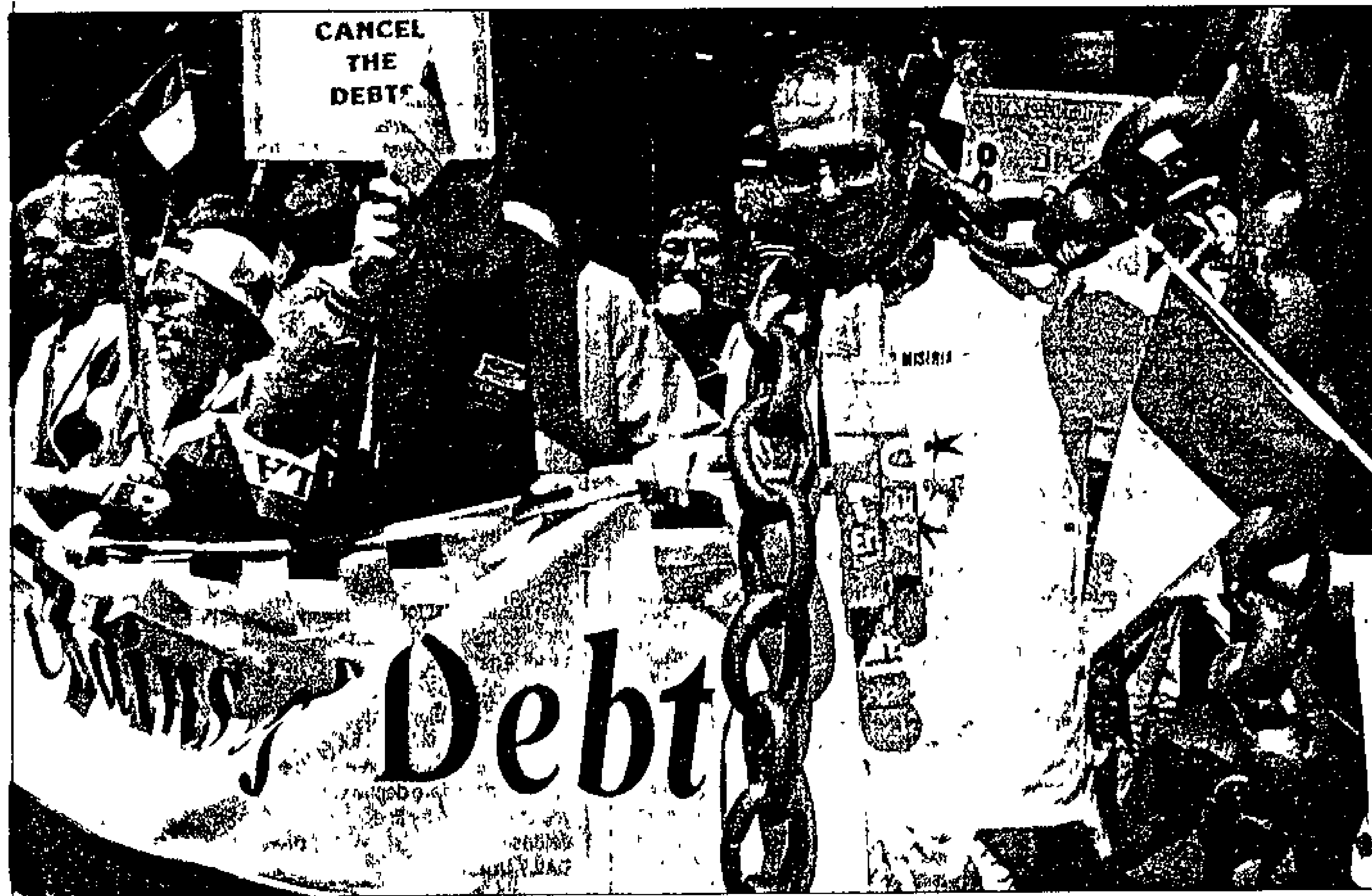

CHAINS OF DEBT: During a demonstration in Cologne, protesters carry chains and banners demanding that rich nations free poor countries of debt

Wealth gap keeps growing

WITH globalisation of the economy, the gap between the world's rich and poor is growing

- A pair of Nike running shoes, which sells for up to $175 in the US, is made in Indonesia for $5,60 by girls who earn as little as 15 cents an hour
- The $20 million basketball star Michael Johnson earned from Nike in 1992 for promotion work was more than the annual payroll of the Indonesian factories that made the shoes
- Today over 80% of the world's income is in the hands of 20% of the population, while the world's poorest 20% get less than 2%
- In 1950 the average income of the 20% of people living in the world's wealthiest countries was 30 times greater than the 20% living in the poorest countries By 1989 this ratio had doubled to 60 times
- From 1977 to 1989, the income of the top 1% of US families increased by 78%, while it decreased by 10% for the poorest 20% of families
- In 1960 the average CEO of a company received 40 times the pay of the average worker By 1992 this had increased to 157 times
- In 1992, the average salary of the CEOs of the world's largest sand corporations was $3,8m 42% from the previous year
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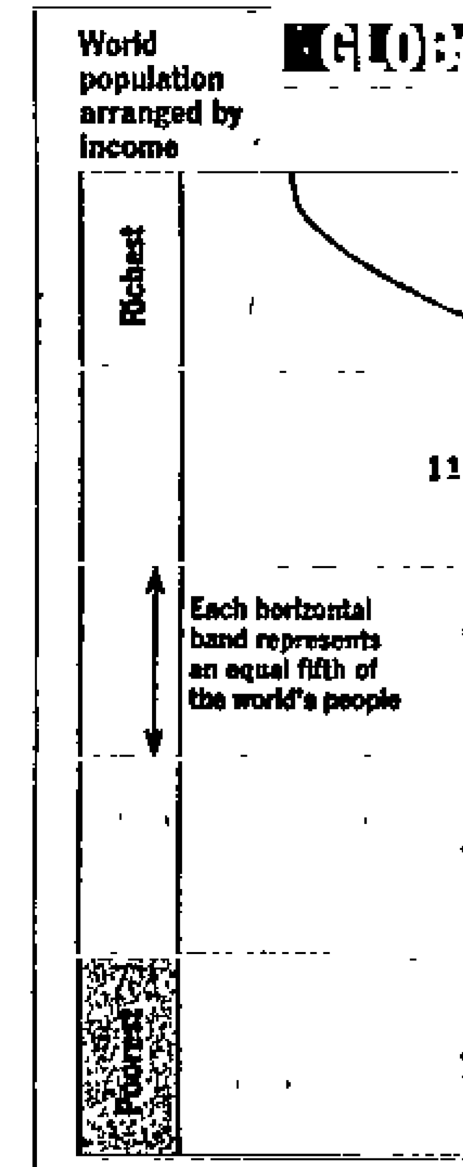

UNEQUAL: The inequity bet pagne glass shape.

low in global free market

(49) CT 27/6/99

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Competing for the favours of transnationals can also be disastrous for the environment, as this advertisement by the Philippine government in *Fortune* magazine illustrates. "To attract companies like yours we have felled mountains, razed jungles, filled swamps, moved rivers, relocated towns . all to make it easier for you and your business to do business here".

Global capitalism, inherently unstable, is showing its first crises. British economist John Gray believes the recent Asian economic crisis was the first demonstration that unrestricted global mobility of capital can have disastrous consequences. In his book *False Dawn: The Delusion of Global Capitalism*, he says mainstream thinking has not understood the Asian crisis because, according to the prevailing view, it could not occur

"In this worldview free flows of capital promote maximal economic efficiency They do so even when — as in Indonesia — their effect is to ruin an entire economy Within the view of the world that is dominant in our time, economic efficiency has been disconnected from human wellbeing," he writes

He sees the global free market as another 20th century experiment in Utopian social engineering that, like Marxism, was destined to fail. Both believed human progress had to have a single civilisation and both denied that modern economies can come in many varieties

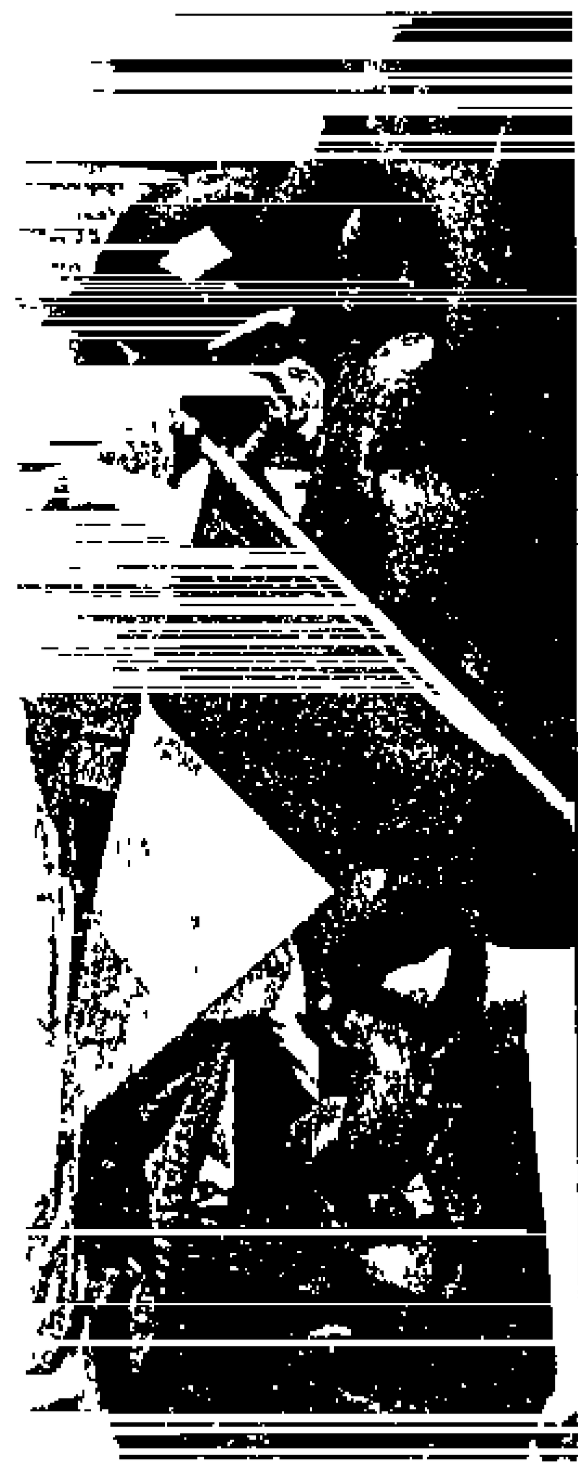
"Each was ready to exact a large price in suffering from humanity in order to impose its single vision on the world Each has run aground in vital human needs "

The Asian crisis was not just an isolated disaster "over there", Gray says, but in all likelihood will spread through the world Only then will the economic philosophy that supports the global free market finally be abandoned

Korten says it is often the people who live ordinary lives far removed from the corridors of power who have the clearest perception of what is happening, but they often don't speak out

But history has shown that a discontented population doesn't stay quiet for ever. The riots in London may be the start of something bigger — a movement by those who bear the costs of the economic system's dysfunctioning beginning to make their frustrations known

They may not know the economic theory, but they will understand the sentiment in Korten's statement "Market tyranny may be more subtle than state tyranny, but it is no less effective in enslaving the many to the interests of the few "



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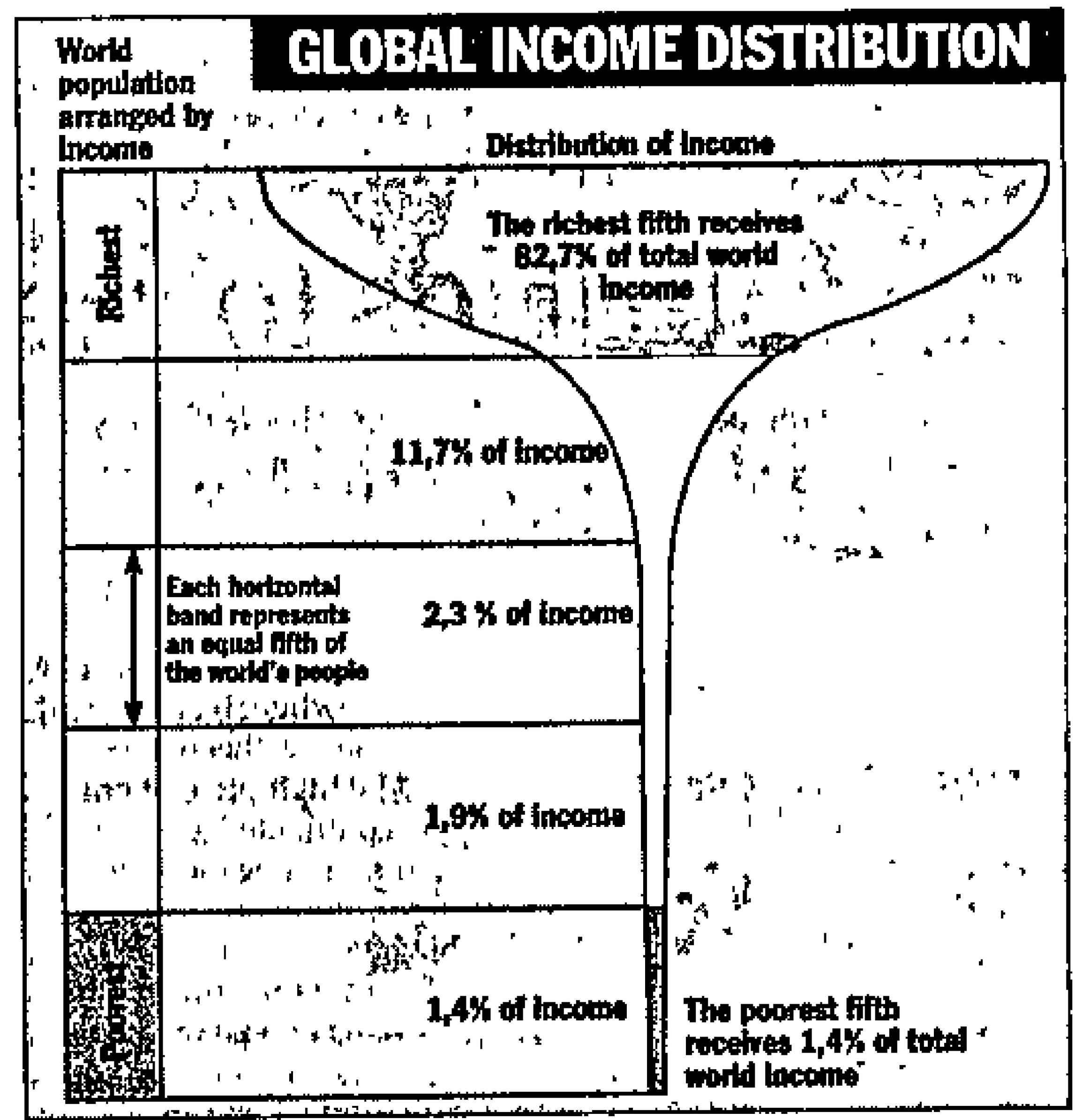
- In 1992, the average salary of the CEOs of the world's largest thousand corporations was $3,8m — up 42% from the previous year
- The CEO of the Hospital Corporation of America was the highest paid American executive in 1992, earning $127m — nearly 780 000 times the average $163 per capita income of the poorest 20% of the world's people.



UNEQUAL: The inequity between rich and poor is illustrated in this champagne glass shape. ***SOURCE: UNDP HUMAN DEVELOPMENT REPORT 1992***

Few control more

THE global economy is concentrating more power in fewer hands:

- Shell owns or leases 400 million acres of land, which makes it larger than 146 countries
- Only 27 countries have a Gross National Product greater than the sales of Shell and Exxon combined
- The world's largest 500 companies control 42% of global wealth — $10 trillion
- The turnover of the world's 10 biggest corporations is more than the total of the world's 100 smallest countries
- Of the world's largest 100 economies, 50 are corporations
- Ten transnational companies control most of the world food market
- Four companies control 90% of the global export of maize, wheat, coffee, tea, pineapples, cotton, tobacco, jute and forest products
- General Motors, with sales revenues of $133 billion, is roughly equal to the combined GNP of Tanzania, Ethiopia, Nepal, Bangladesh, Democratic Republic of the Congo, Uganda, Niger, Kenya and Pakistan — a total of 500 million people

Statistics from *McLibel Burger Culture on Trial* by John Vidal

JSE racist, black professionals claim

CT (AR) 25/6/99 (49)

FRANK NXUMALO

Johannesburg A group of black, mostly finance, professionals at the Johannesburg Stock Exchange (JSE) yesterday accused it of racism, because management was still overwhelmingly white.

The group said it was not convinced of management's commitment to transformation because there was no visible change to speak about. It said the institution had grudgingly embraced the thrust of the yet-to-be-implemented Employment Equity Act simply because it was legislation that carried severe penalties for non-compliance.

The group had formally lobbied the Black Management Forum, the offices of the state president, Gauteng Premier Mbhazima Shilowa, Finance Minister Trevor Manuel and Trade and Industry Minister Alec Erwin

"Senior management is very white, and whenever we raised that as a concern, there was always a reason why they could not find or appoint a black person For example, they would say that black people with financial skills were very expensive to employ," said a spokesman for the group, who requested anonymity for fear of victimisation

BLACK TIE *Bill Urmson, the JSE's acting executive president, confirms the executive committee is all white*

The spokesman said repeated efforts to get audience with Russel Loubscher, the executive president, had all been in vain.

"We find the non-involvement of the executive president in transformation issues non-facilitatory – it's like he is not interested and only pays lip service to the entire process," the spokesman said.

Bill Urmson, the acting executive president of the JSE, confirmed that the executive committee – the top management structure charged with running the JSE as a business concern - was all white, though the gender composition had improved to include more women managers

He said the JSE had an affirmative action policy in place in terms of which all new appointments had go through an ad hoc committee in which an affirmative action committee was allowed a large input. But he was adamant that "people had to grow" before they could be allowed to do new jobs "So far we have not succeeded in finding suitable blacks for the executive committee."

We're much better off than we thought

(49)

Recent recalculations of GDP show the South African economy to be doing better than the economies of other emerging markets, writes THABO KOBOKOANE

SO South Africans are not as badly off as they thought they were — at least that's what the numbers say

The startling aspect of the data released this week by Statistics SA is not so much the unexpected 1999 first quarter growth of 0 4%, or the revelation that SA was not in a technical recession at all (third and fourth quarter figures have been revised to show a decline of 2 3% and benign growth of 0 2% respectively) It is that SA appears set to compare with, and even outrank, some of the wealthiest emerging market countries in terms of gross domestic product (GDP) per capita — the most useful measure of how developed a country is.

In terms of the revised figures GDP per capita at current prices is now R17 500 and not R15 300 as previously published for 1998 In dollar terms these figures equate to about $3 241 and $2 833 respectively (using an 1998 average exchange rate of R5 4 to the US dollar)

The revised GDP per capita is higher than Thailand (estimated at $2 000), compares to Malaysia ($3 250) and Slovakia ($3 400), and is approaching Mexico ($4 500) and Brazil ($4 750)

The picture is even rosier when GDP at constant prices — stripping out inflation — is considered This almost doubles to R14 000 from the previous figure of R7 200.

From 1993 until 1998 the previously calculated GDP per capita at constant prices remained virtually unchanged at R7 200 The new figure shows marginal growth from R13 600 to R14 200 in 1997 and a decline to R14 000 in 1998

What is to be made of these figures?

The data is preliminary and, as in previous cases, will almost inevitably change once the figures are revisited.

More important though, is that these figures will have the effect of elevating SA's status above that of most emerging countries Analysts are saying SA will increasingly be regarded as a developed country

The upside of this rerating is that SA may be able to attract a better credit rating, cheap foreign capital and more investment. The downside is that the data conveys a distorted picture of the level of South Africans' standard of living The higher-than-expected real GDP per capita (at current and constant prices) hides SA's highly unequal income distribution Most income in SA accumulates to a few people

A case in point is provided by the 1996 Census report by Statistics SA. It shows that 26% of those people who are employed earn R500 or less while about 62% earn R1 501 or less. Only 11% earn more than R4 500

> *The downside of the rerating is that the data conveys a distorted picture of the level of most South Africans' standard of living*

A rerating does not take cognisance of the earnings factor It means most poor people will be increasingly judged as developed, a factor which may deny the country certain benefits it could receive if it was classified as a developing country.

Classification is important A case in point is the recent trade negotiations between SA and the 15-member European Union

The EU declined to recognise SA's status as a less developed country similar to the 78 African, Caribbean and Pacific countries to which it offers preferential access to its markets under the Lomé Convention

Instead, SA was offered partial access to the convention and a reciprocal free trade agreement which compels SA to open its markets to EU products, although not as quickly as the EU is required to open its markets

The new set of figures have been derived from a change in the base year from 1995 to 1990, a five-yearly benchmarking exercise New economic activity has been uncovered. This, and the use of the new United Nations national accounts guidelines called System of National Accounts, have increased calculations of SA's economic activity by between 11% and 14% between 1993 and 1998.

The last round of revisions in 1993 showed a 4% increase in GDP for the preceding five years to 1989 International experience of the new UN system will increase growth levels by a further 3% This means that newly-discovered economic activity may account for as much as between five and seven percentage points of the under-calculation.

The new facts will be a warm comfort for those economists who have consistently maintained that economic activity is much higher than official figures show.

The revised numbers show economic activity to be more buoyant — having risen to R738-billion rather than the previously published figure of R649-billion in 1998 This represents an under-calculation of a massive R89-billion or 13 7%

The updated GDP data will have a positive bearing on a number of ratios calculated with GDP as the denominator, including such key ratios as the budget, debt and current account deficits

The revised data shows 1998 GDP at current prices at R738-billion Taking into account the R21 3-billion fiscal deficit incurred in the last financial year, this leaves a budget deficit of 2.9% as a percentage of GDP, which is comfortably lower than the earlier published figure of 3 3%

Considering that government has forecast an 8 3% increase in nominal growth in the current fiscal year, GDP should be around R800-billion

Using the projected deficit of R25 13-billion in the current year should leave a budget deficit of 3 1% compared with the 3 5% target contained in the Growth Employment and Redistribution (Gear) strategy

This will have a significant impact on policy The question being asked is whether government will use the new figures to increase its spending

Finance director-general Maria Ramos acknowledges that the new data brings government's targets closer "It is nice to know we are much closer to targets These are important but the policy alignment remains," she said this week

The data also includes each industry's revised and previous contribution to GDP, which is calculated for the revised estimates in the new base year, 1995 and for the previous estimates in the old base year This reflects the weighting of each industry The contribution is calculated at basic prices for the revised estimates and factor cost for the previous figure.

It reveals the declining significance of mining and quarrying, agriculture, forestry and fishing in the economy, and the growing significance of the service industry

Mining and agriculture contributions are revised downward to 7% from 9 7% and to 3 9% from 5 3%, respectively, in the period under review

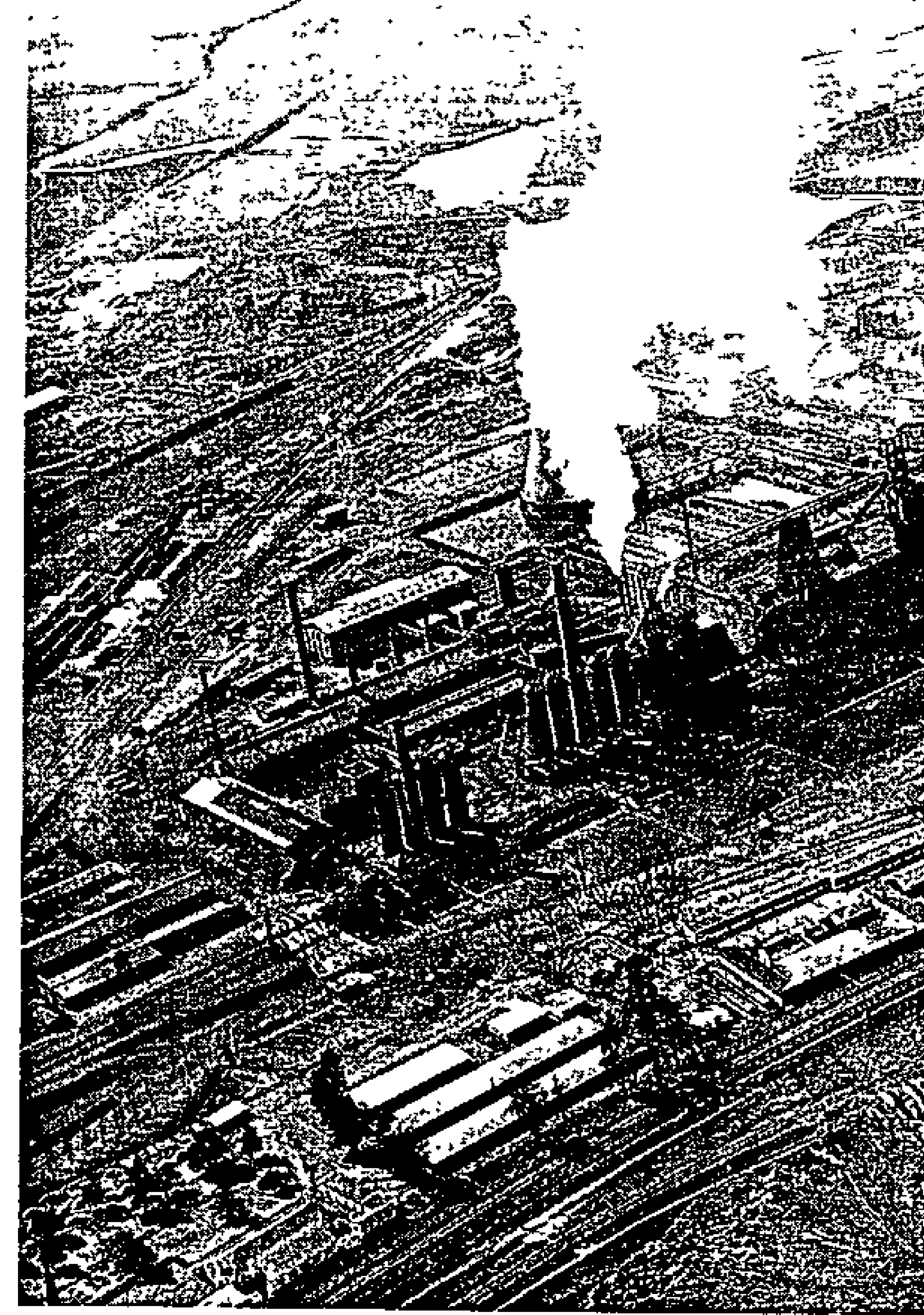
According to Stats SA, the informal sector's percentage contribution at market prices is improving at 6 9% Historically, the informal sector has often not been considered when estimating GDP because activity in this arena is not always recorded In 1994, Stats SA estimated the informal sector's percentage contribution to the GDP for the first time. The new figure, though derived from a wide range of sources, remains guesswork

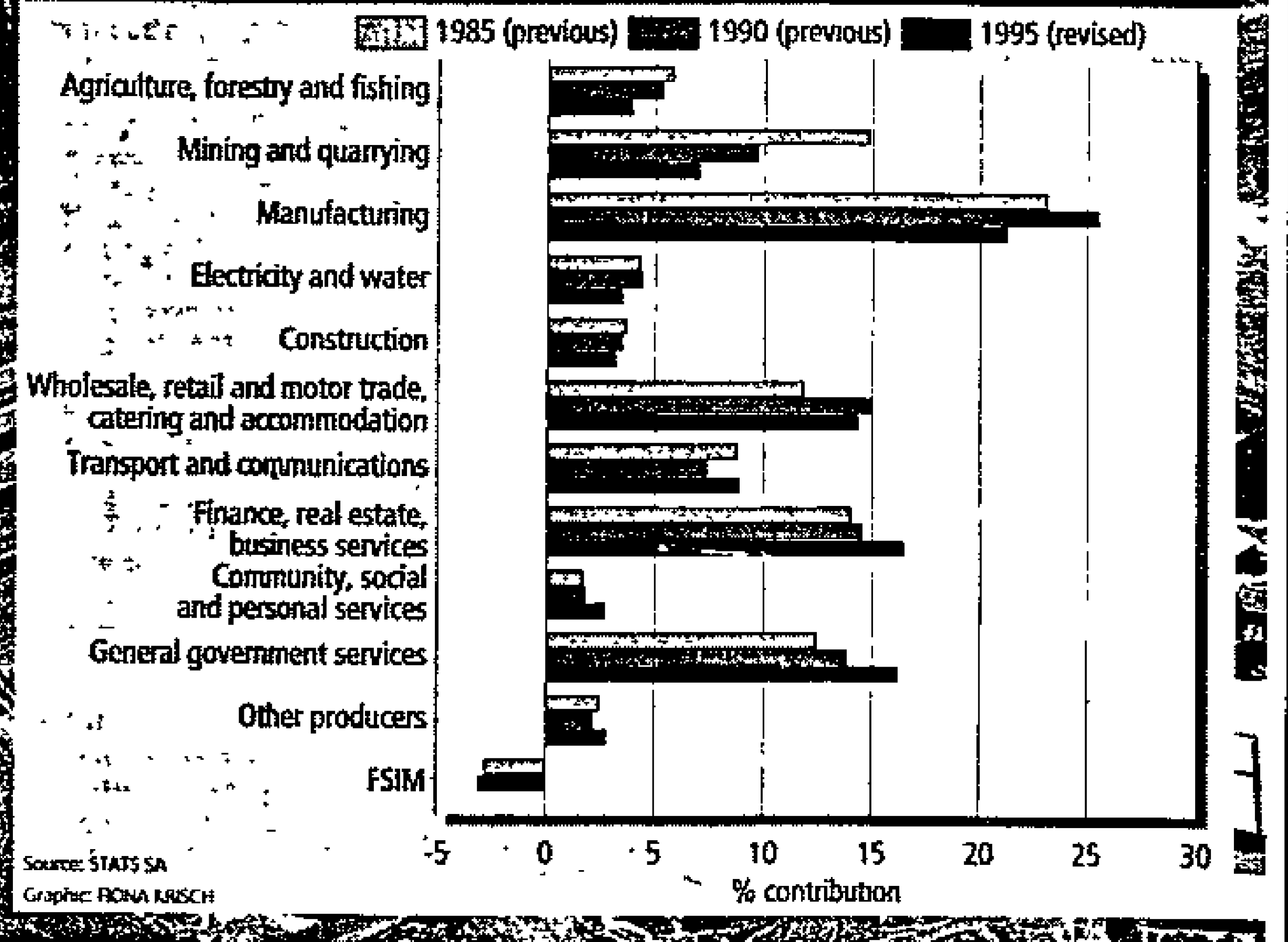
Transport and communication show a considerable improvement on the back of higher estimates of the taxi industry and a higher average annual growth rate in the communication industry

According to Stats SA, new activity noticeable in communications include the rapid increase of cellphones, Internet use and satellite television This sector's percentage contribution to GDP jumps to 8 9% from the last published data.

Finance, real estate and business services are also revised upwards to 16 4% from 14.5% as a result of what Stats SA says is an adequate measurement of a number of activities, some with higher growth rates, including financial brokers and micro-lending.

Surprising is the rise in percentage contribution of government to GDP, from 13 8% to 16 2% Stats SA says a definitional change in the 1993 SNA accounts for approximately R6-billion of the increase in the revised level in general government services





ST(BT) 27/6/99

Depts overspent by R400-m, says AG

(49)

By Joshua Raboroko

POOR management and non-compliance with state expenditure regulations have led to three Gauteng provincial departments overspending by more than R400 million for the financial year 1996-97, according to the provincial auditor-general's report released yesterday.

In the report released in Johannesburg, auditor-general Mr Ratha Nayager says unauthorised expenditure amounting to R431 496 950 was detected during the audit because the departments of health, education and public transport, roads and works, had exceeded their budgets.

The report comes amid recent reports about budgetary constraints, especially in the department of health, where the government has called upon health officials to use their resources effectively.

The department of health exceeded its budget by R382 172 118, education by R12 925 567 and public transport, roads and works by R33 690 296.

The report states that the reason for overspending was "non-compliance with state tender board regulations".

Nayager says further matters of concern are:

- Expenditure amounting to R10 397 487 which occurred as a result of leased premises which had been vacated before the contract period expired, or premises which had not been fully occupied;
- Losses of R42 337 936, written off during the year;
- As of 31 March 1997 the administration bank account was overdrawn by an amount of R283 731 742;
- Further deficiencies and shortcomings of a serious nature, covering a wide spectrum of the administration's activities were brought to the attention of the accounting officers concerned.

Provincial Speaker Mr Faroz Cachalia's personal adviser, Mr Thendo Ratshitanga, confirmed yesterday that the report was tabled before the legislature.

Ratshitanga said the report would be reviewed by the public accounts committee for comments.

Premier Mbhazima Shilowa's spokesman Mr Thabo Masebe said he was unaware of the report.

The office of Jabu Moleketi, the provincial MEC for finance, was also "not aware of the report", *Sowetan* was told.

Shares in Old Mutual leap to R13

R11,25 if you opted to sell

ALIDE DASNOIS AND ARGUS CORRESPONDENTS

Old Mutual shares made a strong debut today, trading at R13 within minutes of their listing and touching R13,05 just before noon.

By midday about 30 million Old Mutual shares had changed hands in hectic trading on five stock exchanges in Africa and the United Kingdom.

The London Stock Exchange opened 30 minutes earlier than normal to synchronise with the Johannesburg Stock Exchange for the listing of 830 million shares.

The shares were offered on the market at R11,25 each.

"We are off to a very encouraging start," said Old Mutual chairman Mike Levett in London. "We are starting life as the quoted company with the largest share register of any company in Africa and one of the largest in the United Kingdom."

Shareholders' Association chairman David Sylvester said the sharp rise in the trading price was a vote of confidence in South Africa.

"This has proved wrong all those who said that Old Mutual's base in South Africa would hold down the price of the share on international markets."

Old Mutual spokesman Gareth David said there was great interest at the start of trading in London, where the pre-listing offer price was 120p.

The three other stock exchanges on which the giant company listed are Malawi, Zimbabwe and Namibia.

Significant volumes were traded on all the exchanges in the first half-hour and

analysts predicted the shares would trade well throughout the day.

If you are one of the million shareholders who sold before listing, you will probably be at least R3 375 richer by July 20, when you should have received your cheque.

Shareholders who sold before today will be paid R11,25 a share. Each Old Mutual policyholder was allocated a minimum of 200 shares. Most policyholders were given at least 300, which will bring them each R3 375 if they decided to sell before the listing. About 10% received fewer than 300.

Analysts say the approximately R10-billion shareholders are expected to be paid out will boost the economy and possibly

To page 3

Boost for economy as Old Mutual shares rocket

(74B) ARG 12/7/99

(49)

From page 1

increase consumer spending.

Whichever way shareholders decided to use their money – either to pay off debt or to spend – it would be positive for the upswing, said Tony Twine, senior economist at Econometrix.

Ray Brand, an analyst at Standard and Poors MMS, agreed that the impact of that money on the economy would be huge.

When Sanlam, Old Mutual's rival, made its stock exchange debut last year, money that could have been injected into the economy was instead used to pay off debt.

Although interest rates were much lower now, Mr Brand said, people who still had big bond and car repayments would use the windfall to pay off debt.

■ You can sell your shares at any time through the Old Mutual Share Sale Service or a stockbroker, and you will be paid the market price.

Last week the Financial Services Board warned shareholders against selling through moneylenders offering "instant cash" for Old Mutual or Sanlam shares.

The board said it was illegal for moneylenders to solicit the shares and it was not in the interests of shareholders to sell through them.

OM set to spark R10bn spending spree

Insurance giant's listing performance seen as big injection for ailing SA economy

(58) (49) ARG 13/7/99

ARGUS CORRESPONDENT

Johannesburg – A million cash-strapped South Africans are set to go on a R10-billion shopping spree from next week, when they get paid for the pre-listing sale of their Old Mutual shares.

The cash will become available next Tuesday, July 20, when a million shareholders (representing 874 million shares), who took up Old Mutual on its pre-listing offer of R11.25, will be paid out.

The cuts in interest rates from the highs of 24% last year to 17.5% at present has meant that consumers have been able to repay debts and economists expect that the bulk of the R10-billion will be spent on luxury goods. Part, would however, be spent on debt repayment.

Shares yesterday started trading at R12.60, a 12% premium on the R11.25 pre-listing offer price and continued moving up throughout the day – and this morning – leaving a number of people unhappy at their decision to sell at the pre-listing price.

While it was "money for jam", some believe they had "lost out big-time" because of the extra money they could have made had they kept their shares. Others who kept their shares were optimistic that they would reach R15 in the short term and in the long term could soar even higher.

Brokers were commonly asked to sell at R14 to R15 – which would signify "quite a nice windfall".

Old Mutual chairman Mike Levett said the company's listing would not only inject more than R10-billion cash into the economy but would also boost foreign exchange reserves by 6-billion when buyers settled their debt next Monday, July 19.

About $1-billion (more than R6-billion) was expected to flow into the country's foreign reserves on that day, representing about 20% of foreign exchange reserves, Mr Levett said.

Speaking from London late yesterday, he said Old Mutual's listing on five stock exchanges (London, Johannesburg, Zimbabwe, Namibia and Malawi) yesterday would bode well for the economy.

About 3 million of the total of about 3.2 million Old Mutual shareholders, or about 90% of the market, were in South Africa.

Economists said that whichever way these shareholders decided to use their money – either to pay off debts or to spend on consumer items – it would be positive for the economy.

Econometrix senior economist Tony Twine said if debt was liquidated, that is if share proceeds were paid into bonds or car repayments, it would put the economic upswing on a very sound footing – a much stronger base than existed a month ago.

Ray Brand, an analyst at Standard and Poors MMS, said: "We're hoping that people will use that money to buy goods which will give the economy the boost it needs."

Police force the most ineffective of all 59 surveyed

SA slips in global competitiveness

CT(BR) 14/7/99 (49) (180)

LUKANYO MNYANDA
ECONOMICS EDITOR

Johannesburg – South Africa had slipped five places to 47 out of 59 countries in the World Economic Forum's (WEF) latest global competitiveness report.

It was dragged down by low scores on the key indices of crime, unemployment and the effectiveness of its public sector, the organisation said yesterday.

The country was among the top five countries in which the police did not effectively safeguard personal security and organised crime imposed "significant costs" on business.

Its police force was found to be the most ineffective among the countries surveyed. On this score it was grouped together with countries such as Russia, Colombia, Venezuela, Mexico and El Salvador.

Jeffrey Sachs, the co-chairman of the advisory board of the report and a director of Harvard University, said it ranked countries according to the presence of factors conducive to sustained economic growth.

"A healthy market economy is a sine qua non of competitiveness, with private sector-led growth, rule of law and well functioning markets as keys."

South Africa was ranked at the bottom on the politically sensitive issue of labour regulations, a result that should strengthen the hand of the opponents of the government's labour laws.

The country fared slightly better on employment levels, with its unemployment rate of 29,3 percent the third highest among the 59 countries.

The WEF said South Africa had been among the worst performers on most issues related to labour, coming at the bottom of the pile in labour/employer relations, work ethics and hiring and firing practices.

Its labour force was among the least skilled, coming in second last on average years of schooling.

But it was not all gloom, with South Africa's financial markets and physical infrastructure getting top ratings. The stock market was rated in the top 10 while domestic air travel was deemed to be the cheapest among the 59 countries.

Rudolf Gouws, the chief economist at Rand Merchant Bank, said the report was "just another reminder" of the need for the government to stick to and implement its market-friendly economic policies in the growth, employment and redistribution (Gear) strategy.

Crime, education and social stability were among the challenges facing the government.

Mike Schussler, an FBC Fidelity Bank economist, said: "The crime (safety and security) and justice ministers have their work cut out. The time for talk is over."

1999 competitiveness rankings

RANK 1999	(1998)	
1	(1)	Singapore
2	(3)	United States
3	(2)	Hong Kong
4	(6)	Taiwan
5	(5)	Canada
6	(8)	Switzerland
7	(10)	Luxembourg
8	(4)	United Kingdom
9	(7)	Netherlands
10	(11)	Ireland
11	(15)	Finland
12	(14)	Australia
13	(13)	New Zealand

RANK 1999	(1998)	
47	(42)	South Africa
48	(39)	Vietnam
49	(38)	Egypt
50	(45)	Venezuela
51	(46)	Brazil
52	(50)	India
53	(n/a)	Ecuador
54	(47)	Colombia
55	(n/a)	Bolivia
56	(n/a)	Bulgaria
57	(51)	Zimbabwe
58	(53)	Ukraine
59	(52)	Russia

SA business ignores new effort at its peril

Spatial development initiatives host projects from timber to tourism, writes **Glen Mills**

(49) (297) BD 15/7/99

COMPANIES need to take a long, hard look at spatial development initiatives (SDIs) — or take a back seat to those that do.

Businesses that decide to incorporate SDIs in their growth strategies will find new markets opening up all over SA. Those that ignore them risk becoming obsolete.

SDIs are strategically located development regions aimed at unlocking economic potential in selected areas.

They are driven by the trade and industry department's vision to promote investment, increase exports and provide jobs through public-private partnerships.

The best known initiative is the Maputo Corridor, a conglomerate of 180 projects with a total value of R42bn.

There are at least 10 other major SDIs in various stages of development. They include:

- The Lubombo Initiative — a trilateral project between SA, Swaziland and Mozambique that includes the extension of the N2 highway to Maputo.
- The Wild Coast SDI — mainly aimed at boosting tourism and the production of timber.
- The Fish River SDI — projects in the Port Elizabeth/East London region ranging from mining to agroprocessing, including major infrastructure development at Nquru (Coega).
- The West Coast Investment Initiative — opportunities in minerals and manufacturing, among others, with Saldanha Steel anchoring many infrastructure developments.
- The Platinum SDI — a project that includes a trans-African route from Walvis Bay to Maputo.
- The Phalaborwa SDI — projects in minerals, forestry and agriculture; and
- The Richards Bay SDI — industrial projects in aluminium, heavy minerals, chemicals, wood and sugar clusters that are to be supplemented by three major tourism projects.

The beauty of these initiatives is that they have many facets. Therefore, many industries stand to benefit from them. A single SDI may offer, among others, opportunities in construction, tourism, agriculture and manufacturing.

Companies offering services in these categories should consider their options; their competitors will surely do the same.

Even companies that do not deal with such services directly may be affected. For example, a local sugar producer may find that improved roads leave it vulnerable to competitors that import the product from neighbouring countries.

Because they are multifaceted, SDIs are implemented by consortia. Development in such regions is a package deal — the concept, partners, project details and finance are all sold to consortiums.

Acquainting a company with the dynamics of SDIs may prove to be a good way of safeguarding its future.

Because SDIs create new markets they bring new players that redefine the competition. Pioneers in these areas will reap the economic benefits.

A MCI/Gallup poll of 550 CEOs in the US has shown that two-thirds of them believe the greatest threat to their businesses comes from newcomers changing the rules of the game. More than three-quarters responded that competitors that were not around a decade earlier had substantially or moderately affected their respective industries.

SDIs offer an opportunity to change the nature of the competitive environment rather than reacting to such changes.

Former president Nelson Mandela likened the SDI programme to an industrial revolution, saying the ultimate vision was opening up the entire SA market through public-private partnerships. They also may be the best model for successful co-operation between business and government.

SDIs are happening. They may start off as ideas or visions but they are fast becoming the hubs for businesses in the new millennium.

Business leaders should recognise the enormous possibilities this concept holds and ensure that they are ready to tap into that potential.

Mills is the director of development at Perry & Associates marketing and business growth strategists

WILLING TO WORK *Zwelinzima Vavi, Cosatu's acting general secretary, says the planned retrenchments are an assault on workers and will be met with mass action* PHOTO SELWYN TAIT

Cosatu calls layoffs a 'massacre'

(335)(49) ARG 17/7/99

FRANK NXUMALO
LABOUR EDITOR

Johannesburg – The 1,8 million-strong Congress of South African Trade Unions (Cosatu) – the country's biggest labour federation – would, with immediate effect, serve a Section 77 notice on the National Economic Development and Labour Council (Nedlac) to embark on a nationwide programme of mass action to fight planned retrenchments by both the private and public sectors.

More than 50 000 planned retrenchments have been announced in the past two weeks alone.

"The current wave of job losses is a blood bath which can only be described as a massacre of workers and the working class by greedy employers bent on throwing more workers into the streets to face poverty.

"The current situation represents a crisis of the economy of the worst kind in recent decades. Statistics pointing to a recovery of the economy and predicting an upward growth are good news for the markets but not for workers. What we are seeing is massive attacks on workers and the working class of unimaginable proportions," Zwelinzima Vavi, the acting general secretary of Cosatu, said.

Vavi said the trend of job losses which had characterised the labour market since the mid-1980s was the result of a structural problem in the economy.

He said the interventions through Gear – the government's macroeconomic policy – had "woefully failed to address this structural crisis of the economy".

"There is therefore a need to rethink the fundamentals and put in place an integrated strategy that will help us turn the tide against unemployment and growing social inequalities.

"What we see is the failure of the capitalist system; the current globalisation based on the uncaring ideology of the markets has led to the worsening of unemployment in most parts of the world," he said.

This had led to increasing disparities in wealth within and between countries.

Vavi said capitalism and globalisation had promoted the outsourcing of so-called non-core functions, which had led to job losses, the rise of casual labour and the privatisation of basic services so that these were put out of the reach of the poor.

Cosatu was therefore demanding a speedy implementation of agreements reached at last year's Presidential Jobs Summit, especially the short-term ones, as well as an urgent review of the Insolvency Act and the immediate amendment of Section 189 of the Labour Relations Act to make retrenchments a mandatory negotiation issue, instead of merely requiring consultation.

BD 19/7/99

Cosatu calls for rethink on failing Gear

(49)

Pearl Sebola

THE Congress of SA Trade Unions (Cosatu) has finally broken its silence over government's growth, employment and redistribution strategy (Gear), after months of side-stepping before the election.

At its special executive committee meeting last week, Cosatu called for a rethink of the fundamentals, saying it had become clear "interventions through Gear have woefully failed to address the structural crisis of the economy".

"There is a need to rethink the fundamentals and put in place an integrated strategy that will help us turn the tide against unemployment and growing inequalities," Cosatu acting general secretary Zwelinzima Vavi said on Friday.

Vavi said Cosatu did not have a blueprint that should be adopted, saying labour, government, business and the alliance should evaluate past interventions to look at what it is we should be doing that we have failed to do in the past".

Cosatu's attack on Gear comes in the wake of the federation losing members through retrenchments.

Vavi said there was a need to turn the economy around and address its structural defects which have seen continuing job losses.

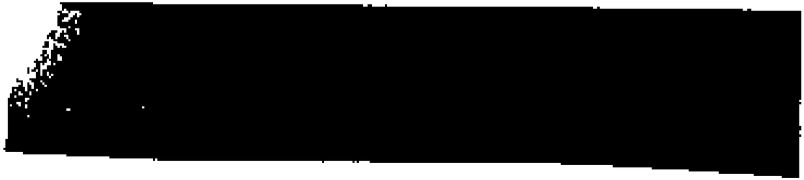
The job summit was important, but could not address the fundamental problems in the economy.

Cosatu also lashed out at the private sector, saying it had been consistently making demands on government, but with nothing to offer. "Instead they queue up at the London Stock Exchange and don't invest in SA".

Business was not investing in the productive sector and would "only invest in technology in so far as it will reduce labour costs".

The federation also launched a scathing attack on Transnet over the "unilateral" restructuring of state assets, calling for the convening of the National Framework Agreement to halt the process.

Cosatu is planning action to support its demands.



Taking stock of RDP

The Government's economic policy has been largely on track – but implementation has been uneven **Sharon Chetty** explains

AN AUDIT of the Reconstruction and Development Programme (RDP), the policy by which the ruling African National Congress committed itself to narrowing the country's social wealth, shows that the Government largely managed to set down the right policy – but implementation has been uneven

The audit, by the Human Sciences Research Council (HSRC) and Wits University's Graduate School of Public and Development Management, was a systematic assessment of the RDP's promises, said Dr Meshack Khosa of the HSRC, who edited the final report with Patrick Bond

A team of 11 researchers from both organisations assessed Government policy and annual reports and interviewed directors-general over a period of three months last year

"What we set out to do was check whether the RDP mandate has been implemented We looked at each and every promise in the RDP and then at whether there was evidence of its being part of Government's programmes and policies"

The audit does not judge whether or not the RDP was a success or a failure, but does seek to lay out the details starkly for any researcher to make up their own minds

It was the first such systematic appraisal, said Khosa

Although the report was not conclusive, it does contradict opposition parties' claims that the RDP has been a disaster or that the Government has abandoned the programme

"We went to the original quotation in the RDP document and looked to see if that could be backed up in policy, and how Our aim was not to judge whether or not the RDP programme was a disaster but to look at it on a case by case basis"

Less straightforward

Besides the often-punted successes of the Government in delivering water to more than three million people and electricity becoming accessible to almost 60 percent of the population by the end of 1997, the difficulties with some aspects, such as housing, were charted

It was one of the areas where judging the policy was "less straightforward", the researchers found

Although an ambitious target of one million houses was set for the 1994-99 period, and was to be paid for through five percent of the state budget, by 1995 the RDP Ministry identified the huge housing backlog, poverty and fiscal constraints as obstacles

The report pointed out that the budget allocations for both the national and provincial departments never came close to five percent, but averaged closer to 1.5 percent in the 1994-99 period

It was also difficult to estimate the numbers of houses built By July 1998 the Department of Housing said that 596 059 of the promised one million low-cost houses were completed, although subsidies for 792 552 were approved Therefore Definitions of what constituted a "house" remained vague

There were also problems of quality, with some units not being up to scratch, a fact admitted by the Government

One of the areas of contention was job creation – about a half million jobs have been lost during the past five years

According to the report the RDP's aim of making women and the youth beneficiaries of Government initiatives was achieved through the Community-Based Public Works Programme (CBPWP)

Through 1 112 projects which provided 1,43 million days of work, 41 percent were for women and female-headed households However, women were paid consistently less than men

Programmes meant for rural communities and poverty alleviation projects were implemented in KwaZulu-Natal, Northern Province and Eastern Cape

While the CBPWP was not expected to continue – due to uncertainty about funds, weak performance and overlap of functions with other departments – former Public Works minister Jeff Radebe estimates that 60 000 temporary jobs would be created within a year, along with 6 000 sustainable jobs, through an allocation of R274 million in the 1998-1999 term

Between 600 and 700 communities, involving 4 800 to 5 600 training opportunities for residents in development management, are projected as well

At less than R5 000 a temporary job, this is considered an extremely good return on investment, the report said

However, the editors pointed out that the RDP's calls for a Community Fund and for interrelationships with other development planning processes "appear to have gone largely unheeded"

A jobless man begging for help at an intersection in Johannesburg.
PIC CLEMENT LEKANYANE

Lack of capacity

The audit also confirmed a view that is often repeated that under the new Government, the policy is not the problem, but rather a lack of capacity to implement it

Khosa said that the root of the "crisis" at health institutions, for example, was the issue of resources were distributed rather than one of policy

Former health minister Nkosasana Zuma should be credited for wanting to change the system to ensure more access to care for more people Barring her policy on treatment for Aids HIV positive patients, which was contentious, her general policies were progressive and compare favourably with the best in the world he said

While the Government did achieve much concrete change, especially relating to constitutional rights, there were some areas where there were still gaps, like in job creation, the promotion of small medium and micro enterprises and its commitment to gender and black economic empowerment

Constraints on institutions like the Gender Commission, whose budget was "too small", were pointed out, while affirmative action policies were not always entrenched by the Government

Khosa pointed out that with tenders, for example, "huge chunks still went to white-owned businesses" and that although new black groups did win some tenders, it was not enough to shift the balance

The audit provides a comprehensive assessment of the Government's policies and, through those, its commitment to the RDP

Nioor making possible his own reward- sibilities to the surrounding

RE Barnes
Johannesburg

Global perceptions are what count

Government officials cannot ignore investors' opinions, writes **Paul Mitchell**

LAST week SA was reported as being 47th out of 59 countries listed in a global competitiveness index — down from 42nd last year (Business Day, July 14).

SA was last in terms of labour practices and in the bottom five in terms of security We edged Columbia into bottom place on organised crime.

With no apparent sense of irony, Themba Mhlongo, chief director for industry and technology strategy at the trade and industry department, questioned the use of people's views as the basis for these rankings.

To weigh this argument let us take a hypothetical situation from the world of business. If you talk to any director or CE whose company's share price has hit the skids you will hear a fairly consistent refrain. Usually one of two factors is blamed

The first is outside influences on the market as a whole such as the weak rand or emerging market jitters. This can quickly be discounted when the share has fallen relative to the market.

The second explanation is that the market does not understand the company The performance — past, present and future — of the business is being measured in the wrong way by analysts and investors.

There is a parallel between these two attitudes. Whose views should matter to the individuals responsible for trade and industry in SA or those held accountable for a company's share price performance?

In the latter case the directors of a company should be worried about the share price; it is the single best measure of how well they are doing their jobs. For trade and industry officials — whose performance, it could be argued, is measured by the performance of "SA Ltd" — what foreign investors think should be of major concern.

It is the objective view of individuals and companies, who trade and industry officials are hoping will invest their hard currency in this country, that should be of paramount importance. The competitiveness report is a fairly reliable measure of the views of these people.

To come back to Mhlongo's argument: surely the fact that people's views are used for rankings is the whole point?

For the director it matters only what the market's views of his company are The common frame of mind is one of an abdication of responsibility and a worrying arrogance and lack of interest in objective opinion.

Foreign investors, or stock market analysts, are using the things that are important to them to measure performance. It does not matter at all whether these are the things that government officials or directors think should be important; they are by definition the only things that count It is up to the director to make sure that the market understands his business, his plans and expectations for the future. He owes it to his employees and his shareholders.

In the same way government owes it to business to ensure that the people who judge the attractiveness of SA — foreign investors and managers of multinationals — understand the country.

Government officials must make it their business to understand the concerns of investors and analysts. They must seek to understand what it is that is used to value this country.

Until they do, SA, just like those poor misunderstood companies, will continue to struggle to find investment, interest and funds from abroad.

Mitchell is a management consultant.

(74B) (~~180~~) (49) BD 20/7/99

with the FINANCIAL TIME

US analysts bullish on SA

(49) BD 22/7/99

Wall Street economists raise GDP forecast to 2%

Simon Barber
and Jonathan Katzenellenbogen

WASHINGTON — Economists at Morgan Stanley Dean Witter have taken a decidedly bullish view on SA, saying rising demand in Asia, lower interest rates and major structural changes in the domestic economy will lead to a strong export-led recovery.

Above all, economists at the influential Wall Street investment bank believe there is little risk of renewed inflation or pressure on the rand associated with the growth. "Recent developments have left us decidedly more upbeat on SA's near- and medium-term economic prospects," an assessment posted on the firm's global economic forum website said this week. "As a result we are raising our gross domestic product (GDP) forecast for this year from 1,1% to 2%."

In the latest poll of local economists by financial data agency Reuters, released in April, the average forecast for GDP growth was 0,7% for this year and 2,8% for next. Most SA economists have been revising their forecasts upwards.

The Morgan Stanley team gives the thumbs-up to recent revision of SA's national accounting system, designed to factor in economic activity previously excluded from GDP calculations, including household use of financial services, telecommunications and government infrastructure. Under the new system, SA's GDP grew an extra half a percentage point last year and did not go into recession, as defined by two consecutive quarters of contraction.

The firm's London-based Africa analyst, Beshara Madi, wrote that while first quarter growth was down 0,3% year on year, this was primarily due to a "massive" drawdown in inventories. Excluding inventory changes, final sales were up 1,7%, with exports contributing 1,3% of GDP. That, combined with the current account moving dramatically into surplus in the first quarter, made it clear "an export-led recovery is in the making", helped by "global healing" as the Asian recovery picks up speed.

Also positive was the SA authorities' "dramatically improved" policy mix. The Morgan Stanley team projects that the repo rate — the interest the Reserve Bank charges banks — will fall steadily into single digits during the next 18 months. It believes lower interest rates, plus disposable income generated by Old Mutual's demutualisation, should translate into a consumer spending rebound by the fourth quarter.

Meanwhile, thanks to upward revisions in GDP, "fiscal policy should start becoming less of a drag on overall growth" as government will have more room to increase spending and tax less without increasing the deficit as a proportion of GDP.

Inflation is not seen as a threat "because of the powerful structural transformation that is in the making in SA. We remain convinced the internationalisation of the economy ... evidenced by the sharp pick-up in import penetration, and the resulting competition and industrial restructuring, will be a key factor defusing cyclical price pressures."

Stronger growth, helped by improved commodity prices, without inflation — "a key structural break with the past" — should protect the rand while allowing interest rates to fall.

This optimism takes into account the collapse of the gold price. "The reality is that gold is now less important for the SA economy than it was five years ago" when gold exports accounted for 5% of GDP, as opposed to 3,5% last year, the report says.

In a forecast released yesterday, FBC Fidelity Bank said it expected real GDP growth of about 1% this year and 2,5% next. FBC economist Mike Schüssler says to reach 2% growth the economy will need a major spending injection from the Old Mutual listing. Indications are that proceeds of Old Mutual share sales are being used to pay off debt. The drop in private consumer credit extension for the year to May shows a large-scale process of debt repayment

Second-half growth would have to be far faster than the first quarter's revised 0,4% on the previous quarter if 2% was to be achieved for the year. However, he predicts rates of 1,8% and 2% respectively for the final two quarters.

Kluever fails to settle dispute

BD 22/7/99 (49) (34)

Taryn Lamberti

FINANCE Minister Trevor Manuel and Judge Willem Heath were still at odds yesterday over issues relating to Heath's special investigating unit, despite the release of a report by the auditor-general which was intended to bring the dispute to an end.

Manuel and Heath referred their dispute over the unit's success rate and procedures to Auditor-General Henri Kluever for verification in April after they "agreed to disagree" on a number of issues.

Chief among these was Heath's claim that his unit had saved or recovered more than R850m.

They also disagreed on whether recovered money should be paid into the national revenue fund or be given back to the departments from which they went missing.

Kluever's office said yesterday it had established that the unit saved or recovered R1,326bn. Included in this was an "actual cash recovery" of R60,37m, R855m from transparency in tender processes, R19m in reclaimed state land, R385m in prevented losses and R4m in collected debt.

Manuel said yesterday he had wanted clarity from the auditor-general on the amount of money Heath's unit had actually recovered.

"The auditor-general's report gives a figure of R60,37m, which is in stark contrast to the figure originally bandied about by Heath, which was closer to R1bn," Manuel said. However, responding to the auditor-general's findings, Heath pointed out that in a submission to the parliamentary justice committee earlier this year, the unit quoted a figure of R41,4m in cash recoveries.

Brushing the figures aside Manuel said the important issue was that the auditor-general had provided a "methodology" for the unit and other similar bodies to use in the future, which was in accordance with standard accounting practices.

The two men also continued to disagree on what should happen to recovered funds following the auditor-general's finding that money recovered after the end of a financial year should be paid to the national or provincial revenue funds. Money recovered by the unit in the same year as appropriation should, however, be returned to the department concerned.

Manuel said this was "extremely important" as 99% of cases were finalised only at the end of a financial year, which meant the bulk of recovered funds would go to the revenue funds.

He said money recovered by Heath, which was being held in trust accounts, had to be "paid over as required by the constitution", and he would request a meeting with Heath to discuss the transfer of these funds.

However, Heath's spokesman, Guy Rich, said the issue of what should happen to recovered funds was still in dispute. There was also only about R5m in the unit's trust account from cases which were still pending. He said the unit had always paid recovered funds back to the departments concerned.

Rich said the unit would take into consideration recommendations made by the auditor-general over the running of the trust funds and accounting procedures that needed to be followed.

Accounting procedures were "never 100% in any business", especially considering the fact that the unit was set up only in March 1997 and had grown substantially with limited personnel and insufficient funds, he said

GLOBAL COMPETITIVENESS REPORT (49) FM 23/7/99

TOO SUBJECTIVE AND PESSIMISTIC ABOUT SA?

Cape economist sceptical of criteria used to compile index

The annual global competitiveness report of the World Economic Forum triggered a familiar round of gloomy headlines — SA had "slipped" five places down to 47 out of 59 countries surveyed. The rating was interpreted as a consequence of further attrition in indices such as crime, corruption, efficiency of the civil service, and labour market inflexibility. But all is not as it seems.

Prof Wolfgang Thomas — chief economist of Wesgro, an independent, nonprofit body which promotes economic growth in the Western Cape — is sceptical of the criteria used to compile the index.

He regards them as unacceptably subjective, the aggregation of opinion questionnaires directed at corporate and other elites, which in SA could prompt overly pessimistic responses by those opposed to ANC rule.

"We assess ourselves fairly cheaply," he says. Further, "in heterogeneous countries and those with complex historical, social and economic differences between the regions, this 'average' (ranking) may be far out for major segments or regions of a country . .

"We know that many of the factors shaping economic growth and development need serious attention, and this includes the Western Cape, but that is a far cry from the annual ritual of showing SA, one of 205 countries in the world, and one of about 30 economies going through dramatic transformation, as still 'sliding' "

The report — apart from SA and Zimbabwe, ranked 57th — virtually ignores Africa, which might furnish a more appropriate background in assessing SA's potential for growth. Thomas notes, too, that two countries not previously included in the rankings, Mauritius and El Salvador, have been added in above SA, in effect meaning that our position shows "little significant deterioration". Meanwhile, "highly significant and well-rated countries like Egypt, Brazil, India and Venezuela rank behind SA".

The report shows SA in the bottom five of surveyed countries in terms of the adequacy of the police (we are stone last, below Mexico and Russia) and the cost of organised crime to business (below Russia and above only Colombia)

However, on a key element of corruption — the need to consistently pay bribes or kickbacks to senior politicians to secure contracts or even survive — we are not in the bottom five, and one inference is that we are not a lawless State, as Russia appears to be.

According to the WEF, "competitive countries are those that have the underlying economic conditions to achieve rapid economic growth for a number of years, taking into account their starting level of income. In general, our index is not designed to forecast short-run events such as financial panics, exchange rate shocks or changes in a country's export prices that may cause temporary booms or recessions. Instead, we hope that our index helps countries understand whether they have in place the conditions for rapid economic growth over the next decades."

Wolfgang Thomas . . . We assess ourselves fairly cheaply

The rating of any country, thus, is contingent on its economic policy, exports and political stability The fact that SA is rated at all indicates that it's doing something right. It adheres to monetary and fiscal discipline, possesses a labour market regime that may not be as onerous as its critics suggest (and which is likely to be revisited), and is capable of diversifying away from a dependence on primary products. It is a lack of personal security coupled to job-destruction and lingering exchange controls that impedes us and frightens off foreign investment.

In addition, SA's demographic inequities favour some provinces over others, though the report naturally aggregates them to arrive at a national rating Wesgro, obviously, stresses the charms of its home province And while it is not possible to entirely de-aggregate the Western Cape from SA, some comparisons may contain lessons pertinent to overall growth prospects.

In 1988, matric pass rates were 25% higher in the province than the national average (79% as opposed to 53%). Adult literacy rates were 76% compared to a national 63%. Unemployment stood at 18% compared to 29%-39% countrywide. About 89% of the population was urbanised compared to 58% and infant mortality rates stood at 25 per 1 000 live births while the national figure is more than twice that

But these positive numbers are compromised by two significant factors·

- **Crime**, particularly violent crime, is rising. Famously, the province had considered itself immune to the levels prevailing in, say, Gauteng. This is no longer so, and 1998 brought urban terrorism to the commercial heart of the Waterfront For international drug syndicates, Cape Town is an open invitation, and when that is factored into traditional gang activities — and antigang vigilantism — it is not surprising that the under-resourced police appear confused and inept The region as a whole has always been inordinately affected by its agricultural alcohol production, the dark side of the wine culture
- **Job losses** in mining and related industries could see a reflux of workers to the Eastern Cape. From there, large numbers of workers could migrate from poverty to the perceived wealth of the Western Cape, putting even greater strain on the province's infrastructure

While Thomas feels that the WEF rankings "and many of the popularised interpretations of doom and gloom are largely meaningless" for the Western Cape, "this is no reason for complacency" His conclusion? "We need committed action, not gloom-mongering " **Peter Wilhelm**

ANC ALLIANCE

CROSSING THE DESERT OF REFORM

Cosatu and SACP want the pace of restructuring tempered (49) FM 23/7/99

If Mpumalanga Premier Ndaweni Mahlangu is the ANC's "Mr Lies", then Deputy President Jacob Zuma is its "Mr Truth" Zuma recently admitted that an economic overhaul in terms of government's macroeconomic framework, Growth, Employment & Redistribution (Gear), is not a painless process, that some of the current job losses are unavoidable, and that this was the result of the ANC-led government's own policy initiatives.

His candour has sparked anger in the organisation and in its allied trade union and communist camps. Apparently, he shouldn't have been so frank, and was told so by the highest ranks of the ANC. At any rate he should not have said it out loud and so publicly.

"He said what many of us have been thinking but were too scared to say," admits a member of the ANC's national executive committee. A reawakened jobs crisis — shaping across several sectors — is seeing the battle lines drawn on how the ruling tripartite alliance should deal with the pain of restructuring.

With a massive ANC election victory in sharp focus, the debate is not about when, or even if, the alliance will fracture. The left of the alliance — Cosatu and the SA Communist Party (SACP) — cannot afford to walk away from the ruling party. Instead, the fight for economic policy direction will take place within the party.

In Gear, the government set out its policies, and all of them mean job cuts in the short term. The main tenets are monetary discipline, which means no artificial stimulation of consumer demand with negative interest rates; fiscal discipline, which among other things entails cutting uneconomic jobs in the public sector, and tight controls on spending; and partial privatisation, which means ruthless rationalisation to cut costs

Government says these policies are in the longer-term interests of the economy — a view not shared by its alliance partners.

But the tussle is not the Eighties battle between a market-led economy versus a socialist model. There is common cause on the alliance's left and in its centre that a market approach is the only logical way to go at the end of the 20th Century. Rather, the dispute is over the scope and pace of change, and to what extent social welfare should be sacrificed to fiscal discipline. Government's official view is supported by Saki Macozoma, an ANC national executive committee (NEC) member and MD of the financially troubled transport parastatal, Transnet

Macozoma believes that Transnet subsidiary Spoornet is an unnecessary drain on scarce State resources He advocates cutting 17 500 jobs, arguing: "If we do not take the pain now, we will face even more bitter choices in the future . . The transformation effort is intended to avert the greater disaster down the line "

Two other NEC members — Finance Minister Trevor Manuel and Trade & Industry Minister Alec Erwin — share the sentiment of immediate pain and long-term gain.

Manuel is keeping a steady hand on spending and wants to cut it further by slashing the public service, while Erwin (who is also a member of the SACP's central committee) has presided over the opening up of the economy by dropping tariffs so quickly they overshot some targets set by the World Trade Organisation Manuel's policies have already borne some fruit in terms of lower inflation. And Erwin has pledged that in five to 10 years, government's new direction will bring unemployment down to 10%, from its po-

Zwelinzima Vavi

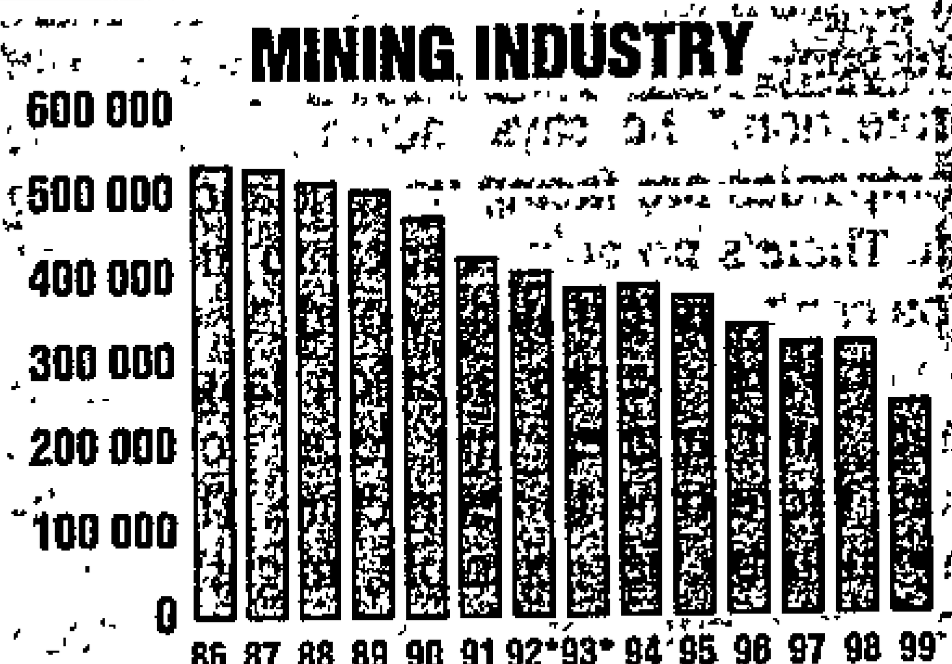
Jeremy Cronin

METAL & ENGINEERING INDUSTRIES

Year	Hourly paid employees	Since 1980 % change	% diff from previous
1980	443 354		
1981	453 966	2	2
1982	408 528	-8	-10
1983	380 820	-14	-7
1984	378 744	-15	-1
1985	365 649	-18	-3
1986	332 756	-25	-9
1987	325 750	-27	-2
1988	361 035	-19	11
1989	371 624	-16	3
1990	385 522	-13	4
1991	364 567	-18	-5
1992	320 331	-28	-12
1993	278 190	-37	-13
1994	273 345	-38	-2
1995	278 169	-37	2
1996	275 583	-38	-1
1997	275 746	-38	0
1998	267 137	-40	-3
1999	248 250	-44	-7

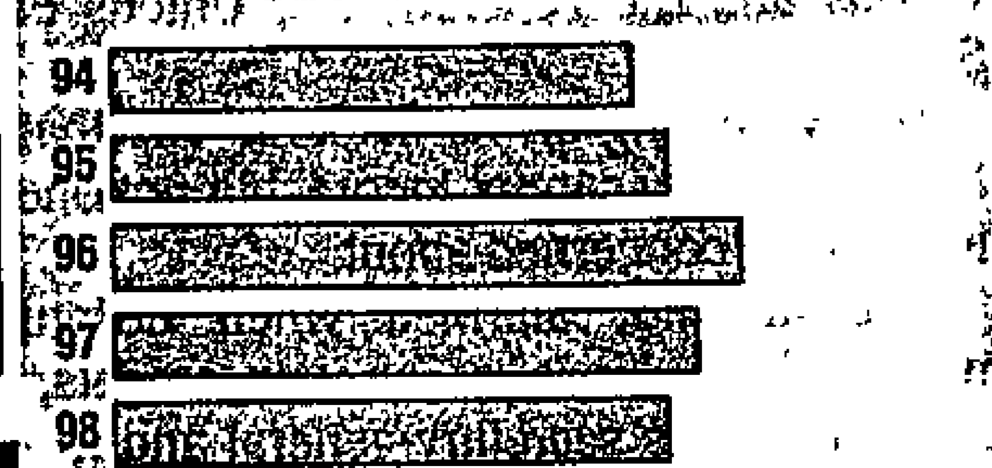
EMPLOYMENT STATISTICS

MINING INDUSTRY



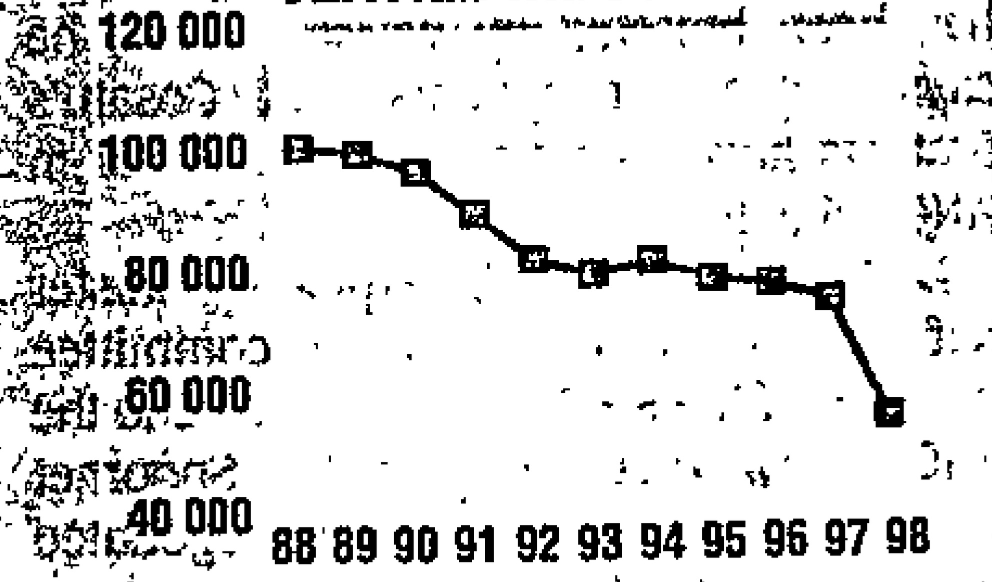
*this figure represents the average over the whole year, including the strike period.

CLOTHING INDUSTRY



0 50 000 100 000 150 000

TEXTILE INDUSTRY*



*Including knitting mills (From 1995 the figures include employment in the former TBVC states)

tentially explosive 35%-plus level currently

But the reappearance of job losses is threatening to damage hope and has strengthened the hand of proponents of the second view.

The pain threshold is lower on the left of the alliance Announcing a "minimal" programme of strikes, demonstrations and factory protests, Cosatu's acting general-secretary Zwelinzima Vavi said "I don't like this thing that says job losses are inevitable It is terrible logic to say we must close our eyes, tighten our belts and everything will get better." He added that the jobs crisis represented "... a crisis of the economy of the worst kind in recent decades", and called for "a rethink of the 'fundamentals' " The labour federation is losing members as jobs are shed Consequently, its position is hardening.

Cosatu and its affiliated unions want government to delay the next round of tariff cuts (due in September), to renegotiate all privatisation exercises by renewing the 1995 National Framework Agreement, and even reregulate sectors like transport

Its clarion call seems to be: "delay the pain" and this is a view shared by some employers

To grease its economic demands, Cosatu has given notice to government that it will strike in protest against the job cuts. Its clothing affiliate, Sactwu, will bring a similar notice of an economic strike against government and manufacturers because of steep job losses in its industry Cosatu has been joined by the country's two other major labour federations, the National Council of Trade Unions and the Federation of Unions of SA

This gathering on its flanks is one that the ruling party cannot ignore, but not one it is unduly concerned about.

"We are not alarmed when Cosatu makes these kinds of announcements," says the ANC's secretary-general and former NUM leader Kgalema Mothlanthe. The alliance is a broad front of sometimes competing interests and ideologies and has been buffeted by worse storms, he says Indeed, it appears that Cosatu's protests have found a sympathetic ear in ANC echelons.

Last week, Public Enterprises Minister Jeff Radebe, also a central committee member of the SACP, appeared to echo the SACP view that the plan for Spoornet needed first to be exhaustively negotiated by parties to the framework agreement.

Radebe's statement appears to be informed by a secretariat report of the SACP, which says: "The management of Transnet, and other parastatals, must be brought under much more effective political supervision. They are acting as managers and owners, when in fact government is the principal (and often, only) shareholder."

With Radebe at the helm, the Public Enterprises department is likely to sell privatisation to the alliance a programme of commercialisation, in line with the ANC view that the restructuring of State assets should be used to increase strategic investment and delivery, rather than as an avenue through which to raise revenue.

While Erwin has not made any public announcements, several labour and industry sources suggest that he is giving serious consideration to their concerns about the effect of the planned tariff cuts in September.

The clothing and textile industries have been hardest hit by tariff cuts and thousands of jobs have been lost. "We want government to cease the next round of tariff cuts," says Sactwu deputy general secretary Ebrahim Patel, whose members this week began countrywide protests against job cuts.

Others disagree. Michael McDonald of the Steel & Engineering Industries Federation (Seifsa), has seen a 44% reduction in employment figures since 1981. "There are some employers who still want tariff protection," he says, adding that "some companies are facing up to it and moving on. There's no going back into the laager You can't say 'Go away world'."

But Patel denies a union laager-mentality and argues that local companies need more time to restructure. The clothing industry, for example, might have to shift its production focus to high-fashion garments so that it no longer competes head-on with Zimbabwe and Taiwan for the low end of the market.

>> Economic restructuring is not a painless process <<
Zuma

>> We are not alarmed when Cosatu makes these kinds of announcements <<
Mothlanthe

Adds Patel "The space which SA had to restructure is not being well-utilised When you shorten the tariff reduction period, you simply plunge more companies into bankruptcy."

Sactwu is protesting against monetary policy, because interest rates are too high for successful job creation, says Patel "The cost of working capital to small and medium-sized enterprises is still high." The tripartite alliance has for months been discussing the pace at which SA should integrate into the world economy But Mothlanthe is realistic about the extent to which SA can set the pace of change.

"There will be no respite as we debate We can't call a moratorium on the pain of restructuring." He adds that the burden of leadership lies in finding solutions even as we endure this pain

ANC leaders point to government's handling of the gold crisis as an example of how it will endure restructuring. the party wants an activist approach by Ministers to bring on board both industrialists and labour to minimise job losses

The ANC also wants a politician to lead the 1998 Jobs Summit process, which is threatening to become another of bankrupt exercise because promises have not been kept. Erwin's name has been mentioned.

For its part, the SACP says the jobs crisis shows the need to place the Reconstruction & Development Programme (RDP) back on the agenda The party points to the need to "... continuously connect growth and development"

Says SACP deputy general secretary Jeremy Cronin. "The alliance has been buffeted by the jobs issue, but we've come out of a very good election experience We can throw it all away in mutual recrimination or use the crisis to develop a national patriotic response " **Ferial Haffejee**

MAIL & GUARDIAN
July 23 to 29 1999

Gear exacts a heavy toll

(49)

m+G 23-29/7/99

Ebrahim Harvey

The strikes, threats and demonstrations in the public and private sectors over the past few weeks have again placed the public spotlight on the government's growth, employment and redistribution (Gear) policies

South Africa has paid a terribly heavy price for Gear

Whether it goes by the name of commercialisation, privatisation or restructuring, the source and purpose is the same government commitment to the macro-economic policies of Gear

The stringent and profit-driven constraints imposed upon the economy by Gear policies since 1996 have reached a critical point

The events of recent weeks are probably a dress rehearsal of what is still to come, with both sides bracing themselves for the greater battles that lie ahead

It is a foregone conclusion that the scars from these battles will only serve to deepen the growing rift within the African National Congress/South African Communist Party/ Congress of South African Trade Unions (Cosatu) alliance Something big must give sooner or later

Gear is the result of a steady neo-liberal capitalist shift in ANC economic policy since 1990

Immediately after his release from prison, Nelson Mandela said the ANC unequivocally stood for nationalisation. The pendulum has swung from left to right to the extent that today the ANC openly espouses neo-liberal capitalist policies

Gear is the ANC's response to globalisation, not to the needs and interests of the millions who voted for it twice ANC economic policy is much more in tune with the demands of globalisation than those of millions of desperately poor black people who put their trust in the party

The real victims of Gear policies have been the most important mass support base of the ANC — the urban and rural poor

In real terms, these people have not experienced any significant improvement in their material conditions and standards of living since 1994

To the contrary, the right to vote in 1994 did not usher in a period of material prosperity for these people, but rather rising levels of poverty

The tragedy is that this class of people, who always constituted the overwhelming majority of the population and who bore the brunt of racism and capitalism before 1994, have continued to suffer poverty more brutal than during the darkest days of apartheid.

This represents the single biggest problem and challenge of our present transformation

Just what has been transformed? Certainly not the system of globalised profiteering

Unlike earlier rounds, the current battles between the ANC government and its alliance partners have put considerably more at stake.

Having once more campaigned for an ANC vote in the recent elections, the unions are more adamant than they were in 1994 that now is payback time

On the other hand, the ANC, having recommitted itself to Gear during the recent election campaigning and to accelerating the pace of privatisation, sees no alternative but to implement this policy, notwithstanding the huge human and social costs The die is cast.

In this confrontation with the government, the unions are driven by a desperate need to fight for and save many thousands of jobs and, with that, the further loss of union membership, already decimated by massive retrenchments over the past few years. In many ways it is a fight for the survival of the unions.

The overwhelming victory of the ANC in the recent election has had two combined but contrasting effects

On the one hand it appears to have encouraged an arrogant confidence in the ANC hierarchy to do as it sees fit regarding implementation of policy decisions

On the other, it has given the ANC's more left inclined alliance partners now affected by privatisation and retrenchments, a greater sense that they deserve to be treated better

This confrontation brings to a head the dominating power of the ANC and globalisation, and the declining power of the unions and the left The ANC knows full well that if this was the Eighties, it would hardly have dared take on the unions in a show of strength

The deeper irony is that the ANC government is now in battle with largely the same union constituency that provided it in the Eighties with its most important organised mass support base inside the country, and who vigorously campaigned for an ANC vote in the recent elections The tide has truly turned

But today it is not so much the declining strength of the unions that eggs on the ANC, but rather the prescriptive power of globalisation, to which the ANC and the government are clearly shackled

What is the answer of Cosatu and the SACP to this crisis?

For the left in the alliance, the time for fancy footwork on Gear has certainly passed Decisively defining its position on economic policy is now right on top of the agenda

With many important union leaders now co-opted into government structures, notably Mbhazima Shilowa and John Ngoma, the most important question is "Will the remaining official leadership succumb to pressure from the government, or steadfastly represent the needs and demands of its membership?"

Only time will tell But if the past three weeks are anything to go by, particularly the statements made by the Cosatu and SACP leadership, we have a gigantic battle on the horizon which will make what is happening now look like preliminary skirmishes

While no party to this growing conflict will be unscathed, the ANC stands to lose most in the longer run.

Within the next year we are likely to see a fundamental realignment of political and social forces

Many hope that Cosatu, though not quite as powerful as it was in the Eighties, will muster all its remaining strength and resources to wage a fight to the finish — and in so doing, receive the unstinting support of all progressive forces within civil society

The critical question is "Is Cosatu equal to the task?"

This will certainly be decided in the next few weeks and, most importantly, by the results of its special congress to be held next month

That congress will go down in history as probably Cosatu's most important Either it blazes an independent path forward which is in keeping with the needs and interests of its members, or it succumbs once more to the tentacles of ANC control and sacrifices its membership at the altar of globalisation

If Cosatu and the SACP fail to stop current moves to privatise and retrench, we are all going to pay an even heavier price in the next five years

Once more it is the millions of poorest black people who will suffer most

The ANC is on a collision course with its own support base and could suffer come the 2004 election.

Memory is a powerful weapon at election time However, now is the time to stop the rot

Ebrahim Harvey is a former Cosatu unionist and a political activist

Differences over Gear revived

Sowetan 26/7/99

Sowetan Reporter and Sapa

THE public sector wage dispute that has soured relations between trade unions and the Government could again bring differences over the country's macro-economic policy as defined in Gear (growth, equity and redistribution) to the fore

That much was apparent from the various memoranda workers handed over to government ministers during nationwide protest marches on Friday.

Gauging from statements made by some senior leaders of the Congress of South African Trade Unions (Cosatu), the current dispute could also revive concerns that organised labour has had with the budgetary process.

A memorandum addressed to Public Services and Administration Minister Geraldine Fraser-Moleketi said public sector unions were neither oblivious to the economic situation of the country nor ignorant of fiscal policy positions, but expressed doubt about the Government's Gear policy

"We are concerned that cuts in public expenditure will do nothing but contribute to the already ailing healthcare system, compromise efforts to attain improvements in quality education and derail efforts aimed at dealing with the crime situation in the country."

Tension over Gear eased during last year's global financial turmoil when the Government indicated that it would consider revising its fiscal targets set out in in its macro-economic programme.

This suggested the Government had softened its earlier position on Gear and that it would consider negotiations on some contentious aspects of the economic policy.

Another memo addressed to Finance Minister Trevor Manuel demanded transparency and participation in the budgetary process before wage negotiations start.

"We want transparency in government," Cosatu's acting president Peter Malepe told Manuel. "You cannot discuss and conclude the budget without involving stakeholders."

One of the protesters carried a poster reading: "Consult and budget, don't budget and consult".

The memorandum addressed to Manuel went on to say. "We fear that the down-sizing exercise is motivated by narrow fiscal objectives rather than considerations of efficiency or social delivery."

In the last three years public service jobs had declined by 13,3 percent from 1,27 million to 1,1 million, representing a loss of 170 000 jobs

Large amount of govt's R373bn debt represents savings — Ramos

(49) BD 5/8/99

DURBAN — Government would not cancel its current national and international debt amounting to R373bn, the director-general of finance, Maria Ramos, said in Durban on Tuesday.

At a breakfast meeting of the Diakonia Council of Churches, Ramos said a large amount of the R373bn represented the savings of the economy.

"You can't destroy a large chunk of the country's savings in that way," Ramos said.

She added that the government had borrowed R16bn of the total amount in foreign currency.

"If you borrow in good faith and don't pay it back, no one is going to lend you money again."

A report in Durban's Mercury newspaper quoted Ramos as saying that the fact that government would not write off its debt did not mean that President Thabo Mbeki's administration was not committed to alleviating poverty.

She said 60% of the current budget was being spent on health, education, social welfare, housing and the provision of water. Responding to a question on a possible increase in value added tax, VAT, Ramos said the government was reluctant to increase VAT because of the effect on the poor.

She said she was unashamedly optimistic about the country's economic future. "We have not had to go to the International Monetary Fund cap-in-hand for more money and we are much better poised now than five years ago to grow the economy in a sustainable way." — Sapa.

Reverse Gear – Winnie

(49) Sowetan 10/8/99

By Muzi Mkhwanazi and Sapa

AFRICAN National Congress Women's League president Mrs Winnie Madikizela-Mandela fired a broadside at the Government's economic policy, Growth, Employment and Redistribution (Gear), saying it had led to job losses.

She also criticised the Government's inability to address the problem of rural poverty which affects women in particular.

Addressing the main Women's Day rally in Springs, attended by about 15 000 people (mainly women) yesterday, Madikizela-Mandela said when she pointed out the failures of the economic plan, those in power became angry with her but the reality was that it is not working

She said the primary focus of Gear was to raise capital and offer tax relief to investors to create jobs, but ordinary people have not benefited from the programme.

Turning to poverty in rural communities, the majority of whom are women, Madikizela-Mandela said the Government had an integrated policy to address rural poverty but its policies were stifled by bureaucrats and nepotism.

She was loudly applauded by the crowd. She urged women to stand up and report corruption in Government as well as the ANCWL, and to stop being "used like condoms" and later discarded.

"During the apartheid era we were dumped in shacks and council houses which we did not want. We were jobless and turned into beggars. How long will we be used like condoms and thrown away? Let us stop being used as stepping stones for others to go to Parliament and forget about us when they get there," she said.

Gauteng Premier Mbhazima Shilowa was also a speaker at the rally.

Meanwhile, about 700 women, children and men marched to Parliament from Cape Town's Grand Parade yesterday in a Women's Day protest against the abuse and rape of women and children.

They also witnessed the handing over of a memorandum by a leader of the Congress of SA Trade Unions to a representative of the Commission for Gender Equality.

Their demands include action from the Government to realise:

- A realistic time-frame for the implementation of the Domestic Violence Act;
- Appropriate and consistent application of bail laws for alleged rapists, and sentencing of convicted rapists;
- An end to programmes on television and in movies that depict violence against women and children;
- An effective witness protection programme that will allow more people to come forward and speak out against violence and sexual assault on women and children; and
- The implementation of national policy guidelines for victims of sexual assault.

About 50 veteran South African women activists of the anti-apartheid struggle from all parts of the country were honoured at a glittering banquet at the Cape Town Civic Centre on Sunday night.

Contradictions will frustrate SA growth, economist warns

(49) CT(MR) 16/8/99

PETER FABRICIUS

Johannesburg – The South African government's economic policy contained inherent contradictions that would continue to frustrate its goals of economic growth and job creation, Jean-Pierre Cling, the economics counsellor at the French embassy in Pretoria, said on Friday.

It would be virtually impossible for South Africa to simultaneously achieve the three economic goals it had set itself: to modernise the economy, to open it up to the global economy and to unify society by redistributing wealth, Cling told the media on Friday at a briefing on his book South Africa After Mandela.

The book will be published in France soon It analyses the transitional period starting in 1994, which it says has been characterised by the search for a new growth model to replace the import substitution model established in the 1920s and to redress the imbalances of the past.

"Although some success has been obtained in the RDP, the orthodox policy conducted within Gear (the growth, employment and redistribution strategy) has been a failure, as far as its growth and employment objectives are concerned.

"Without neglecting the impact of the international crisis which started in 1998, this failure leads one to question the chances of success of the government's liberal macroeconomic trade policies in a globalisation context."

Modernising the economy entailed following tight monetary and fiscal policies, which were frustrating the growth necessary for redistribution, he said. Opening the economy to global competition was also killing jobs.

Cling said South Africa's strategy of specialising economic production in certain sectors and focusing it on specific international markets seemed to be inadequate to foster long-term employment and export growth. Exports were also concentrated on capital-intensive goods, for which world demand was declining

Cling said South Africa faced a chicken and egg quandary: it depended on foreign direct investment to stimulate growth, but investors were unlikely to put their money in an economy that was not growing much faster than South Africa's present rate of 2 percent or less.

South Africa was probably unique in the three economic challenges it had set itself Other countries faced with such huge redistribution challenges had mostly dealt with them before the onset of intensive globalisation

His book draws some parallels between South Africa, Zimbabwe and Malaysia, which also went global while trying to redistribute wealth. But it finds the closest parallel in Brazil, which has had similar socioeconomic inequalities to overcome.

Cling said the opinions expressed in his book were his own.
- Independent Foreign Service

Time to step up a Gear

(49) mt G 13-19/8/99

Michael Power

South Africa is stuck in first Gear. Gross domestic product (GDP) growth is negligible, unemployment is rising and there is little evidence of a fall in its GINI coefficient, that all-too-revealing measure of South Africa's income inequality

As a foreigner newly arrived on your doorstep, I feel somewhat churlish in pointing all this out How bad-mannered of me to say that the centrepiece of the post-1994 era simply is not delivering the goods But it must be said, if only because the growth, employment and redistribution (Gear) strategy is in danger of becoming the sacred cow of the South African scene, a fate it patently does not deserve

No one could seriously disagree with the laudable aims of Gear — such a three-pronged attack was imperative if the laagers of the apartheid era were to be overwhelmed and a more productive, more equitable economic landscape were to result

So what is the problem?

The simple fact is that not only is the South African car stuck in first Gear, it is also trying to accelerate with the handbrake on In other words, the monetary policy is ridiculously tight. Real interest rates remain at near-record highs — is it any wonder that net private business investment, the yeast of GDP growth, is at near-record lows? In the United States, the real corporate hurdle rate used by business is about 3%, in South Africa, it averages 13% - no prizes for guessing which economy is growing faster And given this high cost of capital, is it any wonder that Anglo American, Old Mutual and South African Breweries have undertaken a great trek north to London?

The Reserve Bank's monetary policy is, on the pretext of squeezing inflation out of the system, squeezing the life out of the economy. *Verkrampte* (conservative) monetarism has helped stall Germany's economy — surely the high priests of Pretoria cannot still believe in the fatwas from Frankfurt?

It is increasingly recognised that not only most politicians but also many central bankers, especially those of Continental Europe, know virtually nothing about what makes a business tick Their defence is usually "We must look after the macro level, the micro level can fend for itself." Nothing could be more misguided. The macro house is built of micro bricks, not vice versa What harms the corporate sector before long undermines the country.

Of course, there are macro levers that need to be pulled when consumption gets out of hand or buttons pushed when serious inflation threatens Federal Reserve chair Alan Greenspan's quip that the job of a central banker is "to take away the punchbowl when the party gets too loud" still stands But to run a monetary policy which simply destroys the *raison d'être* for investing has got to be the surest way of bringing the national house down. One of the lessons of globalisation is that a country must look after its corporate champions, else they wither in the harsh winds of competition — or go elsewhere

The double irony in South Africa's case is that the usual villain of the piece — the government — has done superbly well in the circumstances For their pains, the fiscus received rather a large bill for the misguided defence of the rand last year and has had to pay higher interest costs on government debt than it should have done. And yet five years ago we all feared that the political treasury would run amok in its spending, but then derived some comfort from knowing that at least the independent central bank was in safe hands How wrong we all were.

So is there another central bank doctrine the new governor of the South African Reserve Bank should consider emulating? Indeed, there is. Which primary goods exporter suffered the same collapse in export prices as South Africa did in 1998 and yet finished the year with the highest GDP growth rate in the Organisation for Economic Co-operation and Development? Whose inflation rate is only 1,2% over the past 12 months? Whose unemployment rate is down to 7,5%? The answer is Australia

And what did the Aussies do differently? They sidestepped that juggernaut of a trade shock, barely defending the Aussie dollar with interest rate hikes or heavy-handed market intervention True, they have a ballooning current account deficit and their currency has probably rebounded too far, but a fall in the latter will soon lead to a fall in the former

The essential lesson is clear if you are hit by a severe deterioration in your terms of trade, don't hijack the domestic economy with interest rate hikes, either to avoid imported inflation or to protect the value of your currency Why? Your most important corporations, your exporters, will be under enough pressure as it is without having to cope with a sharp rise in their cost of capital as well

So Tito Mboweni, may I respectfully suggest that you ignore the fat was of Frankfurt and study instead the canons of Canberra before you take over in August? Those Aussies can do more than play decent cricket

Michael Power was previously a fund manager at Barings Asset Management in London

Crunch as Tito speaks and unions go to war

Tuesday is D-Day in the US too, as interest-rate hike looms, writes THABO KOBOKOANE

ST (BT) 22/8/99 (49)

TUESDAY looms as a crunch day for the SA economy as Tito Mboweni makes his key policy speech, public sector unions embark on strikes and possible US interest rate hikes test the mettle of the investment community.

South African Reserve Bank Governor Mboweni's first speech to the central bank's annual general meeting is widely expected to outline the Bank's approach to inflation targeting.

His speech follows earlier comments by Finance Minister Trevor Manuel that he expected such targeting to be introduced in the first quarter of next year.

Mboweni indicated when he took over that such a policy would require consultation with interest groups on its implications and that business, labour and government would all have roles to play.

"We can start inflation targeting anytime. Most people started when inflation was very low. I think there are many benefits. One is it clarifies the policy stance very well and it clarifies the role of the different agencies. It makes the job of the Reserve Bank much clearer and much easier, but so does a currency board," Mboweni said.

Until now the central bank has followed an informal approach to inflation, but inflation targeting sets specific targets at which the government and the central bank want to peg inflation.

Typically, the target has to be achieved by the Governor. In the case of the Bank of New Zealand, the central banker can be fired if this target is not met.

Economists remain divided on whether SA is ready for inflation targeting.

FBC Fidelity Bank's Hania Farhan thinks it would be "prudent to wait a little longer ... a year at least" to introduce the policy, while ABN Amro economist Colen Garrow says it is "prudent to wait until the first quarter of next year".

Mboweni is also expected to announce the appointment of James Cross as senior deputy governor, a move which is likely to allay fears in the markets. In addition, Mboweni is also set to spell out his commitment to financial stability, as well as his view of the economy and the new balance of payments figures.

Mboweni's speech comes just a few hours before the meeting of the US Federal Open Market Committee. Fed chairman Alan Greenspan is widely expected to notch up interest rates by 25 basis points — the second such hike this year. Economists say the increase will signal the global bottoming of interest rates.

Analysts will also be keeping an eye on the public sector strike on Tuesday, in addition to a whole range of economic data which will be released during the week.

The most important figure is surely to be second-quarter gross domestic product, which will show a stagnating economy. A Reuter poll of 10 analysts has forecast growth of 0.8% compared with 0.4% in the first quarter.

The GDP figure will reinforce pressure on the Reserve Bank to loosen monetary policy, although this week's disappointing July core consumer price index rise of 8.2%, compared with 8% will put a damper on those hopes.

Headline inflation showed a sharp decline to 4.9% from 7.3% in June.

Rates have declined rapidly in the past year, but policy has been tightened since Mboweni took over on August 8.

Since then the repurchase rate (repo) — the rate at which commercial banks borrow money from the Reserve Bank — has declined by a pedestrian one basis point daily.

So far the difference between the repo and prime is just over 300 basis points. Previously commercial banks have reduced lending rates when the spread between the repo and prime have been at least 400 basis points.

The Reuter poll also expects Customs and Excise figures for the July trade balance to show the trade surplus halved to R1.11-billion. Producer Price Inflation figures, which have been delayed until August 31 by Statistics SA, are expected to be lower at 5.9% year-on-year compared with 6.4% in June.

● See page 7 for US economy

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THE ANC AND COSATU

LEFT PUSH TO CHANGE GEAR

Lekota's claim that some policies are only tactical could backfire (49) FM 27/8/99

The ANC's double-speak on economic policy could come back to haunt the party when Cosatu begins its push for what some members call a "post-Gear (Growth Employment & Redistribution) consensus"

The Left in the ANC-led tripartite alliance considers that such a consensus has — in spirit, at least — already been achieved through the softer economic line taken in the ANC's election manifesto and at last October's jobs summit

These pre-election promises include pledges to toughen labour laws, exclude more basic items from VAT and increase social spending The subtext also carries the promise that economic policy is negotiable

ANC national chairman Mosiua "Terror" Lekota seemed to entrench this populist trend when he declared at last week's Cosatu congress that government's economic principles are simply "tactics" He continued "If some positions we've adopted require urgent and drastic change let's acquire a new prescription"

That's a different message from the one being sent by Public Services Minister Geraldine Fraser-Moleketi and Finance Minister Trevor Manuel who have shown through action that "there's no retreat on Gear" says political analyst Sean Jacobs of the Institute for Democracy in SA (Idasa)

He points to Fraser-Moleketi's tough wage stance against the State's 1,1m civil servants and Manuel's tight rein on spending They acknowledge says Jacobs that "we're not operating in some vacuum, we're operating in a globalising world" But such political honesty means sacrificing popularity Fraser-Moleketi was booed *in absentia* at the Cosatu congress, and no unionist will name their son Trevor

Cosatu plans to take up Lekota's offer of a policy rethink at an alliance summit it wants convened urgently It is planning to put pressure on the ANC to make good on the pre-election promises contained in the manifesto and in the jobs summit resolutions

>> Gear is but one of those tactics. Privatisation is one of those tactics. It's not a principle <<
Lekota

Though the federation made no headline-grabbing calls on government to revoke Gear, its congress resolutions amount to an assault on present economic policy

It wants the next round of tariff cuts dropped, a *more* regulated labour market, less privatisation, the restructuring of national debt and public service jobs preserved

Read against Gear, Cosatu's demands plot a completely different trajectory and will make for stormy relations — at least until the next election, when the ANC may again take a more populist stand

The Gear strategy is based on maintaining strict deficit targets, a less regulated labour market and a programme of tariff liberalisation on which SA dare not turn back. Gear commits government to reducing the cost of the public service payroll Cosatu's assault on Gear has allies in the SA Communist Party and among the ANC Left

So what we're seeing now is not a case of Cosatu and the SACP versus the ANC nor is it a question of a fast-fracturing alliance As newly elected Cosatu president Willie Madisha remarked "Robust debate should not be misconstrued as leading to the extinction of the alliance" Instead it's a push by the broad Left in the alliance to tilt the "balance of forces" back in its favour

>> (The Alliance) is not about agreeing with each other on each and every thing <<
Madisha

And somewhere in the centre, populists like Lekota and Winnie Madikizela-Mandela play to the gallery — tailoring their message to suit the audience

Cosatu wants to beef up the governing structures of the tripartite alliance by establishing a permanent national political centre consisting of the leaders of the three organisations This centre must guide the broad political direction of SA. The two junior partners of the alliance feel stripped of power and want it back They believe policy formulation and co-ordination and budgetary restraints "are negotiable within the alliance"

The view is anathema to some in the ANC establishment, which believes "government must govern" But Lekota sang a different tune, calling on Cosatu to please not keep washing the alliance's dirty linen in public because this gave the incorrect impression that there was "no room to manoeuvre" He admonished Cosatu for not distinguishing between political strategies and tactics "Gear is but one of those tactics Privatisation is one of those tactics It's not a principle," he stated

That's news Because Gear remains, officially, an ANC-led strategy

Politics lends itself to the election eve forked tongue grand promises In a broad church like the ANC, such practices will proliferate as tough economic decisions are taken and policy directions become contested within the ANC and among its alliance partners

Leaders like Lekota should remember his words to Cosatu last week Consider the responsibilities you take upon yourself when you accept leadership Leadership is a demanding challenge"

Ferial Haffajee

POLICY-MAKING

FM 27/8/99

SORRY TO RUIN A FRIENDSHIP BUT SOCIALISM HAS TO GO (49)

ANC must make tough choices, urges CDE think-tank

If the ruling ANC is to fulfil President Thabo Mbeki's objective of making SA "the world's most promising and exciting emerging market" in the new millennium, it will have to make decisive choices away from its long flirtation with socialism

In its quest for Mbeki's goal, furthermore, the ANC faces a stark choice it will either have to co-opt and convert leading communists in its ranks or those of its alliance partners to its market-based policies — or it will have to jettison them.

These themes run through a detailed study of more than 180 pages by the Centre for Development & Enterprise (CDE) entitled *Policy-making in a new democracy, SA's challenges for the 21st Century*

Funded by private donors, the CDE — which traces its roots to the Urban Foundation — was established in 1995 to "play a critical role in post-apartheid SA" Its mission is to form a bridge between business leaders, with their market-based outlook, and their political counterparts, grappling with the challenges of racial inequality and development backlogs

The CDE board is chaired by Elizabeth Bradley of Wesco Land Court judge Fikile Bam serves as her deputy Former Urban Foundation executive director Ann Bernstein serves in the same capacity

One of the anomalies of government is highlighted by the report while the ANC has shifted towards market-based economic policies, largely as a result of its exposure to new thinking, particularly since the collapse of the Soviet Union, it still "exhibits a fundamentally ambiguous and suspicious approach to business people" In the CDE's judgment, that suspicion extends equally to black and white business leaders

The CDE's observations on the tripartite alliance between the ANC, Cosatu and the SA Communist Party resonate with developments at last week's Cosatu conference ANC national chairman "Terror" Lekota chastised unnamed trade union leaders for publicly criticising the ANC, only to be rebuked himself by newly elected Cosatu general secretary Zwelinzima Vavi for attacking Cosatu in public.

"The distinction between the alliance parties is a blurred one, as there is overlapping membership and leaders," the CDE notes, adding "A significant proportion of organised workers, particularly those in union leadership positions, are ANC members, and the overwhelming majority of communists belong to the ANC as well"

Observing that public disagreement between the alliance members declined in the months before the June election, the CDE attributes that to two factors

- The drawing into government of prominent union leaders, including Mbhazima Shilowa and John Gomomo, and
- The joint campaign by the three partners for an ANC victory in the election

But the CDE's warning not to read too much into the public displays of unity during the election campaign, particularly if there is no reversal of the present reality of sluggish economic growth, appears to have been justified by the renewal of tensions at last week's Cosatu conference

Reinforcing its contention that the ANC cannot avoid choosing between its past policies and its revised, post-apartheid policies, as manifest by the Growth, Employment & Redistribution (Gear) framework, the CDE report deals at length with the choice before the ANC in its final section, "Challenges for the 21st Century"

"It is hard to see how SA will make significant economic and social progress

EXTRACTS FROM THE CDE REPORT

- **Thabo Mbeki's two-nation speech about rich whites and poor blacks, delivered last year, could have been written in 1990. It gives the ANC no credit for improving the situation**
- **The crisis of expectations is a myth. There is no popular discontent of the kind speculated about by politicians, the media or at suburban dinner-parties**
- **SA leaders should stop talking about racial groups as if they were homogeneous entities. It is time to leave that apartheid notion behind**
- **The most serious division in SA is not racial. It is between those with skills and those without them, between those with access to education and opportunity and those without**

without a further series of unequivocal and tough choices If we are choosing a path to growth, which involves international competitiveness and market-driven forces, then we must take that road with resolution

"The government must select new priorities for the new millennium If the past five years have taught observant South Africans anything, it is the fatal error of trying to change or transform everything all at once"

High economic growth and the consequent reduction of the serious problem of unemployment must be the "lodestar" against which all policies are tested, the CDE states The implication of that is rejection by the ANC of its socialist past

"The policy of compromise and the uneasy, uneven amalgam of the ANC's socialist history and its partial market accommodation cannot deliver the growth required More fundamental choices are required"

The consequences of continued low growth are spelt out in the report

- Transformation of SA into a "warring society" with too few winners and too many losers,
- Threats to national sovereignty in a situation where government needs to borrow large sums of money from "multilateral organisations" — an apparent reference to the International Monetary Fund and the World Bank — as the price of accepting their policy dictates,
- Emigration by large numbers of educated and skilled South Africans and a steady deterioration of the relatively sophisticated infrastructure;
- Adoption of populist policies in a bid to ward off the looming crisis, and, ultimately,
- Death of the dream of making SA an exemplar of African success and the nucleus of an African renaissance

The CDE recognises that there are no easy choices for the ANC, that there are risks "whatever route is taken" But it contends that the short-term risks of a decisive shift away from the past are smaller than the "grave dangers" associated with slow or negative economic growth

Reading through the CDE analysis of the ANC's dilemmas on the eve of the new millennium, one is reminded of the maxim coined by the Broederbond as it grappled with Afrikanerdom's predicament in the Eighties no course of action is without risk, but the most dangerous choice is do nothing — or, which is not vastly dissimilar, to attempt to be all things to all people

Patrick Laurence

Efficiency of Gear challenged

BD 6/9/99 (49)

Reneé Grawitzky

GOVERNMENT's growth, employment and redistribution strategy (Gear) is not being implemented as well as it should be, because it remains a contested policy in and outside government, says Wits University sociology lecturer, Jeffrey Nkadimeng.

Gear was not adopted merely to pacify international investors, he said at a Sociology for Work Unit workshop. It was a reflection of a change in the way policy was being formulated post-1994.

This was based on his master's thesis, which examined the shift in the African National Congress's (ANC's) economic policy from the release of the macroeconomic research group (Merg) to Gear

He said the policy shift was largely attributable to the increased prominence of different "actors" who influenced the ANC after 1994, when government was also attempting to get to grips with the pressures of globalisation.

Prior to 1994, he said, the ANC, as a liberation movement, consulted its traditional partners in civil society. This changed as the ANC went into government and was forced to take into account the views of business and international institutions.

He also believed the prominence of a more left-wing element in the ANC had declined since the elections.

A shift in policy could also be explained by the fact that the ANC had tended to emphasise mass participation in the formulation of policy. This was now in the hands of technocrats and international advisers.

Development Bank of SA official Stephen Gelb said it was not so clear-cut that "new actors" began to influence ANC thinking only after 1994. The fact that the report was marginalised when it was released in 1993 was a reflection of that.

Another delegate said the report was given the cold shoulder by the ANC as it was released just after the organisation had completed loan talks with the International Monetary Fund.

Nkadimeng said that during the drafting of the report, differences arose between local and foreign economists.

Financial stability assessed

BD 10/9/99 (49)

SA has volunteered to be part of a project conducted by World Bank , IMF

Jonathan Katzenellenbogen

THE International Monetary Fund (IMF) and World Bank are conducting a financial system stability assessment of SA and four other countries in a pilot project in the wake of last year's emerging markets crisis.

Gill Marcus, SA Reserve Bank deputy governor in charge of bank supervision, said SA had volunteered to be part of the project.

Jose Fajgenbaum, who headed an IMF mission that visited the country, said the assessment was a means to ensure foreign investors regarded the supervision, regulation and overall stability of the financial sector as being up to international best practice.

Canada, Colombia and Lebanon are also part of the project, launched partly in response to last year's crisis. Weaknesses in the financial system of Asian countries is widely regarded as one of the proximate causes of the crisis. At the time the IMF was heavily criticised for its failure to anticipate and prevent the crisis. Over the past few months, both the IMF and World Bank have tried to find ways to be more heavily involved in crisis prevention.

Marcus said the project was a chance for SA to establish better ways of predicting and managing risk. It was not a matter of comparing countries, but a way to make sure that the financial system was up to international best practice.

The IMF-World Bank team would be looking at new methods of regulation and supervision in light of the changes brought about by mergers between banks and insurance companies. Various aspects of regulation would be looked at, including the model of a single financial regulator as adopted by the UK. Key findings of the report would be released, but not parts bank supervisors commonly regard as confidential. The IMF was looking at banks, while the World Bank would concentrate on insurance companies, Marcus said.

Fajgenbaum, who is senior adviser in the IMF's Africa department, said the assessment also involved models to determine the reaction of the financial system to various shocks. He expected the financial assessment to go before the IMF board in late December.

The IMF team, which has been reviewing SA economic issues, left the country last night.

Fajgenbaum said that the country's key problems were growth that was well below the potential of 6% and high unemployment. He praised the Reserve Bank for "doing a good job on balancing the objectives of stimulating economic activity and reducing inflation".

He said he was concerned about the Bank's forward book, but believed progress had been made. He also stressed the need for tariff reduction and simplification and said the IMF had concluded this could stimulate productivity and growth in the economy.

While he did not see parastatals draining the budget as was the case in other countries, Fajgenbaum said they tended to constrain economic growth as productivity and efficiency were far lower in these institutions than in the private sector.

There was a need for greater labour flexibility, better training and education, as well as accelerated market-based land reform to help deal with rural unemployment, he said.

Importance of urban economies underlined

Samantha Enslin

WITH more than 80% of SA's gross domestic product generated in the urban sector, the functioning of urban economies will have a direct effect on the country's economic growth, says Junaid Ahmad, World Bank representative in SA.

Speaking at the presentation of the Bank's World Development Report for 1999-2000 in Johannesburg yesterday, Ahmad said if Egoli 2002 succeeded it would have a huge effect on SA and regional economic growth.

Egoli 2002 is a three-year plan that aims to address service delivery, the council's financial planning and business opportunities in greater Johannesburg.

The report identifies two trends that are exerting pressure on nation states and affecting development agendas: globalisation and localisation.

World Bank economist Marianne Fay said these trends were a mixed blessing.

Globalisation brought new opportunities for expanded markets, spreading technology and management expertise, which in turn held out the promise of greater productivity and higher standards of living.

However, globalisation was feared because of the instability and undesired changes it could bring to workers who feared losing their jobs to competition from imports; and entire economies that could be overwhelmed and driven into recession by foreign capital flows.

Localisation was praised for raising levels of participation and for providing people with a greater ability to shape their own lives.

This could result in more responsive and efficient governments.

However, poorly designed decentralisation could result in overburdened local governments without the resources or capacity to fulfil their basic responsibilities.

BD 21/9/99 (262)(49)

Carry on SA reform, IMF urges

(49) CT (IMK) 23/9/99

MICHAEL WANG

Johannesburg – The International Monetary Fund (IMF) yesterday urged South Africa to step up its structural reforms to boost lacklustre economic growth, reverse rising unemployment and make it less vulnerable to emerging market shocks.

"A reinvigoration of structural reforms, notably in the labour market, privatisation and trade is essential," the IMF said in a World Economic Outlook survey.

The IMF praised Pretoria for its ability to weather the worst of the emerging market crisis in 1997-98, noting that its adherence to fiscal discipline, a flexible exchange rate policy and a sound commercial banking system helped mute the chaotic effects.

South Africa was on the road to recovery and could expect gross domestic product growth of 2,5 percent in the fourth quarter, the IMF said.

"But its growth for 1999 as a whole is projected at only 0,75 percent to 1 percent," the IMF said.

The remedy to this low-growth scenario was an acceleration in privatisation, as well as trade and labour reforms, it said.

This would "boost the trend growth rate of the economy to levels that can make a dent in the unemployment problem, increase incentives to save and invest, and reduce the country's vulnerability to adverse external developments", the IMF said.

The process of privatisation appears to be stalling after the government sold 20 percent of national carrier South African Airways in June and parceled out a management contract to partners New Zealand Post and the UK's Royal Mail to clean up the inefficient South African Post Office in July. – Dow Jones

SA could outperform most world markets

(49) CT (AR) 19/10/99

Cathy Powers

Johannesburg – Local financial markets were likely to outperform global financial markets, spurred by increasing commodity prices and lower interest rates going into next year, said Deon Vernooy, the head of research at Gensec, yesterday.

Although the country was likely to be hit by concerns of a slowdown in the US, its sound economic fundamentals and improving outlook would prevent too much of a tumble, he said.

Commodities remained an important driver of the economy. Research had shown that a metal prices index led the all share top 40 index by 12 to 15 months.

Synchronised growth expected globally next year would further boost commodity prices, Vernooy said. The gold price was sustainable above $300 an ounce because demand outstripped supply, combined with the European central bank's moratorium, announced late in September, on increased gold sales and leasing.

But the government's key benchmark bond, the R150, would have difficulty breaking through 14 percent this year, given sluggish core inflation, currently at 7,9 percent, and Y2K concerns.

Gensec's Neil Margolis said perceptions of Y2K rather than the actual problems would have a greater effect on financial markets, particularly as investors became more risk averse towards the end of the year.

South Africa could not escape unscathed from fears that capital flows to emerging markets would dry up with a flight to quality. But the country was well positioned, despite concerns surrounding the readiness of local government. The US-based information technology research company, GartnerGroup, had rated South Africa among the top 17 most prepared countries, and the World Bank had rated the country as highly aware of Y2K issues.

The most risky sectors, according to research by ING Barings, were machinery, transport equipment, media, paper and the financial and insurance sectors because of their dependence on information technology. The lowest risks were associated with the gold, diamond and platinum sectors. This boded well for a country heavily dependent on mining and resources, said Margolis.

There were also misconceptions about failure caused by the "millennium bug", many of which might only surface in 2001

Cabinet approves inflation targeting

(49) BD 21/10/99

Alan Fine
and Jonathan Katzenellenbogen

CAPE TOWN — The cabinet has formally approved the introduction of inflation targeting as part of the country's monetary policy framework.

After a cabinet meeting, Finance Minister Trevor Manuel said it was important that arrangements be put in place before the 2000/01 budget was delivered so its forecasts could be based on the formal inflation target. Inflation targeting will require the Reserve Bank to use monetary policy to keep inflation within a predetermined range.

He acknowledged Reserve Bank concerns that "it may be difficult to get the show on the road" before the end of the third quarter of next year, but said every effort would be made to meet the deadline. There would be intensive planning, including considering international experience.

Manuel said it would be a "highly collaborative" exercise with the Reserve Bank "We need to draw on our national resources. The Reserve Bank's modelling capacity will be important," he said. He also expected the parliamentary portfolio committee to invite other views on the matter, and to develop its own perspectives.

Reserve Bank governor Tito Mboweni has said the central bank needed time to refine its econometric models before the introduction of inflation targeting and that the first quarter of next year might be too early

At the Bank's annual general meeting in August he said he wanted a "policy target agreement" with government to define the co-ordinated effort required to contain inflation. Mboweni also suggested that, "in this agreement, the instrumental independence of the Reserve Bank must be guaranteed".

The Reserve Bank has taken initial steps towards inflation targeting by setting up the Monetary Policy Committee which met for the first time last week.

Austerity at delivery's expense

Review bizarrely congratulates provinces for not spending, says the **Congress of SA Trade Unions**

BD 22/10/99

THE publication of the 1999 Intergovernmental Fiscal Review is a step forward in improving transparency and accountability of fiscal processes

The review gives primacy to fiscal austerity over socioeconomic delivery The Congress of SA Trade Unions (Cosatu) believes that it will be difficult for government to implement its mandate of "accelerating change" in the context of this fiscal approach

The logic of the review elevates cost efficiency to an overarching principle, judging the fiscal success of provinces as being directly proportional to money saved

We thus find a bizarre scenario of provinces being congratulated for not spending their full allocations, while in the very same provinces health care is in a serious condition, education is in a state of "crisis" and huge backlogs remain in almost all spheres of delivery

Cosatu recognises that there is indeed considerable inefficiency at various levels of the public sector, and that SA can ill afford wastage of badly needed resources We strongly support any attempt to stamp out corruption, correct misallocations of personnel and other resources, and encourage efficient spending of public funds

The benchmark for such efficiency should be outcomes: to what extent does every rand of public expenditure assist in the short, medium and long terms in advancing the goals of the reconstruction and development programme (RDP)?

Where provincial deficits have been reduced or turned into surpluses, the source of this change needs to be interrogated Is it due to greater efficiency in using given resources to meet basic needs? Or is it due to reduced service delivery to the poor?

We are concerned about this review and other initiatives setting inappropriate goals and "incentives" for elected representatives and civil servants at provincial level

A situation should be avoided where, in an effort to gain a positive judgment in the review, provincial governments either postpone or scale down delivery in pursuit of balancing their books or even reporting a surplus

An argument has been made by some commentators that it is the public sector wage bill, or current expenditure more broadly, which is responsible for "squeezing" capital spending This premise leads to a policy prescription of reducing the public sector wage bill in order to "free up resources" for capital expenditure.

Provinces are often faced with the difficult situation of having fixed allocations from national government, little flexibility in raising their own revenue and much of their current expenditure being fixed at a national level

'Public servants are in the front line of delivery and should be seen as an investment, not an expense'

In their attempts to balance the books they may well be forced to effect an adjustment in the budget items which are the most "flexible"

This leads to the perverse squeezing of capital expenditure, not by current expenditure per se but by the particular combination of fixed and variable items of income and expenditure It is thus disingenuous to single out personnel expenditure as the culprit to be blamed for insufficient capital expenditure and nonpersonnel current expenditure

Education and health in particular are highly labour-intensive and as such personnel expenditure is not purely a cost but rather an investment As Cosatu has pointed out, schools cannot teach and clinics cannot heal people It is the public servants themselves who are at the front line of delivery

Increases in expenditure on personnel have in fact been modest, although personnel expenditure has increased somewhat as a proportion of the total budget The chief explanation for this situation is the squeeze on the budget as a whole.

The source of this squeeze is a conservative macroeconomic policy that privileges fiscal rectitude above other objectives Macroeconomic policy can either aid or retard development. Under the growth, employment and redistribution (Gear) policy, the level of the deficit is arbitrary and is not informed by SA's development needs. This means that the budget drives plans, rather than the other way round

Government, as the recipient of most taxes, is in a strong position vis-à-vis the provinces The impact of this is that policies can be directed from a national level

This leverage can also, however, be used to encourage inappropriate policy choices, of which the review provides an example An agreement between the provincial finance MECs and the finance minister stipulated that the provinces would receive R1bn over and above their budget allocations, on condition that they set aside "finance reserves" for repayment of debt owed by the provinces The provinces responded by budgeting R7,1bn in surpluses

This can be seen as a response to the perverse incentives set up by the finance department that effectively reward provinces for cutting back on delivery and prioritising savings and debt repayment to national government

What is imperative is that the leverage of national government is instead used to ensure that provinces do indeed meet RDP priorities

Cosatu has tabled the following principles and proposals

- Insofar as macroeconomic targets constrain delivery, they need to be urgently reviewed;
- The Medium Term Expenditure Framework needs to be reworked on the basis of more appropriate macroeconomic parameters and in a more transparent and participatory manner
- The entire budgetary process needs to be democratised,
- Programmes should inform budgets Within this, there is a recognition that some limits will always be present We propose that the next Intergovernmental Fiscal Review should start by attempting to quantify the remaining social backlogs, calculating the resources needed to meet these backlogs and from there develop strategies for financing the eventual elimination of backlogs,
- Policies and expenditures should be judged by their outcomes The establishment of transparent and meaningful performance measures to test organisational results and evaluate impacts are central to improving coverage, quality, efficiency and productivity,
- The focus of future reviews should shift from praising provinces which either balance their books or underspend to a performance audit focusing on the meeting of basic needs, and
- Collective bargaining must remain a national government competency Not only is this feasible, it is necessary for comprehensive and uniform transformation of the public service

This is an abridged version of Cosatu's submission to the select committee on finance on the 1999 Intergovernmental Fiscal Review