The economic crisis continues

The government says its got the answers. But lets face it, the economy's not getting better. The crisis continues, and its not the rich who are suffering.

THE SA ECONOMY is in trouble. And it's not just a passing phase but deep rooted.

More than 16 companies shut down everyday and some industries are shrinking rapidly. Jobs in the auto industry are down 22 percent since it peaked in 1982, and 35000 people lost their jobs in 1985 alone.

The metal industry has shed some 100 000 jobs this decade already. Sales of durables like furniture, fridges and appliances fell 20 percent last year. None of the car manufacturers is able to make a profit at the moment.

Meanwhile inflation goes higher and higher it's been above 12 percent for ten years now and recently went over 20 percent.

First we were told that the problem was too much consumer spending too much money chasing too few goods, encouraging sellers to push up prices.

So the government decided to kill off consumer demand by making it very expensive to borrow and spend money.

But soon the recession was upon us. Economic activity dwindled. There was no demand to pull up prices. The amount of money available hadn't increased yet prices continued to rise.

Economists who said inflation would fall kept changing their predictions. But inflation hit 16 percent, then 18 percent. Petrol shot up 60 percent in 1985 while electricity leaped 20 percent. Rail and road transport cost more, and finance charges rocketed.

With his Rubicon speech PW Botha had managed to talk the rand down to 35 US cents, which meant that essential imports suddenly cost about 35 percent more than expected. The increase of these vital production costs pushed prices upwards.

So who got hurt ? The consumer. And in this country that often means someone whose monthly wage is under R300.

In the last year vegetable and fish prices have climbed more than 20 per cent. So have coffee and tea. Cleaning materials and transport costs rocketed by more than 30 per cent. And yet employers were trying to fight inflation by keeping

du Plessis, mismanaging a troubled economy

wage increases for the year to around 10 per cent!

But the problem isn't spending, or even labour costs, although employers would pass any increase in their wage bill on to their customers. Inflation levels in some overseas countries are below 5 percent, despite the fact that they pay living wages and encourage spending.

The problem lies in the deformed nature of our economy. SA is not a big industrial power. In an international market dominated by the USA, Japan, West Germany and Britain, SA is just another supplier of minerals and metals.

The contribution of gold to SA's export earnings is substantial, but limited. Mineral and metal sales bring in foreign cash but not enough to pay for imports. Base metal and mineral sales contributed around 24,5 percent to total export earnings in 1985 while gold weighed in with a massive 42 percent. In 1970 gold made up only 28 percent of export earnings.

SA is becoming more, not less, dependant on minerals for foreign currency. And SA needs plenty. Every rand of local manufacture involves 68 cents of imported material, and this has increased as the rand plummeted.

In the short term there is no way around this since 80 percent of imports are essential only 20 percent are regarded as luxury or less necessary items.

Much of the time SA imports more than it exports. The government boasts about a balance of payments surplus of R13,4 bn. They say this indicates an underlying strength in the economy.

Well, it doesn't. In fact it illustrates an underlying weakness.

Exports have increased and imports fallen, but SA has not been able to strengthen its position in the world economy or lessen its dependence on imported materials.

Exports increased because the fall in the rand meant SA's products became relatively cheap overseas. And because foreign currency earned was worth about 35 per cent more when converted.

But a surplus of R13,4bn is not as substantial as it looks. SA has to pay for imports in expensive foreign currency. Against the Dollar the SA surplus shrinks to an effective R5,9bn.

Similarly, we have to discount the increase in export earnings by the fall in the value of the rand. Transvaal chamber of Industry figures show that on a dollar adjusted basis exports for 1985 were not up 44 percent but only 5.4 percent while imports were not just 2.6 percent down but 30.2 percent.

Even the artificial advantage enjoyed by exporters won't last long. The rand has strengthed slightly and the dollar has been weakening closing the gap between the rand and the foreign currency earned by exports.

And there is not a growing demand for SA goods. The economies of trading partners are expanding very slowly and SA's goods are not getting any more competitive. They can't when our inflation rate is 5-10 times higher than in the major economies.

The cost of the high imported content of SA's products has increased by over 30 per cent in the last year helping to push up production costs by an average of 21,3 per cent.

Being so dependent on minerals to pay for imports needed by manufacturing produces serious problems. The economy can only expand through the growth of manufacturing industry. Mining and agriculture have limited potential for expansion.

But the local market for manufactured goods does not justify expansion, and local sales don't generate enough capital to pay for that expansion. So manufacturing needs to grow into markets outside SA. But political tensions complicate trade, and SA goods are not that competitive anyway.

To become more competitive SA would have to import the latest machinery and equipment at great expense. But business hasn't earned the necessary foreign currency and can't until it gets the new technology. Catch 22.

So how can growth be financed? It's obvious that business will seldom earn enough from sales of mineral or manufactured goods to pay for new investment in plants and machinery. In this sense SA is the same as any other third world economy with only one main export and too many imports. Like these economies SA needs to finance growth by attracting foreign investment. But this is not happening.

More money leaves SA than comes in. Between 1976 and 1984 there was a net outflow of long term capital of more than R1bn and this has since increased. From the beginning of 1984 to the middle of 1985 the value of total fixed investment fell by 11,5 percent in real terms, with manufacturing losing even more 13,3 percent.

Local investment has been dropping even more dramatically an estimated fall of over 20 percent in 1985. Businesses are putting less money back into companies holding it in financial institutions instead.

It is not surprising then that growth, measured in terms of Gross Domestic Product, has been low in recent years, averaging only 2 percent each year from 1977 to 1985 against a population growth rate of 2,8 percent. This growth could not be financed through domestic investment, and so big business borrowed from overseas banks.

The Bank for International Settlements (BIS) show that foreign debt financed 25,3 percent of total output (GDP) in 1984, going up to 32,4 percent in 1985. The average for developing countries is 33,8 percent. Between 1980-1984 US bank loans to SA increased 450 percent, at which point they started to get worried about the extent of their exposure to SA.

At that stage our foreign debt committments were already 88 percent of export earnings, and by the third quarter of 1985 SA had short term debt of $12bn and a Balance of Payments surplus of only $5bn.

So the debt crisis wasn't just US bankers acting after the state of emergency was declared. Breaking out of it will be difficult because as the economy picks up and starts producing more it has to import more, and borrow more. The same holds true for any expansion of production capacity.

Unemployment stands at around four million. And there will have to be more than 2 percent growth to overcome this.

Investment in job creating industry hasn't kept pace with the population increase.Local companies, squeezed by the high production costs and dwindling sales are not hiring but firing. Bankruptcies continue to wipe out jobs, as does the rash of merges and takeovers that are taking place.

Big business is responding by cutting jobs, wages and spending, while at the same time increasing prices. And they're investing the money they are making overseas where they hope it'll be safer and will yield more profits. After all that is what capitalism is all about. Profit.

Guided solely by this motive, business will not undertake the essential restructuring of the SA economy.

Developing local industry that will reduce the need for imports on the one hand and expand our range of exports on the other, doesn't offer the quick profits they seek.

Land won't be redistributed to accomodate the 15 million landless because the farmers would lose profits.

Labour intensive industries to create the necessary 2000 jobs-a-day won't be set up because profits may be lower than those offered by new machinery.

Even though many of these changes would improve the economic potential of SA, opening up more opportunities for business, short term profiteering has tended to blind them to the long term implications of their mercenary approach.

And so the crisis continues.